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“ACCOUNTING FOR LONG-TERM ASSETS’ VALUATION”

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FINAL QUALIFYING WORK

“PERMISSION FOR DEFENCE”

DEAN OF FACULTY

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CONTENT

INTRODUCTION.....	3
CHAPTER 1. THEORETICAL AND LEGAL BASES OF ACCOUNTING FOR LONG-TERM ASSETS' VALUATION.....	6
1.1. Classification and description of long-term assets.....	6
1.2. Recognition, valuation and accounting principles of long-term assets.....	11
Conclusion for the first chapter	20
CHAPTER 2. PRACTICAL ISSUES OF ACCOUNTING FOR LONG-TERM ASSETS' VALUATION.....	21
2.1. Accounting for fixed assets' valuation	21
2.2. Valuation of intangible assets and its accounting	31
2.3. Accounting procedure for evaluating long-term investments in accordance with national standards.....	40
Conclusion for the second chapter	48
CHAPTER 3. INTERNATIONAL PRACTICE OF VALUATING AND ACCOUNTING FOR LONG-TERM ASSETS.....	49
3.1. Foreign experience of accounting and evaluating fixed assets.	49
3.2. Improvement of evaluating methods of intangible assets. .	58
Conclusion for the third chapter.....	67
CONCLUSION AND OFFERS	69
LIST OF USED LITERATURE.....	72
APPENDIX.....	

INTRODUCTION

Actuality of the theme of the final qualifying work. Today Uzbekistan is developing rapidly in all spheres. In particular, major reforms aimed at boosting the country's economy, ensuring macroeconomic stability and improving the welfare of the population are yielding positive results. Only in 2017, the steady economic growth rate was 5.5%, the volume of exports increased by almost 15%. The positive balance of foreign trade turnover reached \$ 854 million.¹

Nowadays legislative basis of economic reforms and new way of developing the country is The Strategy of actions. We can say it is logical continuation of our reforms demonstrated in Uzbek model.

According to the Strategy of actions adopted by the President of the Republic of Uzbekistan, “conducting an active investment policy aimed at modernization, technical and technological renewal of production, implementation of production, transport and communications and social infrastructure projects” is one of the priority tasks of developing economy.² Implementation of the task mentioned above occurs improvement of accounting and evaluating methodology of long-term assets. Because, long-term assets are the most important resources for organizing production and running business.

The relevance of the chosen topic is that there are problems with assessing the real value of long-term assets. Thus, in condition of economic fluctuations and high inflation it is very difficult to evaluate long-term assets. In addition, the reforms in the country's liberalization of currency will increase the relevance of this issue.

Moreover, we can also see the essence of research topic in the followings:

- Business entities spend a large amount of capital for purchasing long-term assets;
- Long-term assets are used long time in business process and influence to

¹www.president.uz O‘zbekiston Respublikasi Prezidenti Shavkat Mirziyoyevning Oliy Majlisga Murojaatnomasi. 22.12.2017.

²O‘zbekiston Respublikasi Prezidentining Farmoni “O‘zbekiston Respublikasini yanada rivojlantirish bo‘yicha harakatlar strategiyasi to‘g‘risida”, PF-4947. 7.02.2017

the cost of production or other type of expenses;

- Long-term assets are considered principal tax base of property tax;
- Valuation of intangible assets and financial investments are not adequately studied.

Subject of research. The subject of the work is to research theoretical and methodological aspects of the organization of accounting for long-term assets' valuation, its development and practical application.

Object of research. The object of the work is considered practical information on long-term assets' valuation of "Yunika Plus" LLC and its subsidiary enterprise "Guzal Voha Business".

Goal and objectives of the final qualifying work. The purpose of the final qualifying work is researching theoretical, practical and methodical aspects of long-term assets' valuation, and to work out suggestions and recommendations for improving its accounting.

Coming from the main aim of the final qualifying work principal objectives of the work are the followings:

- to highlight content, importance, classification and description of long-term assets;
- to reveal theoretical and legal foundations of evaluating long-term assets by national and international systems;
- to analyze and describe the characteristics of financial-economic activity of research object by using statutory statements;
- to expose theoretical and practical aspects of evaluating fixed assets and their accounting;
- explaining theoretical and practical aspects of the assessment and accounting of intangible assets.
- to show the assessment and accounting of financial investments;
- to illustrate foreign practice of evaluating and accounting for long-term assets based on international financial reporting standards and literatures;

- to work out scientific suggestions and practical recommendations on elaborating accounting for long-term assets' valuation.

Theoretical and practical significance of the topic. The scientific proposals and practical recommendations illustrated in the work serve to perfect methodical, theoretical and practical aspects of accounting for transactions related to evaluating long-term assets. Application of the research results in the practice of enterprise gives a chance to improve accounting and valuation methodology of long-term assets in “Yunika Plus” LLC and its subsidiary enterprise “Guzal Voha Business”.

The work can be used in teaching the subjects of “Accounting theory” and “Financial accounting”.

A brief description of the structure of the final qualification work. The work consists of introduction, three chapters, conclusion and proposals, bibliography and appendixes. Introduction part of the work indicates the relevance, subject, object, goal, tasks, theoretical and practical essence of the final qualification work. First chapter is devoted to theoretical and legal foundations of accounting for long-term assets' valuation. In the second chapter, practical issues and organization of accounting for long-term assets' valuation in the example of “Yunika Plus” LLC and its subsidiary enterprise “Guzal Voha Business” have been described. International practice of accounting and valuation of long-term assets, and its improvement has been discussed in the third chapter of the work. Conclusion and suggestions part of the work includes main results of the thesis. Appendix consists of practical data of the object of this paper.

CHAPTER 1. THEORETICAL AND LEGAL BASES OF ACCOUNTING FOR LONG-TERM ASSETS' VALUATION

1.1. Classification and description of long-term assets

Any business entity operating under a market economy should have certain financial and economic resources to maintain its business. Of course, the availability of financial and economic resources and their effective utilization will result in improved outcomes. Usually financial and economic resources of an enterprise are recognized as long-term and current assets in terms of accounting. At the same time, long-term assets make a significant contribution to the structure of financial and economic resources of the enterprise.

Long-term assets have changed with the essence and content of classical economist scholars today. Nowadays, there is a need for their fragmentation and use of information about their compliance with international financial reporting standards. This is especially important when exporting and imports of capital as a result of emergence of transnational corporations.

The composition of long-term assets, which are currently introduced, and the use of certain terms, have been devoid of international standards of financial reporting. This, in turn, requires a systematic study of the experience of foreign enterprises and enterprises with foreign investment in the country.

The research results show that many scientists indicates the composition of long-term assets coming from national accounting standards and Balance sheet of entity, which was approved by the Ministry of Finance. If we look the handbook on the topic of “Accounting and audit” written by R.Abdullayev, there are following elements of long-term assets:³

Fixed assets;

Intangible assets;

Capital investments;

Long-term financial investments.

³ Абдуллаев Р.А. Бухгалтерский учет и аудит. Учебное пособие.—Т.: “ИКТИСОД-МОЛИЯ”, 2010, стр.12

According to the national accounting standard of the Republic of Uzbekistan NAS no.21 long-term assets includes the following assets (figure no.1).

