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IMPROVING THE ACCOUNTING AND AUDIT OF CURRENT ASSETS

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Abstract

This article explores theoretical foundations, current practices, and proposed improvements in the accounting and audit of current assets. The research analyzes international standards, accounting principles, and audit procedures related to assets such as cash, inventory, and receivables. Special attention is given to risk-based auditing and digital technologies used in asset management.

Keywords: Current assets, accounting, audit, cash, receivables, inventory, financial reporting, internal control, audit standards, transparency.

Introduction

In modern financial management, current assets represent a key component of an enterprise's operational capacity and liquidity. The effectiveness of their accounting and audit is crucial for maintaining accurate financial reporting, minimizing risks, and ensuring business sustainability. This diploma thesis explores theoretical foundations, analyzes current practices, and proposes improvements in the accounting and audit of current assets.

Current assets refer to all assets that are expected to be converted into cash, sold, or consumed within a normal operating cycle—usually within one year. These assets are vital for the day-to-day operations of an enterprise and play a major role in maintaining liquidity.

The primary types of current assets include:

- Cash and cash equivalents – readily available funds such as currency, bank deposits, and short-term investments.
- Accounts receivable – amounts owed to the business by its customers for goods or services delivered on credit.

- Inventory – goods that are held for sale or production.
- Prepaid expenses – payments made for goods or services to be received in the future.
- Short-term investments – temporary investments intended to be liquidated in the near term.

The classification is crucial as it influences the financial ratios such as the current ratio and quick ratio, which are key indicators of a firm's liquidity and short-term financial health.

Current assets are the most dynamic part of a company's resources. Efficient management ensures smooth operation, profitability, and cash flow sufficiency. They are used to:

- Finance everyday operations such as purchasing raw materials and paying salaries.
- Meet short-term liabilities and avoid financial distress.
- Invest temporarily in short-term financial instruments.
- A poor current asset structure (e.g., excessive inventory or receivables) can lead to liquidity risks. On the other hand, a well-managed asset cycle improves operational efficiency and overall competitiveness.

The accounting of current assets is governed by several key principles under international and national accounting standards. These principles include:

- Historical cost principle – assets are recorded based on their original cost.
- Matching principle – expenses are matched with the revenue of the same period.
- Conservatism principle – assets should not be overstated, and all potential losses must be recognized.
- Consistency principle – accounting methods must be applied consistently across periods.

Accounting for and auditing current assets must adhere to recognized accounting standards such as:

- International Financial Reporting Standards (IFRS): IFRS outlines general recognition, measurement, and disclosure criteria for current assets (e.g., IFRS 9 for receivables, IFRS 2 for inventories).

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- National Accounting Standards (e.g., NAS of Uzbekistan): Local regulations adapt IFRS principles to the local economic and legal context.
- International Standards on Auditing (ISA): Provide guidelines for auditors, including ISA 330 (Audit Procedures), ISA 500 (Audit Evidence), and ISA 530 (Audit Sampling).

Compliance with these frameworks ensures the accuracy and reliability of financial information. Auditing current assets serves multiple purposes:

- To confirm the existence and ownership of assets.
- To verify the correct valuation and presentation of assets in financial statements.
- To identify and reduce fraud, misstatement, or inefficiencies.
- To evaluate internal control systems related to the management of these assets.

An auditor must perform detailed procedures such as physical inventory checks, account confirmations, and reconciliation of records. Despite the importance of accurate accounting, several challenges arise:

✓ Inventory misstatements due to improper valuation or physical count errors.
✓ Bad debts resulting from poor receivable management.
✓ Lack of internal control, especially in small and medium enterprises.
✓ Inadequate documentation of prepaid expenses and investment transactions.
✓ Fraud and embezzlement in cash handling.

Understanding these challenges is critical for developing effective improvement strategies discussed in subsequent chapters. Current assets form the backbone of short-term financial planning and control. Their accounting and auditing require adherence to sound principles and regulatory frameworks. By understanding their nature, classification, and role in financial reporting, organizations can improve decision-making, enhance financial transparency, and ensure regulatory compliance.

