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THE RELATIVE IMPORTANCE OF INVENTORY IN THE FINANCIAL STATEMENTS IN TERMS OF FINANCIAL RATIOS AND ITS IMPACT ON EVALUATING THE EFFICIENCY OF PERFORMANCE BY APPLICATION IN THE GENERAL COMPANY FOR TEXTILE AND LEATHER INDUSTRIES

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Abstract:
The research focused on the relative importance of inventory in the financial statements in terms of financial ratios and its impact on evaluating performance efficiency and highlighting introductory entries on the importance of inventory and analyzing its value in the financial statements using financial ratios and comparisons. This was applied in the research sample, the General Company for Textile and Leather Industries, and the trading ratio and the activity ratio in the researched company were used. It reached a set of conclusions, the most important of which is the decline in the quick liquidity ratio, which reached in the year2020 (0.247) to (0.193) in the year 2021. This is a negative indicator that is reflected in the company's performance. As for the recommendations, the most important of them is the need for economic units to rely on modern financial indicators when evaluating financial decisions related to economic units.

Keywords: financial statements, financial ratios, inventory, efficiency of performance, General Company, Textile and Leather Industries.

THE INTRODUCTION

Inventory is considered one of the most important elements of assets in economic units, and investments in it represent the largest portion of total assets. It affects the income statement because it is considered one of the elements of the cost of goods sold, and on the other hand, one of the elements of the financial position, and this affects the liquidity ratio and the ability to pay in the term. Al-Quseir deliberately applies the financial analysis of the economic unit for the purpose of evaluating the financial performance of the economic unit and the adequacy of this analysis. He relies on the accuracy and completeness of the financial statements, especially the income statement and the financial position statement. The financial analysis that is based on these two lists gives somewhat incorrect results, and the reason for this is due to These two lists fail to provide financial information to users.

THE FIRST AXIS: RESEARCH METHODOLOGY

1- Research problem

The research problem represents a concept in evaluating the performance and efficiency of economic units that have a percentage of the financial inventory among the current assets in the financial statements and the extent of their efficiency in managing the inventory in order to achieve the activity of the economic unit. The research problem can be characterized by the following question:

Is inventory an important element in evaluating the performance and efficiency of economic units using financial ratios and comparisons?

2- RESEARCH OBJECTIVE

The research aims to achieve two goals:

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1. Highlighting introductory entries on the importance of inventory and analyzing its value in the financial statements using financial ratios and comparisons.
2. An analytical study of the relative importance of inventory in the research sample of the General Company for Textile and Leather Industries, using financial ratios and comparisons to evaluate the efficiency of its performance.

3- THE IMPORTANCE OF RESEARCH

The importance can be determined by the following points:

1. Improving the accuracy of financial evaluation: The research provides a deeper understanding of how inventory affects the financial ratios used in analyzing the financial performance of economic units, which helps users of financial statements to make more accurate and reliable evaluations.
2. Enhancing inventory management: Research enhances the efficiency of resource use and reduces costs associated with inventory.
3. Improving the efficiency of operational performance: Economic units improve their operational and administrative strategies by focusing on inventory management as an expense to improve the efficiency of their performance.
4. Supporting accounting policies: Improving accounting policies and standards related to inventory and its evaluation in the financial statements, which enhances the transparency and reliability of the financial statements.

4- RESEARCH HYPOTHESIS

The relative importance of inventory in the financial statements greatly affects the implications of the financial ratios used to evaluate the efficiency of the financial performance of economic units, and it assumes that economic units that have high inventory ratios have optimal performance efficiency compared to units with low inventory ratios due to the negative impact of high inventory on liquidity and appreciation. For working capital.

5- RESEARCH METHODOLOGY

The research adopted several approaches from both sides of the research, as follows:

1- The theoretical aspect: The research adopted the Asnbati approach, which is the approach in which the researcher restricted the theories and concepts of inventory accounting and financial ratios and their impact on evaluating the performance of the economic unit to conclude the relationship between the research variables.

2- The practical aspect: The research adopted the inductive approach. The researcher used different research methods to collect data. The researcher used different research methods to collect data. The researcher used different research methods to collect data by analyzing the financial statements to find out the financial ratios and comparisons for two years. The percentage of change in the financial items directly related to the inventory will also be extracted, in addition to interviews. Direct contact with officials at the General Leather Industries Company.