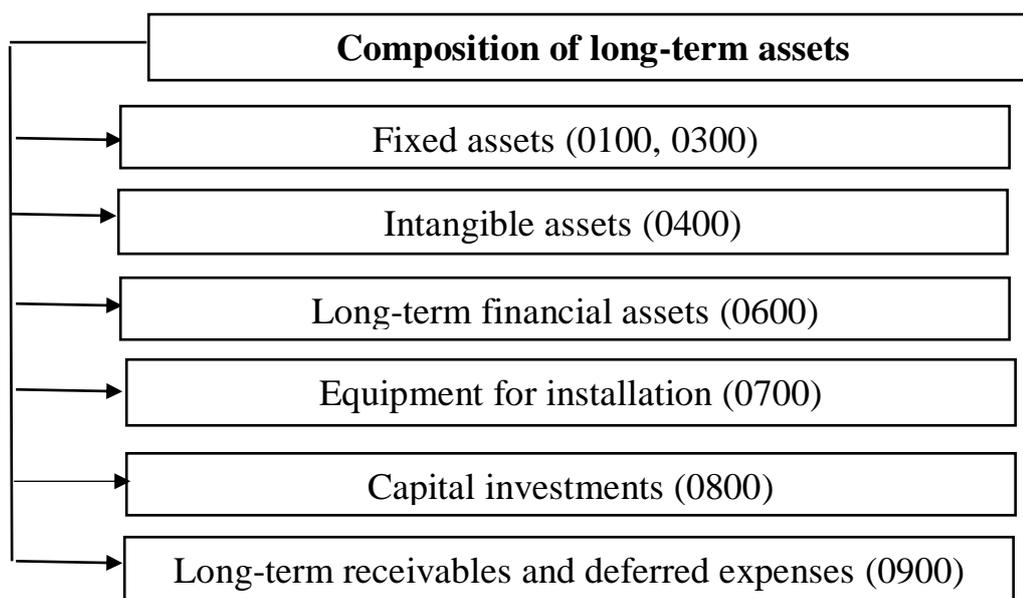


Figure no.1. Composition of long-term assets⁴

Long-term assets are reflected in the Balance sheet of entity coming from the above-mentioned classification. However, grouping long-term assets should be based scientifically.

It is desirable to divide the structure of long-term tangible assets (LTTA) into two groups by combining our practice and international experience:

- 1) Building, machinery and equipment;
 - A) Building and facilities
 - B) Machinery and equipment
 - C) Office equipment and equipment
- 2) Non-installed equipment and uncompleted equipments.

In our practice until January 1, 2007 "Land" and "Natural Resources" are not the property. Starting from January 1, 2007, land plots occupied by legal entities were considered as objects of privatization. We believe that it is expedient to recognize and reflect the value of the right to use as part of a non-material asset when companies have the right of ownership to the land to be included in fixed assets, and leasehold

⁴ Made by author based on NAS no.21

land for permanent and permanent use.

An intangible asset can also be utilized in future economic benefits. Therefore, long-term debt and past due debt should be included in the fourth category, entitled "Extended Debt and Expenditure." In essence, overdue debts are neither tangible nor intangible, nor are long-term investments in direct earnings but also the expenditure incurred in the future with indirect income.

Summarizing ideas, one can say that in order to make decisions that are necessary for the management of long-term assets and information on them, it can be stated in the following order (figure no.2):

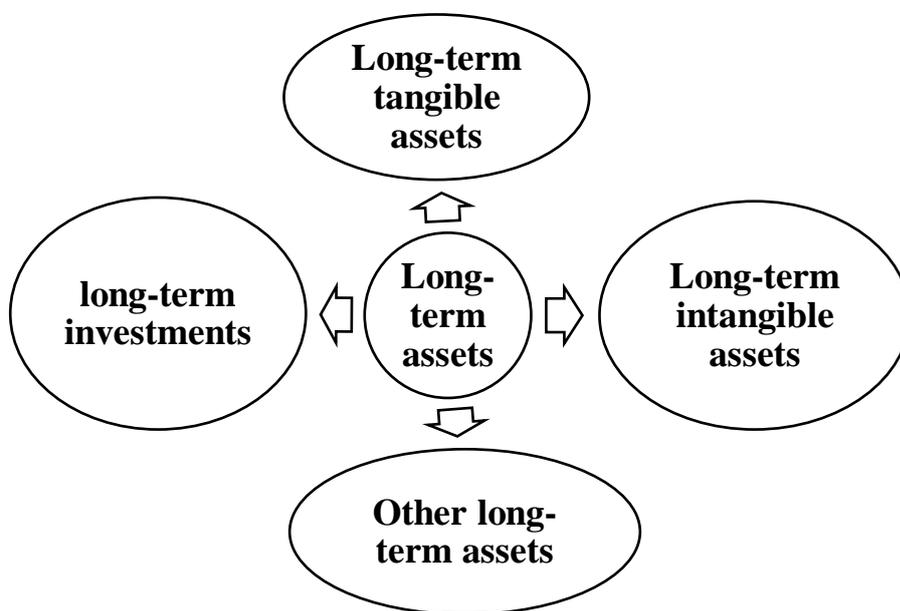


Figure no.2. Classification of long-term assets (suggestion)⁵

In our opinion, the above-mentioned considerations help to harmonize the composition of long-term assets according to the requirements of the international financial reporting standards.

Long-term assets are one of the major economic categories involved in business activities. In the context of new economic relations, the economic category has not been thoroughly studied. Therefore, it is necessary to consider the main characteristics that determine its categories. It should be noted that these studies are aimed at introducing some theoretical issues of long-term assets into the activities of certain

⁵ Made by author

undertakings.

Many economists⁶ consider long-term assets to be assets of more than one year: long-term capital investments, intangible assets, fixed assets, and other long-term assets. Such a description is based on accounting principles.

According to professor G.V. Savitskaya, long-term assets (fixed capital) are long-term goals, putting funds into real estate, bonds, stocks, mineral resources, joint ventures, non-material assets, and so forth⁷.

According to economist V.I. Makareva, long-term assets are intended as a part of the accounting account, that is, to summarize the necessary information about the presence and movement of fixed assets, non-material assets, financial instruments, equipment and equipment as assets of the enterprise in accordance with the accounting principles⁸.

This definition describes longer-term assets, but this should be further clarified.

Economists V.V.Kovalev and V.V. Patrov notes in his work that long-term assets are generally used for more than a year in business⁹.

This definition, in our opinion, reflects only the useful life of long-term assets, and theoretical interpretation of the concept of long-term assets is still insufficient and needs to be studied in more depth.

Prof. I.A.Blank¹⁰ describes the assets in general.

1. Assets reflect the economic resources used in the business of the enterprise.
2. The assets are the property value of the enterprise formed as a result of the capital invested in the enterprise.
3. Assets reflect the property value of the enterprise.
4. Only economic resources controlled by the enterprise are included in assets.
5. Assets used as economic resources in economic activities are characterized

⁶ Бобожонов О., Жуманиёзов К. Молиявий ҳисоб. дарслик Тошкент: Молия, 2000. Р. 97. И.А Завалишина. Янгича бухгалтерия ҳисоби.-Тошкент: “Иқтисодиёт ва ҳуқуқ дунёси” нашриёт уйи, 2004. Р.128

⁷ Г. В. Савицкая «Анализ хозяйственной деятельности предприятия» Учебник М.: Инфра-М 2002. Р. 157

⁸Б.И Макарьева Учет основных средств. - М.: Налоговый вестник, 2000. Р. 57

⁹В.В Ковалев Учет, анализ и бюджетирование лизинговых операций: теория и практика. - М.: Финансы и статистика, 2005. – Р.512.

¹⁰ И.А Бланк. Управление использованием капитала. - К.: «Ника-Центр», 2000. Р. 129

by certain productivity.

6. Assets are the economic resources that generate and accumulate profits.

7. The assets of the enterprise used in business activities shall be on a regular basis.

8. The use of assets in an enterprise's business activities is closely linked to the time factor.

9. The use of assets in economic activities is closely related to the risk factors.

10. Property assets arising from assets are linked to the liquidity factor.

All of the above definitions generalize assets.

Accordingly, long-term assets can be described as follows:

Long-term assets are assets that are characterized by the fact that they are acquired by the entity for long-term use in the production process, productivity, profit or loss.

However, it is necessary to pay attention to the principles of formation and characterization of long-term assets.

The formation of long-term assets of the enterprise is related to three main stages of its life-cycle development:

1. Establishment of a new enterprise. One of the most responsible stages of these assets (the first stage of their formation) - occurs mainly in the process of establishment of large enterprises. The long-term assets formed at this stage often determine the demand for the initial capital, determine the conditions of profitability, the rate of return of assets and the level of their liquidity and so on.

