

DIRECTIONS FOR DETERMINING THE CORRECTNESS OF ESTIMATED VALUES IN THE AUDIT OF FINANCIAL STATEMENTS

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Abstract: This article examines the importance and necessity of determining the correctness of estimated values in the audit of financial statements. As a result of the research conducted, proposals were developed to determine the correctness of estimated values.

Keywords: financial statement audit, estimated values, fair value, audit, general audit plan, audit program, audit risk, audit conclusion.

INTRODUCTION

In our country, special attention is paid to satisfying the needs of users for reliable information by introducing international standards of financial reporting. Reliable information presented in financial statements plays an important role in making rational management decisions and choosing the right financial strategy. However, there are also problematic aspects in forming truthful information on accounting objects in financial statements. In particular, it is important to accurately reflect information on assets and liabilities whose value is not certain in financial statements. It is necessary to use estimated values in assessing this type of assets and liabilities. This, in turn, requires attention to the correct application of estimated values in audit audits.

LITERATURE REVIEW

Economic scientists have conducted certain studies on estimated values and their significance in audit audits.

According to J.Dixson and Y. Frolova “in auditing fair value estimates, auditors need to consider several issues which include the assumptions made by management to develop the estimates and the reasonableness of the estimates” [1].

Lambert, T.A. and Agoglia, C.P. stated that “auditors use evidential support for two separate but related objectives when auditing estimates. First, auditors use evidence to reduce the risk of a material misstatement to a reasonable level, and second, they use evidence to defend their conclusions against criticism” [2].

According to Du N. and Budescu D.V. “I focus on the uncertainty of the outcome because it is a major aspect of accounting estimates and research has found that individuals are more concerned with outcome uncertainty than other types” [3].

Other economists have pointed out that “estimates with high or extreme uncertainty are frequently subjective because they afford discretion in the selection and interpretation of inputs. The subjectivity that is inherent in uncertain estimates makes auditing the

appropriateness of such estimates difficult and requires extensive professional judgment” [4].

However, these studies did not pay much attention to the classification of estimated values according to the level of uncertainty.

RESEARCH METHODOLOGY.

In studying the importance and necessity of determining the correct application of estimated values in audit audits, methods such as monographic observation, comparison, grouping, systematic approach, induction and deduction were used.

ANALYSIS AND RESULTS

It is known that it is impossible to fully evaluate some items of financial statements. Therefore, audit audits focus on estimated values. The estimated value in financial statements depends on the results of a number of operations and processes, and is also estimated in order to determine the fair value of assets and liabilities.

International auditing standards establish the procedure for conducting an audit of estimated values. Usually, the concept of estimated value is used when it is not possible to determine the value of assets and liabilities in the activities of a business entity for various reasons. As a result of collecting evidence during the audit, the auditor must accurately assess the value of assets and liabilities.

Estimated values applied to elements of financial statements have a significant impact on audit risk. Therefore, when checking estimated values, the auditor is required to do the following:

Estimated values mainly relate to liabilities. Therefore, the international financial reporting standards provide the concepts of estimated and contingent liabilities. Given the impossibility of accurately estimating the value of estimated liabilities, the estimated value is determined by the accountant.

One of the most complex elements of financial reporting are liabilities. The impossibility of accurately estimating the value of some types of liabilities is explained by the following:

In transactions related to the sale of products with third parties, the full settlement of liabilities is not always guaranteed. Therefore, a separate account is provided in the chart of accounts for maintaining reserves for doubtful debts. The formation of reserves for doubtful debts is not described in detail in national accounting standards and other documents. However, international financial reporting standards require the formation of reserves for doubtful debts for any transaction. The important point to note here is how much and at what value the provision for doubtful debts is reported at the end of the reporting period;