6-search limits

1- Time limits: 2021

2- Spatial boundaries: The General Company for Textile and Leather Industries was chosen as a field for conducting the practical application of the aforementioned research, due to the presence of different types of inventory, whether in used raw materials, semi-finished products, or finished products, which provides a great opportunity to deal with multiple types of inventory.

7-Research population and sample

The research community is represented by all Iraqi companies from the industrial sector, while the research sample was represented by one of the public companies affiliated with the Ministry of Industry and Minerals, which is the General Company for Leather Industries, for the reasons:

1- Availability of data and information that help achieve the research objectives.

2- There is a lot of inventory that the company adopts, along with systems that help measure inventory.

1-1-8 Data collection methods

The following sources were adopted for the purposes of establishing scientific and practical procedures and rules in accounting disclosure of accounting policies in measuring inventory:

1- Recent books and periodicals that dealt with the subject of inventory.

2- International, Arab and local standards that regulate warehouse accounting work.

3- Personal interviews with workers in the warehouse field in the company in question.

4- Available data and information about some items of inventory in the records of the company that is the research sample.

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The second axis: The theoretical aspect, the importance of inventory in the financial statements, and analysis of the impact of financial ratios on performance efficiency

1_ Definition of inventory

Table (1) Definition of inventory

Inventory accounting	T
It is the first asset over which the manager can decide which accounting method should be used. The chosen accounting method affects the profits that will be reported, the amount of income tax that must be paid, and the values of the ratios derived from the balance sheet.**. (Harrison & Horngren, 2009: p. 317)**	2
They are the assets that are characterized as being kept for the purpose of sale in commercial activity, and at the production stage they are ready for sale, in the form of materials or supplies used in the production process, or in the provision of services.IAS-2, 2022: 748-749)	5

Source: Prepared by the researchers based on the aforementioned sources

The researchers believe that the definition of inventory is that it is a circulating asset that is acquired by the economic unit according to the nature of its activities in order to transfer it, complete its manufacture, or sell it. Otherwise, the activities of the economic unit will stop.

2_ The importance of inventory accounting

The economic unit, regardless of its type, stores goods and materials that help it continue its operations without interruption, which requires the presence of inventory. Hence, the importance of inventory emerged through the following:

1. Failure to accurately determine the value of the inventory will affect both the statement of financial position and the income statement, as the increase or decrease in the value of the inventory will change the value of the current assets in the balance sheet, as well as the change will affect the net profit. (Al-Hamdani, 2011: 15)
2. The classification of inventory in terms of accounting treatment and disclosure in the budget within current assets depends on the nature of the unit, whether commercial or industrial. (Hanan and Al-Baldawi, 2009: 151)
3. It cannot be dispensed with in any way, because it plays the role of the body or the modifier that connects the various poles of the role of the commodity from production to consumption, where it receives the products and pays them on time to those who deserve them. (Dia al-Din, 2021: 7)
4. Inventory represents the link and valve that connects and touches the most important activities within the economic unit, starting from the stage of purchasing goods in the commercial units, or raw materials for the economic units, passing through the production and storage cycle and the resulting costs throughout those stages, ending with how they are prepared and sold through the sales cycle for customer requests. .**(Al-Khazraji, 2019: 22)**
5. Given that inventory represents the least liquid asset, errors related to its management cannot be addressed quickly, and if mismanagement exceeds its limit in this area, it may lead to the end of the economic unit.Jaber Y., 2009: p247-248))

The researchers believe that the inventory value is important because it allows you to know the health of the economic unit's financial position at the end of the financial period by knowing how quickly the inventory of goods is converted into money.

3- Accounting disclosure of the cost of inventory

The financial statements must disclose the following: (IAS-2,2022:P752)

أ. The accounting policies used to measure inventory, including the mathematical formula used to calculate the cost.
ب. The sum of the carrying amount of inventory and the carrying amount in the appropriate classifications of the economic unit.
ج. The carrying amount of inventory recorded at fair value less costs to sell.
د. The amount of inventory recognized as an expense during the period.
ه. The amount of any reduction in the value of inventory is recognized as an expense in the period.
و. The amount of any reversal of any reduction in value is recognized as a reduction in the amount of inventory recognized as an expense in the period
ز. Circumstances or events that led to a reversal of the reduction in inventory value

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ج. The carrying amount of inventory pledged as security for liabilities.