2. Expansion, rehabilitation and modernization of the existing enterprise. This stage of formation of long-term assets can be seen as an indispensable development process in the life cycle of assets. Renewal and expansion of the long-term assets of the existing enterprise will be made taking into account the possibility of formulating the strategic goals of the enterprise development and investment resources.

3. Formation of new structural units of a current entity (subsidiaries, affiliates, etc.). This process can be carried out by forming new structural property complexes (i.e. building a former branch when building a new building) or by purchasing a ready

real estate (such privatization of a state-owned enterprise, purchasing a bankrupt enterprise, etc.).

The process of forming long-term assets should be aimed at any purpose in order to ensure that the company's operations will be effective in the upcoming period.

1.2. Recognition, valuation and accounting principles of long-term assets

The development of market relations in our country is a necessary condition for changing the main categories of bookkeeping accounts, first, accounting principles. Accounting principles are understood as a set of guidelines and accounting guidelines for accounting. Accounting principles are subject to constant change with the emergence of new economic activities, the implementation of new types of economic operations, the development and renewal of economic processes.

The change in the system of corporate relations and proprietary relationships led to the necessity of improving the accounting rules. New principles should be based on the current market economy model, use the experience of developed economies, and respond to international accounting standards.

The following basic rules are set out in International Accounting Standards:

1. Basic rules.

- Accrual method;
- Continuity of activity.

1. Qualitative classification of information contained in financial statements:

- clarity;
- importance;
- reliability;
- reliable description;
- The essence of content (content) over the form;
- neutrality, prudence;
- completeness;
- timelessness;
- the proportion of income and expenses;

- balance between quality classifications;
- Reliable and objective imagination.

It should be noted that a significant part of the principles embodied in the international standards complies with the conceptual system adopted by our country. The National Accounting Standards of the Republic of Uzbekistan have four basic accounting principles. It is important to distinguish between the many principles of accounting and long-term assets, as well as the principles that form the methods and methods of accounting.

The first principle is the principle of proprietary alienation, in which the property and obligations of the enterprise are taken into account individually without mixing with the property and obligations of the owners of the enterprise. Thus, the above principle ensures the economic independence of the economic entity against its owner. What is the basis of the principle of property distinction? Is property separate from business owners or from other legal entities?

As it is suggested in the concept of creating and presenting a financial report, the principle of proprietary separation is based on dynamic accounting, and a dynamic balance of accounts is formed.

In the dynamic accounting balance, the property owner's property is excluded from the assets, while the static accounting balance is required to reflect the assets of the entity with the property owner's property, which is the object of satisfaction of the claimed assets. It should be noted that, according to the existing procedure, the owner's personal property is not included in the assets of the enterprise. Legal jurisdiction refers not only to their property, but also to the share of enterprises in private equity.

The principle of property alienation necessitates taking account of the assets of the enterprise separately from assets of other enterprises. According to this principle, only the property belonging to the enterprise must be reflected in the accounting balance of the enterprise. Assets that are under the control of the entity, but not the property of the entity, are reflected in ordinary accounting records, mainly on scores, in addition to the bookkeeping balance sheet.

There are some contradictions between the Law on Accounting and the Civil Code in interpreting the meaning of the principle of property alienation. In particular, according to the Civil Code, the principle of proprietary is not only the existence of a property right, but also its recognition on the basis of trustworthy management. The legal interpretation of the principle of property alienation is wider than the interpretation made in terms of accounting.

The principle of property in international standards of financial reporting is not one of the main principles. If the company can control the profitability, the leased property is its asset. According to the 17th International Leasing Regulations of the Financial Report (IFRS), transactions are accounted for in essence, not in its legal form, and in the report. The legal form of the finance lease contract may not imply the transfer of ownership of the leased asset. Nevertheless, the standard requirements reflect the tenant's balance sheet as reflecting the financial lease as a company's asset. IFRS 17 states that "if such lease transactions are not reflected in the tenant's balance, the level of economic resources and liabilities shall be considered as artificially dropped and shall mean that the financial relationship has been breached"¹¹.

According to the concept of static account, all leased vehicles should be deducted from the balance. This is equally valid regardless of the rent or lease agreement with the lease agreement.

The concept of dynamic accounting does not take into account the concept of "ownership right." In the context of a dynamic accounting concept, any asset that an entity uses should be shown on its balance sheet.

In our view, when developing a concept of accounting for long-term assets, there should be an interconnected link between the principle of proprietary and the legal form of the economic substance of the principle. In addition, these two principles should be based on the principle of proportionality of income and expenses. In the case of economic benefit from the use of the assets by the user, then the legal right should not be the basis for reflecting the assets in the balance sheet.

¹¹ Международный стандарт финансовой отчетности – М.: Аскери- АССА,1998.- Р.384.

Our country is based on principles of dynamic accounting in the practice of accounting. Lessor's property is a subject of leasing granted temporarily for use by a lessee. At the same time, according to the rules of accounting, the subject of leasing is indicated on the balance of the lessee.

In addition, the property provided under a trust management agreement remains the property of the founder in trust management. However, this property does not extend to the property of the founder, is recorded on a separate balance sheet of a trustee, and is independently accounted for thereon. The trust management agreement mainly enters into the ownership of the founder's business. However, in a trust management, the hired manager controls the expected return on property use, and relies on the risks of retaining, reducing and increasing ownership.

In addition, under the terms of a trust management agreement and under the restrictions imposed by law, the use of this property, as well as granting, leasing or pledging to other persons may be imposed. Therefore, the property is written down from the balance sheet of the founder and reflected in its account to be reflected in a separate accounting balance of the trust management. Consequently, long-term assets of the entity may be reflected in the balance sheet. They are not property-based or under-control, and will benefit them in the future.

The application of the principle of property alienation at the expense of long-term assets based on the accounting practice and legal interpretation can be made in the following way: property of long-term assets with the right of ownership, economic management or operative management, and other legal entities are taken into account, separated from long-term assets.

The principle of continuity of operations is interpreted on the conceptual basis of accounting. The company operates in a timely manner and will continue to operate in the near future. The enterprise does not intend to terminate or reduce its activities, so the obligations are met in the established order.

The essence of the principle of continuity of business activity, which is created on a conceptual basis, conforms to its meaning in international standards of financial reporting. However, international standards allow for the following: if a company

intends to terminate its activities or significantly reduce its scope, the financial statement should be based on another basis.

The principle of continuity of business activity is based on the possibility of choosing the assets of an enterprise. It was argued that the reassessment of the government's key tools would lead to a systematic breach of the principle of continuity of activities. In our opinion, the review will not lead to a breach of this principle. This principle is based on the recognition of an existing (operating) enterprise rather than an accounting for assets at fixed rates.

According to the concept of dynamic accounting, valuation of fixed assets, either at the initial or revaluation basis, is necessary to calculate the profitability of the assets of the enterprise. The principle of continuity of enterprise activity should be compared to the principle of coincidence, which means that expenses should correspond to the same reporting period so that earnings have to be earned. The level of inflation that leads to an increase in the price of finished and finished goods is the need to re-evaluate the main assets of this enterprise.

Valuation of long-term assets for the operating enterprise is based on the carrying amount of the asset where the carrying amount can be measured at the original carrying value or current market valuations that are calculated using current rebate or revaluation or by experts. For long-term assets with limited working life, the initial value is reduced systematically over this period and, accordingly, long-term assets are recorded at net book value of the entity's accounting balance. If the enterprise completes its activity, the principle of continuous operation of the enterprise will be violated. In these circumstances, it is necessary to change the property valuation method.