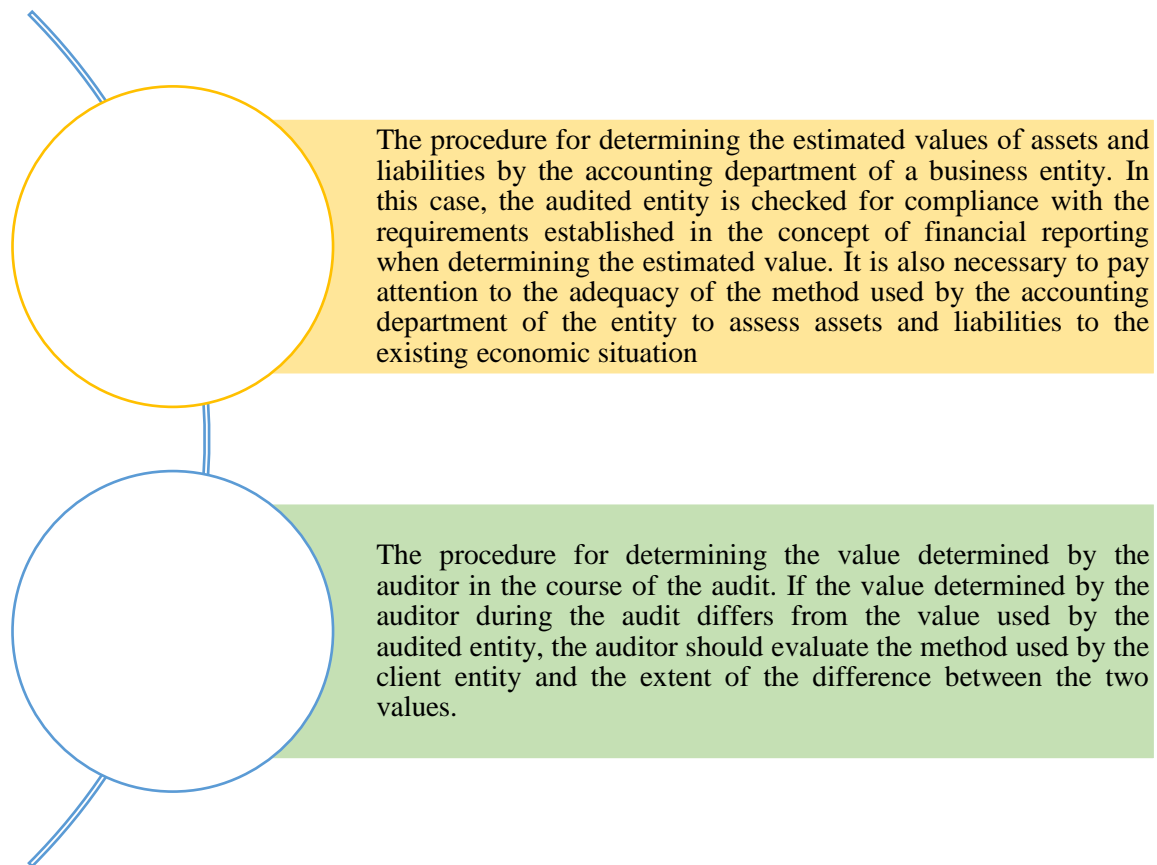


Figure 1. Directions of verification of estimated values¹

Audits require special attention to contractual relationships for the purchase and sale of products or other processes. Typically, the audit mainly examines contractual relationships related to current liabilities. However, audit audits also require attention to the existence of long-term liabilities and the procedure for their fulfillment. At the end of each annual reporting period, a certain part of long-term liabilities is transferred to current liabilities. In this process, the auditor should pay special attention to the correct determination of the value of long-term liabilities and current liabilities.

CONCLUSION

1. In addition to liabilities included in the category of financial statement elements, the concept of estimated value is also applied to some elements of assets and equity. When estimated value is used, the factors and aspects that are the basis for its use should be disclosed in the notes to the financial statements.

2. There are various methods and tools for determining estimated values. However, in conditions of uncertainty, it is advisable to use a scientifically sound and fair value estimate to determine estimated values.

3. International Standards on Auditing include ISA No. 540 "Auditing

¹ Made by author.

accounting estimates and related disclosures” which includes requirements for determining the correct use of estimated values. Compliance with the requirements of this ISA in audit audits creates the basis for high-quality audit audits and the formation of a reliable audit opinion.

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