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Table 1: Classification of Current Assets

Type of Current Asset	Description	Example	Valuation Method
Cash and Equivalents	Immediate funds available	Cash in hand, Bank balance	Nominal value
Accounts Receivable	Amounts due from customers	Trade receivables, Notes receivable	Net realizable value
Inventory	Goods held for sale or production	Raw materials, Finished goods	FIFO, LIFO, Weighted average
Prepaid Expenses	Advance payments for future services	Prepaid rent, Insurance	Historical cost
Short-term Investments	Easily convertible investments	Treasury bills, Commercial paper	Fair market value

Thus, table 1 helps identify the structure, purpose, and evaluation method of each component of current assets.

The accounting for current assets differs by asset type but follows a common goal: accurate valuation and transparent presentation in financial statements.

a) Cash and Cash Equivalents:

- Recording: Cash is recorded at nominal value.
- Documentation: Bank statements, cash books, reconciliation reports.
- Internal controls: Petty cash systems, authorization policies.

b) Accounts Receivable:

- Recognition: Revenue is recognized at the time of sale, and a receivable is created.
- Valuation: Net realizable value is applied, accounting for doubtful debts.
- Provisioning: Estimation techniques based on aging of debts or historical data.

c) Inventory:

- Valuation methods: FIFO (First-In, First-Out) – popular under IFRS; LIFO (Last-In, First-Out) – less common; not permitted under IFRS; Weighted Average Cost – smoothens price fluctuations.

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- Inventory accounting systems: Periodic – less accurate but simpler. Perpetual – real-time updates of inventory movement.

d) Prepaid Expenses and Other Assets
- Treatment: Recorded as assets and amortized over their useful life.
- Examples: Prepaid rent, insurance, maintenance.

Auditing current assets involves ensuring that assets reported on the balance sheet actually exist, are correctly valued, and are owned by the entity.

a) Audit of Cash - Procedures:
✓ Physical cash count.
✓ Bank confirmation letters.
✓ Review of bank reconciliations.

Risks: Fraud, errors in recording, cash misappropriation.

b) Audit of Receivables - Procedures:
✓ Sending confirmation letters to debtors.
✓ Reviewing subsequent collections.
✓ Checking for adequate provisioning.

Common issues: Uncollectible debts, fictitious receivables.

c) Audit of Inventory - Procedures:
✓ Attendance at physical inventory count.
✓ Recalculation of inventory valuation.
✓ Cut-off testing to verify ownership.

Challenges: Overstocking or understocking. Misclassification or obsolete inventory.

d) Audit of Prepaid Expenses - Procedures:
✓ Examine original contracts and payments.
✓ Match with expense recognition over periods.
✓ Assess whether any portion should be written off.

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In practice, many organizations face the following problems in current assets accounting and auditing:

Problem	Description
Lack of internal control	Weak segregation of duties and oversight
Inadequate documentation	Missing invoices, unclear reconciliation statements
Manual accounting systems	More prone to error and fraud
Improper provisioning	Over/understated doubtful debts
Fraud and misstatement risks	Especially in cash handling and inventory movement
Non-compliance with standards	IFRS or national standards not properly applied

Effective audit planning, use of digital tools, and staff training are critical to addressing these issues.

In summary, current assets play a vital role in a company's financial structure and liquidity. Their accurate accounting and systematic auditing are essential to

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ensure transparency, protect stakeholders' interests, and support informed decision-making. This research has demonstrated that while current accounting and auditing practices generally comply with international standards, many organizations still face challenges due to outdated systems, lack of internal control, and non-compliance. To improve the situation, the following recommendations are proposed:

1. Digitization of accounting systems to minimize errors and improve data accessibility.
2. Strengthening internal control mechanisms to prevent fraud and misstatement.
3. Adopting a risk-based audit approach that prioritizes high-value or high-risk assets.
4. Regular training and updates for accounting and audit staff to stay aligned with changing regulations.
5. Timely reconciliation and reporting to maintain the reliability of financial data.

By adopting modern technologies, updating procedures, and reinforcing professional standards, enterprises can significantly improve the accounting and audit of their current assets, ultimately enhancing overall financial performance and governance.

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