For a business that liquidates a long-term asset, it is advantageous to use a realizable value method. The following may occur:

- The sale value of legal entities is sufficient to cover the creditors' debts.
- The realization value of the assets of a legal entity can not meet the creditors' demands and they receive a portion of the share they can bear.
- The real estate value of the assets of the legal entity is much higher than the

debt and is sufficient to fully covering the debt;

Thus, the principle of continuity of business activity can be implemented by applying long-term assets to accounting, as follows: the carrying value of the long-term assets of the operating entity (initial, current, current market, residual values). When the Company's operations are interrupted and the interim liquidation balance is settled, the long-term assets are measured at realizable value.

The principle of computing according to the conceptual basis of the financial reporting form describes a certain period of economic activity of the enterprise, ie it is recognized that the transaction is related not only to the time of payment or receipt of funds, but also to the time of its description. Thus, the principle of computation is to acknowledge that the accounting for a business combination must be recognized in the reporting period. Therefore, in the event of the business activity being terminated, the selling price of assets allows calculating the revenue from sales.

In our opinion, the principle of computation can be divided into 3 main components: the principle of cost determination, the principle of revenue profits, the principle of recording. The principle of expense recognition is that the money and its equivalents paid to the acquired assets are not necessarily the expense, but the cost of the obligation to pay those funds. The principle of revenue accounting indicates that they are recognized during the reporting period, regardless of the time they actually received the funds in the reporting period.

Nowadays, accounting is the key to gaining profit from the right of ownership to the buyer. In the operations on long-term assets, it is also possible to generate income from the temporary use of individual objects.

The principle of income matching costs is that revenue is generated in the period in which the income statement is recorded. Scientists in Russia also point out the need to apply the principle of coherence. Prof. Ya.V.Sokolov describes the meaning of this principle as follows: "The period of the earnings of the income is the period in which the earnings relate." ¹².

¹² Соколов Я.В. Основы теории бухгалтерского учета. - М.: Финансы и статистика, 2002. - С. 48

Prof. M. Kooter stated, "The application of this principle will allow time to equalize the production costs to production costs." ¹³

Applying the principle of coexistence in practice is hardly difficult. The application of this principle implies that revenue generated during the reporting period will depend on the costs incurred during that period. In order to implement this principle, it is envisaged to apply special accounting methods in foreign practice. These methods are also called constotation or transformation. In the case of accounting for costs and revenues in a reporting period, the recognition is considered a method of convergence, and the costs and revenues are related to two or more accounting periods.

The meaning of the application of long-term assets to the accounting expense can be summarized as follows: the initial cost of long-term assets acquired will also be converted to capitalized costs incurred in the form of depreciation charges in line with future economic benefits.

Long-term asset recovery costs include current costs (if the costs incurred during the reporting period are appropriate to the economic benefits of the reporting period), overdue expenses (if the aggregate expense will benefit from two or more reporting periods), capitalized expenses (long-term costs to increase the starting value of assets and to gain economic benefits in the upcoming period).

The right to receive income is current revenue if it corresponds to the reporting period, but revenue is also converted if future revenue is recognized as revenue and the future may be earned.

One of the main principles of accounting is the principle of cautiousness. The International Standard of Financial Reporting describes this principle as follows: "Sensitivity is crucial in formulating appropriate judgment for the development of calculations required in uncertainty, so as to take such precautions, assets and revenues do not go up, obligations or expenditures should not be diminished¹⁴.

¹³ Кутер М.И. Теория и принципы бухгалтерского учета. Учебное пособие. - М.: Финансы и статистика, Экспертное бюро, 2000. - Р.135

¹⁴ Международные стандарты финансовой отчетности. – М.: Аскери- АССА,1998.- Р. 40

Thus, the principle of caution is based on the four principles of financial reporting: avoiding assets, avoiding profits, reducing costs, and not reducing liabilities.

The use of non-depreciation provisions for long-term assets is used by the international standard in the following cases: when the value of long-term assets is recognized in accounting, the useful life of the asset is adjusted to the carrying value of the long-term assets.

Consequently, the principle of prudence is interconnected with the principle of income matching the costs. According to the International Financial Reporting Standards, profitability of long-term assets is an important factor in determining their useful lives.

The company may use accelerated depreciation for the purpose of implementing the "Do not dispose of assets" principle and reducing the useful life of long-term assets.

In this assessment, international standards are interpreted as the amount of compensation for long-term assets over the useful life of the company. The aggregate amount should be at least equal to the carrying amount of the asset. If the carrying amount is higher than the amount recovered, the difference between them is included in the company's loss.

The national accounting standard reflects the principle of prudence, ie the principles of financial reporting and accounting are meticulously complied with the prudent principles of the enterprise accounting policy on a conceptual basis.

The prudent principle of long-term assets requires the use of the lowest-priced option of asset valuation, depending on accounting principles. Can a long-term asset interpreted by international standards be applied to the accounting practice in our country with a prudent principle of accounting and changing the valuation?

There are two types of prudent concepts in a number of long-term assets:

- The principle of prudence in terms of dynamic accounting that determines the real value of long-term tangible assets in case of leaving or for sale;
- the concept of caution from the point of view of static accounting - involves

the consideration of potential losses of long-term assets not yet sold;

The static concept is not fully used in the current accounting reports. But the principle of caution is that it can be applied in practice.

Regardless of whether an asset is profitable or not, it is recognized as a long-term asset under the accounting rules. Under the International Standard Rule, the expense on long-term assets that are not profitable is deductible. Thus, the application of a prudent principle in the accounting system of our country may be contrary to the state's fiscal policy.

However, the principle of prudence in modern accounting is widely used in recycling and conservation of long-term assets. Thus, the value of long-term assets decreases as the result of an increase in the value of long-term assets and, as a consequence, re-evaluation of the assets of the enterprise to avoid the increase in production cost and property tax. The order of the head of the enterprise is not depreciation deductions, primarily on the main means of conservation, the cost of the product does not exceed and the principle of revenue conformity to the expenses is thus maintained. Costs for the maintenance of an item are included in the operating expenses of the enterprise.

Methodological basis is the methodology of periodicity, financing and accounting of current, future and capital expenditure on long-term assets.

The periodicity of accounting records implies the allocation of one-time costs for purchasing assets over specific reporting periods. Thus, acquisition of long-term assets requires large expenses at one time, but these costs are not included in the reporting period, if any. That is why the initial estimate of the operating cycle of assets is made and the period of their effective use is determined. Also, a portion of long-term assets is allocated to each reporting year.

The method of financing is mainly used for the accounting of two parties: financial and economic aspects. One of these is designed to account for assets and the other is to take account of resources. This method is currently used for accounting of assets in budgetary institutions.

The current, future and capitalized costs are separately used to record an entity's

cost of acquisition of long-term assets and their subsequent inclusion into current or future periods.

During the purchase of long-term assets, one-time expenses of the enterprise are generated. These costs can be generated through the payment of cash, the occurrence of receivables, the replacement of other assets. These costs may increase the value of the entity's long-term assets and may be related to current or future periods. It is therefore important to allocate the above expenses to the current, future, and capitalized costs. Thus, when purchasing long-term assets, much of the purchase cost is capitalized, but part of the costs can be included in current expense.

Thus, the main principles of accounting are the conceptual basis for the calculation of long-term assets. Therefore, it is important to comply with these principles when developing and maintaining an accounting policy in enterprises.

Conclusion for the first chapter

Any type of business need long-term assets in order to run efficiently and continuously. Some enterprises purchases long-term assets while other use them under operative lease agreement. Before discussing accounting for long-term assets, it is desirable to reveal theoretical and legal foundations of the assets. We drew up the following conclusions on the chapter I, which is devoted to theoretical and legal essentials of long-term assets.

1. Description of long-term asset disclosed based on literature reviews and author's opinion on the meaning of the assets were given by taking account modern requirements of economic development.

2. Classification of long-term assets have been suggested as a result of implemented researches. The composition of long-term assets has been conveyed by deep analysis of special literatures and legal documents such as NAS.

3. Recognition, valuation and accounting principles of long-term assets have been studied thoroughly and basic concepts have been highlighted.

