

ISSUES OF IMPROVING NON-CURRENT ASSETS ACCOUNTING IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Аннотация. Мақолада молиявий ҳисоботнинг халқаро стандартлари асосида асосий воситалар ҳисобини ташкил қилиш, уларни баҳолаш ва молиявий ҳисоботда акс эттириш тартибини такомиллаштириш масалалари ва уларнинг бухгалтерия ҳисобининг миллий стандартлари билан фарқлари таҳлили келтириб ўтилган.

Калит сўзлар: молиявий ҳисобот, молиявий ҳисоботнинг халқаро стандартлари, асосий воситалар, асосий воситаларнинг бошланғич қиймати, жорий қиймати, асосий воситалар эскириши, асосий воситаларни баҳолаш, даромад ва харажат.

Абстракт. В статье анализируются вопросы организации учета основных средств на основе международных стандартов финансовой отчетности, их оценка и совершенствование порядка их отражения в финансовой отчетности и их отличия от национальных стандартов бухгалтерского учета

Ключевые слова: финансовая отчетность, международные стандарты финансовой отчетности, основные средства, стоимость основных средств, приведенная стоимость, амортизация основных средств, оценка основных средств, доходы и расходы.

Abstract. The article analyzes the issues of fixed assets accounting on the basis of international financial reporting standards, their evaluation and improvement of the procedure for their reflection in the financial statements and their differences from national accounting standards.

Key words: financial statements, International Financial Reporting Standards, property, plant and equipment, cost of property, plant and equipment, present value, depreciation of property, plant and equipment, valuation of property, plant and equipment, income and expenses.

Introduction

In the way of liberalization of the economy of the Republic of Uzbekistan and attraction of foreign investments, solution of existing problems and finding optimal solutions to a new level of international cooperation, reduction of state participation in the economy, gradual increase in the share of private property in GDP, the resolution of the President of the Republic of Uzbekistan, dated February 24, 2020 No. PD-4611 "On additional measures for the transition into International Financial Reporting Standards" was adopted. According to the decree, the main goal identified providing foreign investors with the necessary information

environment and expanding access to international financial markets by accelerating the transition into international financial reporting standards, as well as improving the system of training specialists in accounting and auditing according to international standards [1]. At the recent stage of consistent reforms in the country, special attention is paid to further increasing and strengthening the activities of economic entities and their investment activity. In this process, of course, the accounting of non-current assets in accordance with international financial reporting standards will allow foreign investors to have access to reliable and, most importantly, understandable financial statements about the assets of the enterprise.

Literature review

Of course, non-current assets play a significant role in the structure of business entities. At the same time, such property increases the value of capital in the long run and is a source of additional income for the investor.

According to the definition of the Corporate Finance Institute, fixed assets are long-term tangible assets used in the activities of the enterprise. This type of asset has long-term financial benefits, a useful life of more than one year and is classified as a fixed asset in the balance sheet. Accordingly, the four main characteristics of fixed assets are given [2]:

1. Fixed assets have a service life of more than one year.
2. Property, plant and equipment have a depreciation characteristic and are depreciated.
3. Fixed assets are used in business operations and bring long-term financial benefits.
4. Fixed assets have a material appearance.

If we take T.A Frolova's book which is called "Accounting", it describes fixed assets as follows: Fixed assets are the means of labor that participate in the production process for a long time and retain their natural form. Their value is transferred to the finished product in the form of parts, because the use value is lost. Fixed assets include work tools with a service life of more than one year. From this point of view, the company's fixed assets are not taken into account in this book.

However, due to the current practice of NAS (National Accounting Standards) in our country, if we look at it from this point of view, we can observe certain types of procedures set out in NAS 5 "Accounting for Property, Plant and Equipment". NAS 5 describes property, plant and equipment as follows: Non-current assets are held by an enterprise for long-term use, which have a material appearance, in the production of goods, works or services, or for administrative and socio-cultural functions [3]. If we look at non-current assets of companies in accordance with International Accounting Standards (IAS), we can see a significant difference between national and international accounting standards. The following is an analysis of International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and National Accounting Standards (NASs). From the perspective of comparison, in NAS 5 Accounting for Non-current assets gives explanations about what are property, plant and equipment, how they are depreciated, how many types of depreciation there are, in what order they are received by enterprises, in what order they are written off together with all types of transactions related to the them are summarized in NAS 5. It should

