

IMPROVING STRATEGIC MANAGEMENT ACCOUNTING OF INVENTORY

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Abstract. *This paper explores the development of an advanced framework for improving strategic management accounting (SMA) of inventory. The study emphasizes the crucial role of inventory as a financial and operational asset and presents methods to align inventory management practices with strategic objectives. The research identifies key challenges in existing accounting systems, such as poor data integration, forecasting inaccuracies, and weak governance. Solutions involve applying digital transformation, predictive analytics, and cross-functional collaboration. The paper concludes that SMA provides the foundation for better financial performance and sustained competitive advantage through data-driven inventory decisions.*

Keywords: *Strategic management accounting, inventory control, data analytics, ERP systems, governance.*

Introduction. In today's volatile and competitive markets, effective inventory management has become vital for business sustainability. Inventories represent one of the largest current assets in manufacturing and trading companies, and their efficient management affects profitability, liquidity, and service levels. Strategic Management Accounting (SMA) enhances traditional accounting practices by integrating strategic and operational insights for long-term decision-making. However, despite its significance, many firms continue to face inefficiencies caused by fragmented data systems, outdated valuation methods, and lack of strategic alignment. This paper aims to explore practical strategies to modernize inventory accounting through the lens of SMA.

Literature review. The concept of Strategic Management Accounting was introduced in the 1980s as a means of linking accounting with strategic decision-making. According to Drury (2018), SMA emphasizes the provision of relevant, forward-looking information to support competitive strategies. Kaplan and Norton (1996) proposed the Balanced Scorecard, highlighting the integration of financial and non-financial measures to assess strategic performance. In inventory management, SMA frameworks allow firms to identify value-creating activities, evaluate cost drivers, and balance stock levels with customer expectations. Langfield-Smith (2019) argued that SMA promotes collaboration between accounting, supply chain, and production departments. Recent research suggests that digital tools, such as ERP systems and predictive analytics, are critical to implementing SMA effectively (Otley, 2016).





Methodology. This study adopts a qualitative analytical approach based on secondary data from academic publications, case studies, and industry reports. The methodology involves analyzing current challenges in inventory accounting, reviewing best practices in SMA, and synthesizing strategies for improvement. A conceptual framework is developed that outlines the interrelationship between governance, technology, and performance measurement in optimizing inventory management.

Discussion and Analysis. Inventory accounting traditionally focuses on valuation and cost measurement, often neglecting strategic dimensions such as risk exposure and opportunity costs. By applying SMA, firms can integrate long-term goals with operational data, enhancing both visibility and control. Modern ERP systems facilitate this integration by connecting financial modules with supply chain data in real time. Predictive analytics further supports demand forecasting, reducing the likelihood of stock imbalances. A key factor in SMA success is governance. Organizations must establish policies for inventory classification, valuation (FIFO, LIFO, weighted average), and periodic review. Moreover, financial managers should collaborate with supply chain teams through Sales and Operations Planning (S&OP) meetings to ensure alignment between business strategy and inventory decisions. Digitalization also transforms the role of accountants—from record-keepers to strategic analysts. With IoT devices, RFID, and cloud-based dashboards, companies can monitor stock levels and movement continuously. This data enables scenario modeling and proactive decision-making, thus bridging the gap between financial and operational functions.

Findings and Recommendations

The findings suggest that improving strategic management accounting of inventory requires multi-dimensional transformation. Key recommendations include:

- Implementing integrated ERP systems to unify financial, logistical, and production data.
- Establishing strong governance frameworks for valuation, classification, and reporting.
- Investing in data analytics tools and predictive models for more accurate demand forecasting.
- Training accounting professionals in strategic analysis, data interpretation, and digital literacy.
- Adopting performance metrics that align operational efficiency with strategic outcomes, such as inventory turnover, fill rate, and working capital ratio.

These measures together improve financial transparency, reduce waste, and foster a culture of data-driven decision-making.



Conclusion

Strategic management accounting offers a powerful framework for aligning inventory management with long-term organizational goals. Through enhanced data integration, advanced analytics, and cross-functional collaboration, companies can transform inventory accounting into a strategic decision-support system. Effective implementation not only improves financial control but also enhances agility and resilience in an increasingly uncertain business environment. For sustainable success, firms should institutionalize continuous improvement, regularly evaluate their performance indicators, and embrace technological innovation.

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