CHAPTER 2. PRACTICAL ISSUES OF ACCOUNTING FOR LONG-TERM ASSETS' VALUATION

2.1. Accounting for fixed assets' valuation

Fixed assets, also known as Property, Plant and Equipment, are tangible assets held by an entity for the production or supply of goods and services, for rentals to others, or for administrative purposes.

These assets are expected to be used for more than one accounting period. Fixed assets are generally not considered to be a liquid form of assets unlike current assets. Examples of common types of fixed assets include buildings, land, furniture and fixtures, machines and vehicles.

The term 'Fixed Asset' is generally used to describe tangible fixed assets. This means that they have a physical substance unlike intangible assets, which have no physical existence such as copyright, and trademarks.

Fixed assets are not held for resale but for the production, supply, rental or administrative purposes. Assets that held for resale must be accounted for as inventory rather than fixed asset. So for example, if a company is in the business of selling cars, it must not account for cars held for resale as fixed assets but instead as inventory assets. However, any vehicles other than those held for the purpose of resale may be classified as fixed assets such as delivery trucks and employee cars.

Fixed assets are normally expected to be used for more than one accounting period which is why they are part of Non-Current Assets of the entity. Economic benefits from fixed assets are therefore derived in the long term. Fixed assets are recognized as such at the time of their acceptance to accounting. Under fixed assets in accordance with NAS No.5 "Fixed Assets" refers to assets that are not presupposed for reselling, which can bring economic benefits and are used by the organization for the production of products, works, services or for managerial needs for a period exceeding 12 months.¹⁵

In accordance with NAS no. 21, fixed assets are subdivided into the following groups and reflected analytic accounts:

¹⁵NAS no.5 "Fixed Assets" registered by the Ministry of Justice Republic of Uzbekistan, 23.09.1998. No. 491

- 0110-"The Earth";
- 0111-"Land improvement";
- 0112-"Improvement of fixed assets received under a financial lease agreement";
- 0120-"Buildings, structures and transfer devices";
- 0130-"Machinery and equipment";
- 0140-"Furniture and office equipment";
- 0150-"Computer equipment and computer facilities";
- 0160-"Vehicles";
- 0170-"Working and productive livestock";
- 0180-"Perennial plantations";
- 0190-«Other fixed assets»;
- 0199-"Canned fixed assets".

Fixed assets are recorded at initial (historical, original) value in those accounts. In addition, for evaluating and reflecting fixed assets in financial statements one should distinguish the following values of fixed assets (figure no.3).

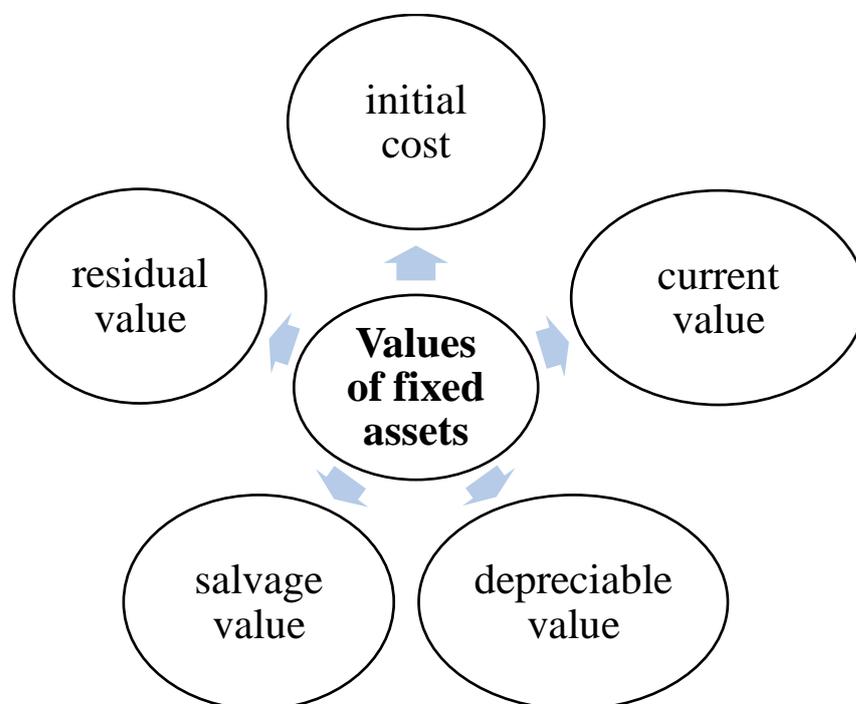


Figure no.3. Values of fixed assets¹⁶

¹⁶ Made by author based on NAS no.5 "Fixed assets".

Fixed assets are subject to inclusion in the balance of the enterprise at historical cost, which includes the cost of acquisition (amounts paid to the supplier) and all costs associated with the acquisition of fixed assets. Expenses for payment of interest for the use of a loan are not included in the original value of fixed assets acquired in full or in part from borrowed capital. Banking services related to the payment of purchased fixed assets, including the costs of opening a letter of credit, payment of a bank commission for transfers and conversion of foreign currency, as well as costs for the preparation and registration of contracts, are not included in the original value of fixed assets, but are recognized as expenses in that reporting period in which they originated. If the terms of the contract provide for a deferral or installment payment for the acquired fixed assets, then these fixed assets are accepted for accounting at the purchase price without taking into account the deferral or payment by installments. At the same time, the difference between the purchase price and the total amount of payments is related to financial expenses (interest costs), depending on the proportion of current payment in the total amount of payments for deferral or installment, during the grace period or payment by installments.

The initial cost of fixed assets manufactured at the enterprise itself is the amount of the actual costs for the erection (construction, construction, completion) of these fixed assets. During the construction period, accrued interest on long-term loans received for construction is included in the initial value of the fixed assets constructed. Products obtained during the process of checking the proper operation of the asset for its intended use are accounted for at net realizable value and deducted from the amount of capital investments, when the initial value of fixed assets is formed.

The initial value of fixed assets, the value of which when acquired in foreign currency, is determined in soums by recalculating the amount in foreign currency at the rate of the Central Bank of the Republic of Uzbekistan as of the date of filling in the cargo customs declaration, including the corresponding costs.

The initial value of fixed assets received in the account of contribution to the

authorized capital of enterprises is their monetary value, agreed upon by the founders (participants) of the enterprise, unless otherwise provided by the legislation of the Republic of Uzbekistan.

The initial value of fixed assets received upon the withdrawal from the founders of the economic company or in the distribution of the property of the liquidated economic company between the founders is the value indicated in the received acceptance and transfer documents of fixed assets.

The initial value of fixed assets received by the enterprise gratuitously (under the gift contract) is their current value as of the date of adoption to accounting.

The initial value of objects transferred to fixed assets from finished goods is equal to its production cost, which is determined in accordance with the Regulations on the composition of costs for the production and sale of products (works, services) and the procedure for the generation of financial results, approved by the Cabinet of Ministers Of the Republic of Uzbekistan on February 5, 1999, No. 54.

The initial value of objects transferred to fixed assets from inventory (excluding finished goods) is equal to their book value, which is determined in accordance with the National Accounting Standard of the Republic of Uzbekistan (NAS 4) "Inventories".

The initial value of fixed assets received in exchange in the manner prescribed by law is equal to the residual value of the transferred fixed assets. In the case of exchange of fixed assets with surplus, the initial value of fixed assets purchased in exchange is equal to the residual value of the transferred fixed assets, increased by the amount of money or their equivalents, which was transferred during the exchange.

The initial value of fixed assets received under contracts providing for the performance of obligations (payment) by non-monetary funds in accordance with the procedure established by law is the value of valuables transferred or to be transferred by the enterprise.