This information is disclosed either in the statement of financial position or in a separate table in the notes. Raw materials, production in operation and finished products in inventory are all considered important matters in estimating the degree of liquidity and in calculating the stage of completion in inventory, and unusual or unusual financing arrangements. Relatively important items related to inventory that require disclosure in notes and lists, product financing arrangements, company commitments to purchase, mortgage of inventory as collateral for a loan. (Keso et al., 2022: 798-799)

The researchers believe that if the economic unit changes the method of measuring the inventory account, from the weighted average method to the methodFIFO This change must be disclosed separately, along with the impact on the income statement for the current and previous periods.

4- The importance of financial analysis of financial ratios and its impact on performance evaluation

The importance of financial analysis is one of the areas of social knowledge that studies data related to financial analysis in order to properly control the use of financial resources used in economic units: (Qamour and Hamid, 2017: 4)

أ. Financial analysis deals with the accounting system data for various projects, regardless of the nature of their work, to decision makers in society, using indicators that guide their behavior in making rational decisions.

ب. Financial analysis helps in evaluating the economic feasibility of establishing projects and evaluating performance after establishing projects. It also helps in future planning of project activities, in addition to subjecting the uncertain party to supervision and control and protecting the institution from possible deviations.

ج. It helps in predicting the future for future units in terms of knowing indicators of business results and thus taking appropriate measures to confront various possibilities.

د. The management of the economic unit helps in setting its goals and thus preparing the annual plans necessary to engage in economic activity.

ه. Judging the validity of fiscal policy within the economic unit.

و. Determine the ability of the economic unit to borrow and pay off its debts.

5- Relative importance in terms of the financial ratios of the inventory

It can be analyzed from financial ratios that help in evaluating inventory and how to manage it. It means the number of times inventory is sold during the year. This measure is used to determine the efficiency of sales management in marketing products to the economic unit during one year. It is an indicator that shows the efficiency of the economic unit in investing money. With the inventory that you trade, as the increase in the rate through the number of times it is turned over shows the efficiency of management in achieving profits, due to the close connection between the profits achieved and the inventory turnover. (Al-Hayali, 2009: 67)

Inventory turnover $= (Sales\ Cost)/(Inventory\ Average\ Balance)$
Inventory turnover rate per day $= 365/(Inventory\ Turnover\ Rate)$
Or inventory turnover rate $= (Net\ sales)/(Last\ stock\ period)$

6- The most important financial indicators

A- Liquidity ratios

These are the ratios that measure or aim to analyze and evaluate working capital, and to identify the degree of liquidity of the economic unit in the short term. Studying the liquidity in the economic unit enables us to ensure that the economic unit possesses current assets with sufficient liquidity to meet short-term liabilities or debts, i.e. The economic unit seeks to avoid falling into inability to pay. (forget, 2005: p121)

1-Fast liquidity

Liquidity ratios attempt to measure the ability of the economic unit to meet short-term liabilities from its cash and other assets that can be converted into cash in a relatively short period. These ratios are important to management, owners, and lenders who provide the unit with short credit. The liquidity index is extracted according to the following equation:Brigham & Ehrhard, 2008: p. 123-126))

Quick ratio $= (Inventory - Current\ Assets)/(Current\ Liabilities)$

2-trade rate

It is a ratio linked to the existence of a significant relationship between current assets and current liabilities. It honestly expresses the times current assets cover current liabilities that fall due during a financial year. Trading ratios are characterized by their common use to measure financial ease in the short term because they demonstrate the ability of

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current assets to pay current liabilities when The due date, and the percentage is calculated as follows (Laila and Mona, 2021: 44)

Turnover ratio $=(Current\ assets)/(Current\ liabilities)$

B- Activity rates

They are called turnover ratios or asset management ratios, and they are a set of ratios that measure the efficiency of employees and officials in the economic unit and their ability to manage its assets. It also measures the relationship between assets and sales. They are called turnover or activity ratios because they show the speed with which assets are converted into sales. (Hanafi, 2004: 84), and a set of ratios are used to measure the ability of the economic unit to make optimal and efficient use of its assets. (Hanuuksela, 2018: p20)