be noted that there are some significant differences in the definitions listed in international accounting standards and national standards. From an accounting perspective, IAS 16 Property, Plant and Equipment (IAS 16) states that the carrying amount of an item of non-current assets is the amount which any accumulated depreciation or accumulated impairment is deducted. However, this definition is given in NAS 5 as follows: *Residual value is defined as the initial (replacement) value of non-current assets less accumulated depreciation..* It is clear that the national accounting standard does not take into account and not mention the "impairment value" of fixed assets. This may not make a very high difference, but in today's digital economy, for a particular type of non-current assets, it is important to take these aspects and their book value into account. Clear examples of these are the types of "Machinery and equipment" and "Computer equipments ", which are part of non-current assets. Because the process of international globalization has a significant impact on the rapid development of industries and information technology, and in order to take the lead in a healthy competitive environment, of course, businesses themselves are requiring the use of the latest models of various automated machines or equipment. Therefore, the rate of impairment in these types of fixed assets occurs much earlier compared to their useful life. Another difference is that International Accounting Standard 16 "Property, Plant and Equipment" provides two additional definitions: *"An entity's intrinsic value is the present value of the cash flows expected to be received by the entity from the continued use of the asset and its disposal at the end of its useful life or when the liability is settled. Impairment loss is the portion of an non-current asset's carrying amount that exceeds its recoverable amount"*. It is obvious that one of the main factors in practice and international experience is to take into account the impairment value of these non-current assets. International Accounting Standard for Property, Plant and Equipment (IAS 16) defines non-current assets as follows: *"Property, plant and equipment are those that are expected to be used in the production, delivery, rendering of services, leasing to other parties, for administrative purposes or for a period of more than one period"* [4]. It is obvious that in the definitions of fixed assets there is almost no difference between international standards and national standards. But one factor we need to consider is how these basic tools are recognized. An example of this, in NAS 5 "Non-current assets accountng", the below part is given : Regardless of the service life and cost, the following are not included in the type non-current assets:

- a) special tools and equipment (special-purpose tools and equipment for serial and mass production of certain items or for the preparation of individual orders);
- b) special and sanitary clothing, special footwear;
- c) bedding;
- d) stationery (calculators, tableware, etc.);
- d) kitchen inventory, as well as kitchen linens;
- e) temporary (non-title) structures, facilities and equipment, the construction costs of which are included in the cost of construction and installation work;
- j) replaceable equipment with a service life of less than one year;

h) hunting weapons (trawls, traps, nets, equipment, traps, etc.). However, the International Accounting Standard (IAS16) Property, Plant and Equipment recognizes property, plant and equipment as follows: We can see that the cost of an item of property, plant and equipment is recognized as an asset only when the entity is likely to receive future economic benefits associated with the item of property, plant and equipment or when the cost of the asset can be measured reliably. Items such as spare parts, ancillary and repair equipment are recognized in accordance with this IAS 16 when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventories [4].

Comparing these, we can see that in accordance with national accounting standards, any spare part should be recognized as a commodity. However, international accounting standards allow parts to be recognized as a fixed asset if they meet the relevant requirements. Because, from the accountant's point of view, business entities have such types of spare parts, the cost of which is very high, without which it is impossible to continue the type of activity of the enterprise, ie business operations. But under national law, businesses cannot recognize these as a primary tool. With this in mind, it is appropriate to recognize them as property, plant and equipment when certain conditions are met. NAS 5 "Non-current assets accounting" sets out such items in sections 4-5 of Chapter 1, ie the unit of accounting for non-current assets is the inventory item. As an item of property, plant and equipment, an object is regarded only with all its facilities and equipment, or a separate structural unit designed to perform certain independent tasks or a separate set of structural components that represent a whole and are designed to perform a specific function. A set of constructively assembled items is one or more items with common facilities and equipment, common management, built on a single foundation, so that each item in the complex can perform its function not independently, but only within the complex for one or more purposes..