Coming from the above-mentioned requirements, we can work out the following formula in order to determine initial value of fixed assets (IVFA).

$$IVFA=CA+RF+CD+TF+RS+IE+RP+ME+OC \quad (1)$$

Hereafter:

RF-registration fees, state duties and other similar payments made in connection with the acquisition (acquisition) of rights to fixed assets;

CD-customs duties and fees;

TF-the amount of taxes and fees in connection with the acquisition (creation) of fixed assets (if they are not reimbursed);

RS-amounts paid for information and consulting services related to the acquisition (creation) of fixed assets;

IE-expenses on insurance of risks of delivery (creation) of fixed assets;

RP-remuneration paid to intermediaries through which fixed assets were acquired;

ME- maintenance and operating expenses (expenses for installation, commissioning etc.);

OC-other costs directly related to bringing the asset into working order for its intended use.

All types of fixed assets are illustrated in different kinds of financial and statistical statements. Any kind of information user can get essential data on fixed assets of business entities from the following information sources (figure no.4).

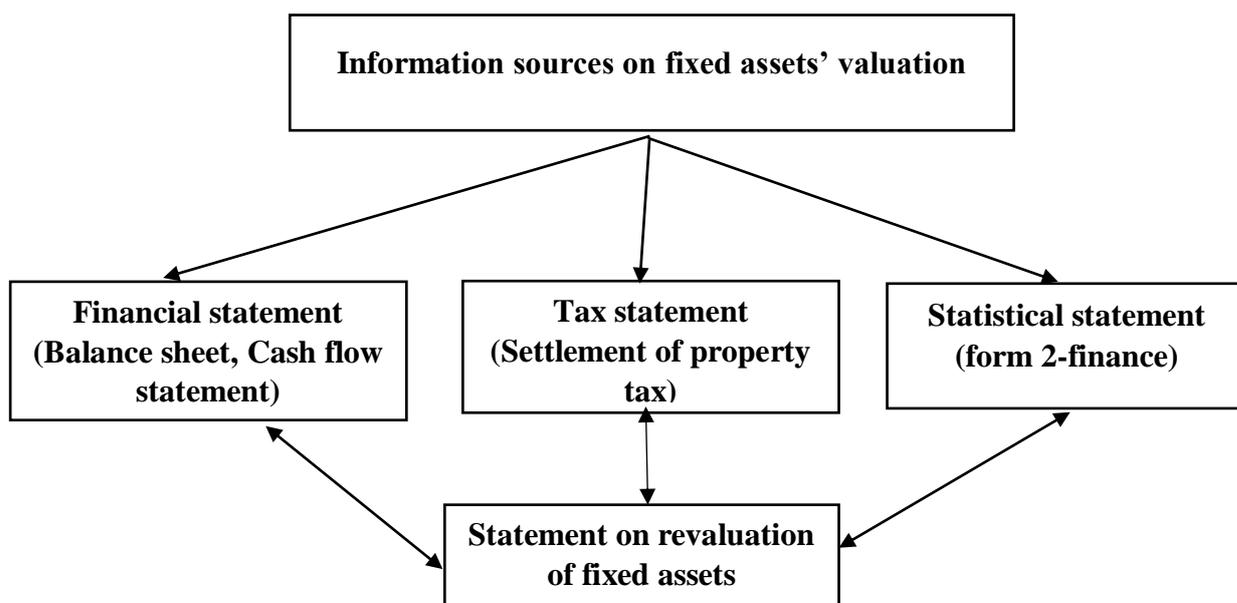


Figure no.4. Information sources on fixed assets' valuation¹⁷

¹⁷ Made by author

Business analytics or other information users who need to analyze fixed assets they try to identify fair value of these assets because of making effective decisions. We also tried to analyze fixed assets position in our research object “Yuniko Plus” LLC by using statistical statement of Finance no.2 on “Statement on existence, movement of fixed assets and other non-finance assets” for 2017 year.

The existence and movement of fixed assets in historical cost and accumulated depreciation are analyzed below (tables no.1, 2).

Table no.1
Dynamic analysis of fixed assets in “Yuniko Plus” LLC at historical cost¹⁸
(thousand UZs)

No.	Types of fixed assets	2016-year	2017-year	Deviation (+;-)
1.	Buildings	122859	137527	+14668
2.	Machine and office facility	12023	12023	0
3.	Transportation facilities	1248654	1283215	+34561
4.	Productive livestock	262036	262036	0
5.	Other fixed assets	9614	16614	+7000
6.	Total fixed assets	1711213	1779354	+68141

According to the table it is clear that the fixed assets of the company increased in 68141 thousand UZs without taking an account revaluation of the assets. It means the enterprise renewed its fixed assets by purchasing or capital investing.

The statistical statement no.2 Finance informs that the receipt of fixed assets in “Yuniko Plus” LLC consists 162028 thousand UZs, including 18912 thousand UZs fixed assets brought to production. For example, “Yuniko Plus” LLC acquired four suites of computers by 1925000 without value added tax for a suite and VAT at the rate of 20%. The fee for delivery of computers consisted 100000.

The transactions on purchasing computers should be recorded in the ledgers of “Yuniko Plus” LLC by following way (table no. _).

¹⁸ Source. Statistical statement of “Yuniko Plus” LLC, form Finance no.2 on “Statement on existence, movement of fixed assets and other non-finance assets” for 2017 year (Appendix-1).

Table no.2

Calculation of initial value of purchased computers and its accounting treatments in “Yuniko Plus” LLC¹⁹

No.	Content of transactions	Debit	Credit	Sum	Initial documents
1.	Contractual value of computers without VAT	0820	6010	$4*2150000=8600000$	contract, invoice
2.	VAT	0820	6010	$8600000*20%=1720000$	invoice
3.	Delivering costs	0820	6990	112000	act
4.	Acquisition of special computer tables	0820	6010	$4*250000=1000000$	contract, invoice
5.	Installation of special software	0820	6990	480000	act
6.	The computers were given to use	0150	0820	11912000	Deed of receipt and conveyance

Any business ventures should obey these rules for calculating initial (historical) cost of fixed assets and record above-mentioned accounting entries.

Decision to governments based on market economy requirements business entities reevaluate their fixed assets periodically on the purpose of determining their fair market value. The annual revaluation of fixed assets, as established by the government, is conducted before February 1 as of January 1, based on the level of prices during the period revaluation. The procedure for carrying out a revaluation of fixed assets is regulated by “Statute on the procedure for carrying out a revaluation of fixed assets as of January 1”, approved by the Ministry of Macroeconomics and statistics, the Ministry of Finance and the State committee of tax on October 29, 2002. No. 129. According to the Statue the followings are considered main funds of organizations for the purpose of revaluation (figure no.5).

Revaluation of fixed assets is carried out as of January 1 (before February 1) based on the price level during the revaluation period:

¹⁹ Made by author using practical information of “Yuniko Plus” LLC.

- annually by organizations besides microfirms and small enterprises;

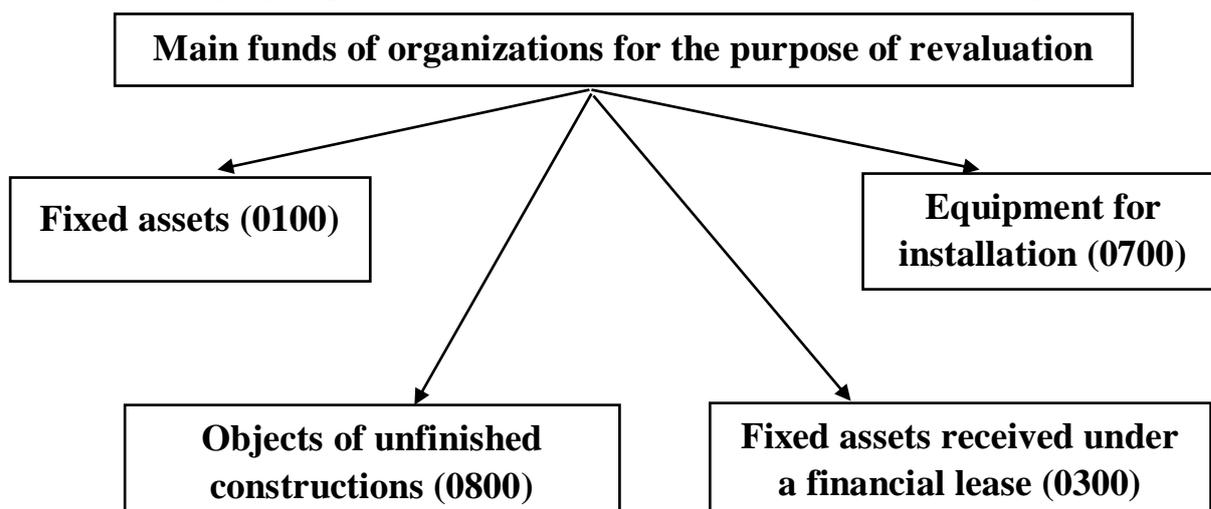


Figure no.5. Main funds for the purpose of revaluation²⁰

- once in three years, micro and small enterprises. “Yuniko Plus” LLC is considered small enterprise for the purpose of taxation regime and reevaluates its fixed assets once in three years.