1- Asset turnover rate

It measures the efficiency of investment in the assets of the economic unit and its impact on achieving sales. Through this ratio, the efficiency of using assets in achieving sales is identified. (Kazim and Jabbar, 2023: 459)

Asset turnover rate $=(Net\ sales)/(Total\ assets)$

2- Fixed assets turnover rate

This rate measures the number of times fixed assets are used, as it measures the investment of the economic unit's funds in fixed assets, as it shows the extent to which the economic unit uses its fixed assets. There is no doubt that increasing this rate means the intensity of the economic unit's exploitation of its fixed assets, which requires the necessity of increasing investment in fixed assets. Also, a low turnover rate means that there is an undesirable increase in investment in fixed assets. (Al-Hasnawi, 2018: 65)

Fixed assets turnover rate $=(Net\ sales)/(Total\ fixed\ assets)$

C- Profitability ratios

The profitability ratio is used to evaluate whether the economic unit achieves profits at an acceptable level. (Melville (2019: 364)

1- Gross profit margin

The gross profit margin in sales is calculated, and since each numerator and denominator of the ratio includes the sales number, it is considered an indicator of the extent of management's efficiency in dealing with the elements that cost sales, i.e. the cost of goods sold. It is also considered an indicator of the extent to which the sales proceeds can be reduced before the gross profit turns into a value. Negative, and the gross profit margin is calculated as follows: (Hadi and Aliwi, 2013: 237)

Gross profit margin $=(Wind\ Total)/(Sales)$x 100

2- Return on assets ratio

This ratio aims to measure the management's ability to achieve profits from the funds available to it and under its control, and thus reflects the impact of the economic unit's operational and investment activities. (Fabozzi & Peterson, 2003: p. 749)

Return on assets ratio $=(Net\ sales)/(Total\ assets)$

The third axis: The practical aspect: An analytical study of the financial statements and their significance according to the financial ratios of inventory in the General Company for Textile and Leather Industries.

1- An introductory overview of the research sample

The General Company for Leather Industries was established in 1945, which was known at the time as the Leather Company, as it consisted at that time of one factory for tanning large hides. In 1966, the bags factory was established in cooperation with the Bata Company, which was founded in 1932, as it contained at that time a factory for the manufacture of leather shoes. The popular shoe factory was incorporated in Kufa in 1970, and the General Establishment for Leather Industries is considered a public company for the purposes of the General Companies Law No. (22) of 1997. This company is a self-financed economic production unit owned and owned entirely by the state. It enjoys a legal personality and financial and administrative independence and operates in accordance with... Economic foundations, linked to the Ministry of Industry and Minerals, with its main center in Baghdad Governorate, and based on Council of Ministers Resolution No. 360 of 2015, which includes the merger of public companies belonging to the Ministry of Industry and Minerals, where each of the (General Company for Cotton Industries, General Company for Handmade Carpets, and General Company for Handmade Carpets) was merged. Textile, General Company for Leather Industries, General Company for Ready-Made Clothes, General Company for Woolen Industries, Wasit General Company for Textile Industries, Dhi Qar Textile Factory), according to Cabinet Resolution

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No. 384 of 2016, the name of the company became (General Company for Textile and Leather Industries), where it consists The company has several factories.

2- Results of the financial analysis of the financial statements

We have relied on the final accounts for the years (2020-2021) to prepare a table of the main numbers contained in the final accounts mentioned above for the purpose of approving it for calculating the financial ratios, as shown in the table (2), while the tables were allocated (3-6) For the purposes of calculating the various financial ratios for the two years (2020-2021)

Schedule (2A comparison list of the main numbers included in the final accounts for the year 2020-2021

Year 2021	Year 2020	account name
58,499,654,168	61,735,362,895	Total current assets
17,676,652,919	16,031,180,960	Total fixed assets
196,763,597,124	173,727,543,201	Total current liabilities
-28,137,025,855	26-,264,071,789	Gross profit
-20,217,317,131	-25,824,839,189	Net profit
3,244,344,075	3,733,169,318	Total revenues
20,517,832,332	18,808,501,880	Inventory

Source: Prepared by the researchers based on records and lists issued by the General Company for Textile and Leather Industries.