Research methodology

Scientific methods of studying the processes of economic reality - experimental research, generalization, grouping, logical and comparative methods of analysis, abstract-logical thinking, comparative analysis, statistical analysis, forecasting and accounting methods were used in the research.

Analysis and results

When an item of property, plant and equipment contains more than one stand-alone item with different useful lives, each item is recognized in the accounting records as a separate stand-alone inventory item. Property, plant and equipment owned by two or more enterprises are recognized by each enterprise in proportion to its share in the property, plant and equipment [5].

The reason for the differences that may occur in the process of harmonization of national accounting standards in our country with the requirements of international financial reporting standards is the following comparison of the types and groups of non-current assets in national and international accounting standards.

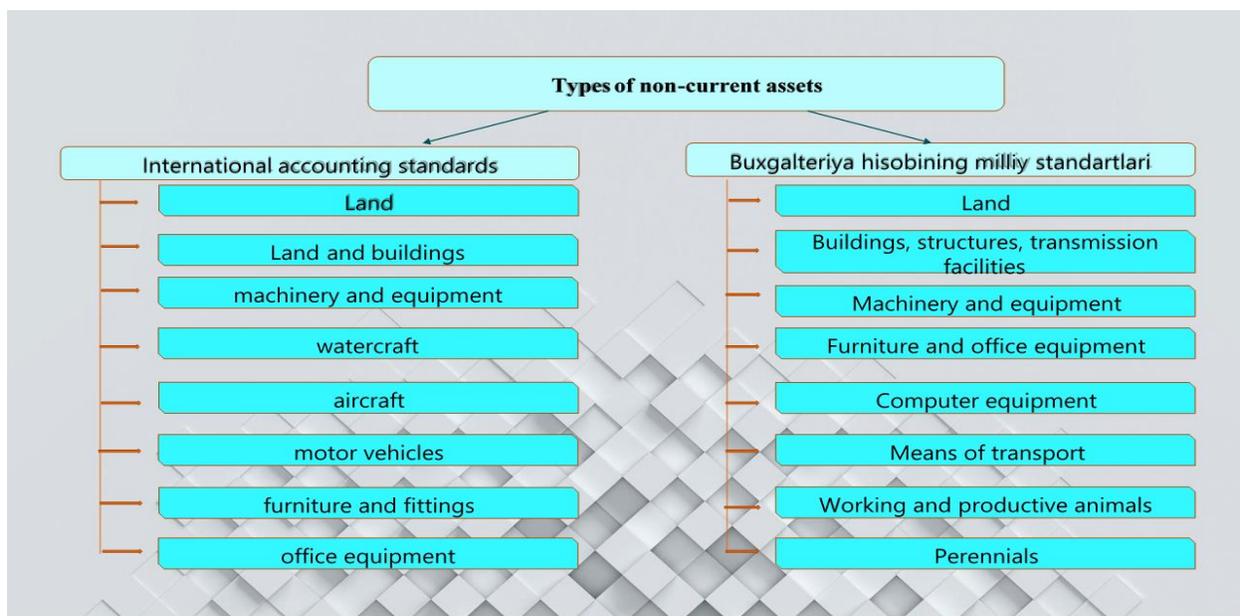


Figure 1. Types of non-current assets according to international and national accounting standards ¹

As can be seen from the picture above, there is a significant difference between international and national standards in the classification of fixed assets. However, it should be noted that this difference is reflected only in their classification into certain groups. If we focus on some of them, in the national accounting standards, aircraft and ships are grouped together as vehicles. But in foreign standards, they are classified as a separate group. However, foreign experience does not include perennials and productive animals. There are some countries where the main part of their economy is, of course, agriculture and animal husbandry. Therefore, if they prepare financial statements based on foreign standards, it will in some ways lead to misunderstandings..

In accordance with the national accounting standards and the relevant legislation of the Republic of Uzbekistan, business entities were required to annually re-evaluate the existing fixed assets. However, the downside is that because the depreciable amount expires after a certain period of time, these fixed assets are re-admitted to the balance sheet of the business entity and revalued annually. Therefore, due to the transition into International Financial Reporting Standards, from January 1, 2021, the annual mandatory revaluation of non-current assets for all businesses, regardless of ownership, will be abolished [6].