All fixed assets that are owned by organizations, their economic management, operational management and under a finance lease, subject to revaluation, shall be subject to revaluation, irrespective of their technical condition, in force and unused, on conservation, prepared for write-off, but not properly registered in accordance with the established procedure acts, as well as objects under construction and equipment intended for installation.

Revaluation of fixed assets as of January 1 is made from the initial (replacement) value of the objects received as a result of the previous revaluation, and on received fixed assets within a year - from the value accepted for accounting.

The value of land plots and land use objects other than land plots privatized in accordance with the procedure established by law is not subject to revaluation.

The full replacement value of fixed assets is determined at the discretion of the organization or by direct recalculation of the value of individual objects at documented market prices for new facilities similar to those estimated that occurred

²⁰ Made by author

on 1 January during the revaluation period (hereinafter - the "direct revaluation method") or - by indexing the initial (replacement) value of individual objects with the use of indices of changes in the value of fixed assets differentiated by types of fixed assets and depending from the periods of their acquisition (hereinafter referred to as the "index method").

Revaluation is carried out by the organization independently or with the involvement of experts - experts who have the right to engage in valuation activities in accordance with the law.

For documentary confirmation of the full replacement cost of the objects when applying the direct revaluation method at the discretion of the organization, the following can be used:

a) data on prices for similar products received in writing from the manufacturing organizations and their official dealers, commodity exchanges, real estate exchanges;

b) data on the value of fixed assets in hard currency at the acquisition date (if there is a supporting document) using a calculated ratio, defined as the ratio of the exchange rates of the Central Bank at the date of revaluation and on the date of acquisition of fixed assets;

c) information on the price level available to the relevant government agencies;

d) information on the price level published during the reevaluation period in the mass media and special literature;

e) the appraiser's report on the value of fixed assets (Appendix-4).

For the application of the index method for the revaluation of fixed assets, the State Statistical Committee of the Republic of Uzbekistan annually works out and publishes corresponding indexes in the mass media up to 31 December.

Microfirms and small enterprises in the application of the index method in the period of the next revaluation take into account the indices of changes in the value of fixed assets, published annually in the media, for all previous years after the last revaluation.

In respect of property previously revalued during privatization (denationalization, transformation) performed after the previous revaluation, the amount of goodwill (firm's price) formed in the process of property privatization is reduced by the revaluation reserve amount as of the revaluation date.

Changes in the value of fixed assets as a result of their revaluation in the direction of increasing or decreasing in accounting records of the debit (credit) account of fixed assets with correspondence with the account of reserve capital, namely:

at an increase in the value of fixed assets to initial value:

Debit 0120-0199 "Fixed assets";

Credit 8510 "Adjustments in revaluation of long term assets";

To accumulated depreciation

Debit 8510 "Adjustments in revaluation of long term assets";

Credit 0210-0290 "Depreciation of fixed assets".

At a decrease in the cost of fixed assets to initial value:

Debit 8510 "Adjustments in revaluation of long term assets";

Credit 0120-0199 "Fixed assets";

To accumulated depreciation

Debit 0210-0290 "Depreciation of fixed assets";

Credit 8510 "Adjustments in revaluation of long term assets".

At revaluation of fixed assets, the amount of depreciation is adjusted accordingly, namely:

The difference between the amount of adjusted depreciation and the amount of depreciation charged before revaluation is reflected in the credit (if exceeded) and the debit (if decreasing) of the account "Depreciation of fixed assets" in correspondence with the account of reserve capital.

Assume, "Yuniko Plus" LLC made a revaluation of copying equipment (copier) at a cost of 1500 thousand UZs, the market price of which amounted to 1800 thousand UZs, depreciation was calculated in the amount of 300 thousand UZs. The excess of the market value over the initial market value was (1800-1500): 1500x100

= 20%. Consequently, the depreciation is corrected for the sum of 300 thousand UZs
x20%: 100 % = 60 thousand UZs, with:

for the amount of revaluation is recorded:

Debit 0151 "Copying equipment" - 300;

Credit 8510 "Adjustment for revaluation of assets" -300;

for the amount of wear adjustment:

Debit 8510 "Adjustment for revaluation of assets" 60;

Credit 0251 "Depreciation of copying equipment " - 60.

National accounting standards of accounting require to choose one of the revaluation methods and disclose it in Accounting policy of entity. In our point of view selection of revaluation method should be based on the economic value of conducting reassessment process. As for us, it is efficiently using index method by the enterprise if it owns not large amount of fixed assets and vice versa applying direct method by attracting valuers.

2.2. Valuation of intangible assets and its accounting

Intangible assets are a collection of long-term use objects (over 1 year) that do not have a tangible physical form, but which are necessary for enterprises and organizations to effectively carry out economic activities. They have the significance and the ability to bring economic benefits to the organization, that is, income.

Intangible assets, although they retain the basic concepts of fixed assets, but do not have physical content. Their significance lies in the long-term rights or advantages they give to the owner. The accounting and valuation of intangible (non-material) assets has always caused much controversy. In many respects this is due to the interpretation of the very concept of "intangible asset". In turn, immaterial property that could not been felt because its substance is immaterial.

The legislation and the National Accounting Standard of the Republic of Uzbekistan (NAS) No. 7 regulate the order of assigning objects to intangible assets

and their composition.²¹ According to these standards, intangible assets are reflected in the accounting records as assets if they can be estimated reliably and will subsequently bring to the enterprise an economic benefit. Intangible assets in accordance with NAS No.7 (figure no.6):