Schedule (3) Trading ratio for the year2020-2021 for the General Company for Textile and Leather Industries

2021 year	**2020 year**	**account name**
58,499,654,168 196,763,597,124	61,735,362,895 173,727,543,201	Total current assets ÷ Total current liabilities
0.298	0.355	= Turnover ratio/times

Source: Prepared by the researchers based on records and lists issued by the General Company for Textile and Leather Industries

We note from the table above that the general trend of the company's trading ratio is constantly declining, reaching in one year2020 (0.355), while in 2021 (0.298). The reason for this is an increase in current liabilities and a decrease in current assets. The treatment requires an increase in assets in exchange for a decrease in liabilities. This measure increases the trading ratio in the future and improves the ability to trade financially.

Schedule (4) Quick ratio for the year2020-2021 for the General Company for Textile and Leather Industries

year2021	year2020	account name
58,499,654,168 - 20,517,832,332 ÷ 196,763,597,124	61,735,362,895 - 18,808,501,880 ÷ 173,727,543,201	Total current assets - **Inventory** ÷ Total current liabilities
0.193	0.247	= Quick ratio

Source: Prepared by the researchers based on records and lists issued by the General Company for Textile and Leather Industries

We note from the table above that the quick liquidity ratio was achieved in a year2020 (0.247) due to the increase in current assets and the decrease in the value of inventory, while in 2021 it reached (0.193) due to the decrease in the value of current assets. The quick liquidity ratio decreased, and the acceptable quick liquidity ratio is (1 times) and the results gave a negative impression to the company.

Schedule (5) Inventory turnover rate for the year 2020-2021 for the General Company for Textile and Leather Industries

year2021	**year2020**	**account name**

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3,244,344,075 ÷ 19,663,167,106	3,733,169,318 ÷ 18,083,113,947	**Sales cost** **÷** **Average inventory balance ***
0.165	0.206	**= Inventory turnover rate**

Source: Prepared by the researchers based on records and lists issued by the General Company for Textile and Leather Industries

* Average inventory $=(\boldsymbol{Last\ stock\ period} + \boldsymbol{Beginning\ stock\ period})/2$

Average inventory 2020 $=\frac{18808501880+17357726013}{2}$

$=18083113947$

Average inventory 2021 $=\frac{20517832332+18808501880}{2}$

$=\frac{39326334212}{2}$

$= 19663167106$

We notice from the table above that the inventory turnover rate decreases in one yearThe year 2020 reached (0.206), which is higher than the year 2020, which reached (0.165). This means that there is stagnant stock that must be disposed of.

Schedule (6) Fixed assets turnover rate 2020-2021 for the General Company for Textile and Leather Industries

year2021	year2020	account name
3,244,344,075 17,676,652,919	3,733,169,318 16,031,180,960	**Sales cost** **÷** **Total fixed assets**
0.183	0.233	**= Fixed assets turnover rate**

Source: Prepared by researchers based on records and lists issued by the General Company for Textile and Leather Industries

From the table above, the decrease can be justified by an increase in the value of fixed assets that does not involve the same amount of sales, and therefore the company may exploit all the assets or sell part of the unused assets.

In this context, the research hypothesis of the relative importance of inventory in the financial statements was proven, and the use of financial ratios and their analysis of the possibility of arriving at a measure of the efficiency of the company's financial policies by comparing the financial ratios for the current year with ratios for previous years.

CONCLUSIONS

1- Financial ratios and financial indicators make it possible to give a true picture of the financial situation of the economic unit.
2- There is a significant increase in inventory, which represents the cost of idle capital.
3- The quick liquidity ratio decreased from (0.247) in 2020 to (0.193) in the year 2021. This is a negative indicator of the company's performance.
4- The asset management ratio is not appropriate for judging efficiency or evaluating performance because part of the company's revenues is due to reasons related to economic conditions.

RECOMMENDATIONS

1- The need for economic units to rely on modern financial indicators when evaluating financial decisions related to economic units.
2- The need to maintain appropriate and optimal inventory limits to exceed additional costs.
3- The company's management not being aware of these indicators could lead to the company's exit from the market.
4- Under conditions of change in the general level of prices, the minimum possible amount of assets must be kept, so that the company is not exposed to the risk of inability to pay.

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