In view of all this, in addition to the fact that after the transfer of the depreciable value of non-current assets to the cost of goods (works and services), the fixed assets are re-balanced and then again pay property taxes need to do. The most advantage of this is that the cost of goods (works and services) produced by business entities is somehow minimized by the amount of depreciation.

¹ Developed by the author

The general dynamics of non-current assets of General Motors, one of the largest companies reporting on International Financial Reporting Standards, over the years is as follows:

Table 1.

The value of General Motors non-current assets ²

General Motors Co.

Balance sheet: property, plant and equipment

US\$ in millions

	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Land	1 302	1 349	1 647	1 645	1 636
Buildings and improvements	9 705	9 173	7 471	6 655	5 562
Machinery and equipment	29 814	26 453	23 915	22 855	19 338
Special tools	23 586	23 828	21 113	10 932	9 576
Construction in progress	3 042	4 680	6 188	5 347	4 633
Property, gross	43 863	41 655	39 221	36 502	31 169
Accumulated depreciation	(28 699)	(26 725)	(24 081)	(11 614)	(9 516)
Property, net	38 750	38 758	36 253	35 820	31 229

If we analyze this table, according to National Accounting Standard 21, unfinished construction should be reflected in account 0810 as a capital investment of the enterprise. However, the table shows that "Construction in progress" is listed together with the fixed assets of the enterprise according to IFRS. But here it needs to say that the balance sheet of the company was prepared for only investment purposes in order to show information about company's financial position and so many of the items were not widely classified.

In practice, the write-off of property, plant and equipment due to the end of its useful life or for other reasons is important in the activities of business entities. For this reason, this issue is emphasized in national and international accounting standards. For example, national accounting standards are much clearer than international accounting standards because the national accounting standard, NAS 5, Non-current assets accounting, provides a very clear definition of how property, plant and equipment is written off and when they are liquidated, sold, exchanged, transferred free of charge, transferred to the charter capital as a founder's share, transferred under a financial lease agreement, when a deficit or loss is identified [5].

It should be noted that the procedure for the disposal of non-current assets is very generalized in International Accounting Standard IAS16 "Property, Plant and Equipment" which they are excluded from non-current assets when no future economic benefits are expected from their use or withdrawal [6]³.

Conclusions

² <https://www.stock-analysis-on.net/NYSE/Company/General-Motors-Co/Analysis/Property-Plant-and-Equipment>

³ <https://www.ifrs.org/issued-standards/list-of-standards/ias-16-property-plant-and-equipment/#translations>, 67

In conclusion, it should be noted that in the process of harmonization of national accounting standards with international financial reporting standards, and in the organization and maintenance of fixed assets on the basis of international financial reporting standards, of course, it depends on the geographical location and type of activity. It is advisable to coordinate in accordance with the requirements of international standards.

The transition into International Financial Reporting Standards is a bit difficult, not fast and quite costly process, however, it provides many bonuses both for the operation of processes within the enterprise and for external users and owners.

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1. Resolution of the President of the Republic of Uzbekistan No. PD-4611 "On additional measures for the transition to international financial reporting standards". // *National Database of Legislation*, 25.02.2020, 07/20/4611/0209, 31.10.2020, 06/20/6098/1432.

2. <https://corporatefinanceinstitute.com/resources/knowledge/finance/fixed-assets/>

3. *O‘zbekiston Respublikasi Moliya vazirligi tomonidan 2003-yil 9-oktabrda, 114-son bilan “TASDIQLANGAN” O‘zbekiston Respublikasi Buxgalteriya hisobining milliy standarti 5-sonli BHMS.*

4. International Financial Reporting Standards organization website <https://www.ifrs.org/issued-standards/list-of-standards/ias-16-property-plant-and-equipment/#translations>

5. National Accounting Standard of the Republic of Uzbekistan NAS 5 “Non-current assets accounting” approved by the Ministry of Finance of the Republic of Uzbekistan on October 9, 2003, No. 114.

6. Item 9 of PD-4938 dated 30.12.2020 and item 3.2 of the information letter of the Ministry of Finance №06 / 04-01-02-32 / 3200