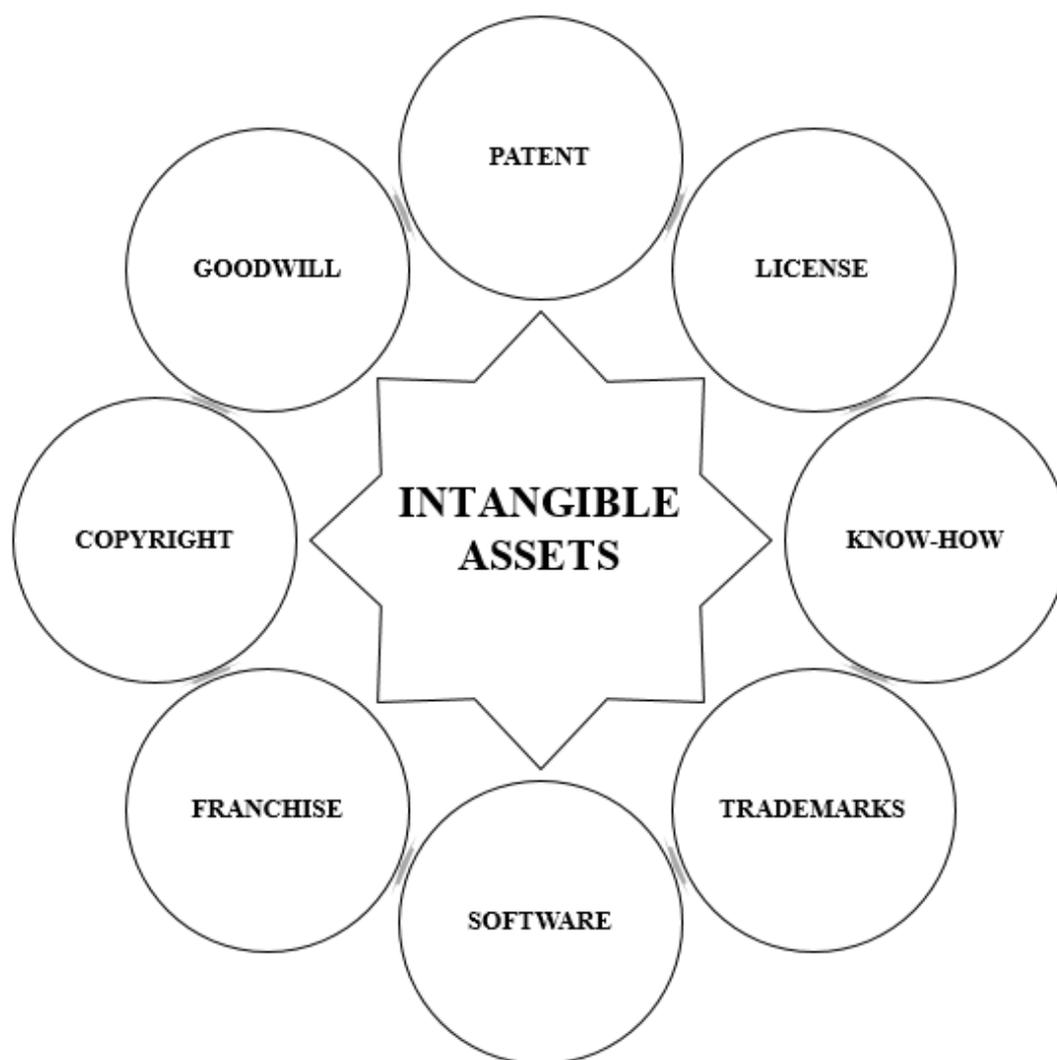


Figure no.6. Composition of intangible assets²²

A brand is a distinguishing name or symbol intended to identify a product or service, or one seller or group of sellers, and to differentiate these goods or services from similar competitors' products. Thus, the brand informs the customer about the origin of the product and protects the customer and producer from competitors who

²¹ NAS no.7 "Intangible Assets" approved by the order of the Minister of Finance of the Republic of Uzbekistan of May 25, 2005 No. 35 (Reg.No.1485 of June 27, 2005 - Collection of Legislation of the Republic of Uzbekistan, 2005, No. 25-26, Article 188).

²² Made by author

try to deliver products that seem to be identical.

According to NAS no.7 “Intangible assets” there are some requirements for recognizing assets as intangibles (figure no.7).

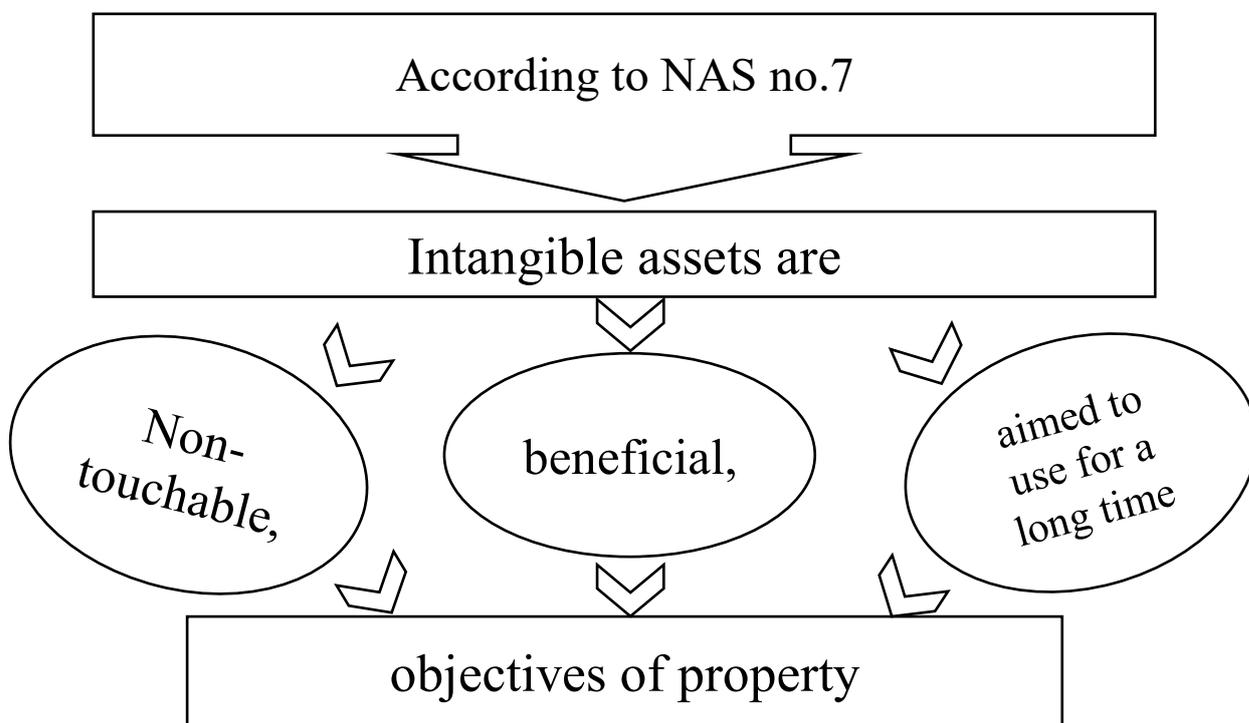


Figure no.7. Recognition of intangible assets²³

Intangible assets are recorded in the intangible assets accounting records in the initial assessment, which is determined for the objects:

- a) contributed by the founders on account of their contributions to the authorized capital of the enterprise by agreement of the parties;
- b) purchased for a fee from other enterprises and individuals - based on the actual costs incurred in acquiring and bringing these facilities ready for use;
- c) received from other enterprises and individuals free of charge - at market significance on the date of posting or at the cost specified in the acceptance documents;
- d) created by the enterprises themselves or as a result of research and development on their own enterprise - at actual cost.

At present, the concept of "intangible assets" not only entered into the theory of accounting, but also began to be applied in practice. At the present stage of the

²³ Made by author based on NAS no.7 “Intangible assets”.

development of society, intangible assets are one of the fundamentally new objects of accounting.

Since intangible assets are the objects of long-term use, the economic benefits concluded in them are realized by the organization not at a time but over a period. The useful life of the object is determined by expert means. In its determination, a large number of various economic and legal factors are taken into account: the first determine the period during which the organization will receive economic benefits; the latter may impose restrictions on the period during which the organization controls access to these benefits.

If the useful life of the object is difficult or impossible to determine, then its duration is set at 20 years, but not more than the life of the organization. This term applies to such intangible assets as the right to know-how, the right to a trademark.

Thus, the peculiarity of intangible assets is that they are used by the enterprise in economic activities for extracting income over a long period, and they do not have a materially natural form.

According to national accounting standards of the Republic of Uzbekistan intangible assets are reflected on financial statements at initial value or re-evaluated value.

The initial valuation of intangible assets of all types should be the initial cost, and they are taken to accounting at this cost.

The initial significance of intangible assets purchased for a fee consists of the following costs:

- ❖ Amounts paid in accordance with the contract of assignment (acquisition) of rights to the right holder (seller);

- ❖ Registration fees, state fees, patent fees and other similar payments made in connection with the assignment (acquisition) of the exclusive rights of the right holder;

- ❖ Customs duties and fees;

- ❖ Amount of taxes, fees and payments in connection with the acquisition of intangible assets (if they are not reimbursed);

- ❖ Amounts paid for information and consulting services related to the acquisition of intangible assets;
- ❖ Remuneration paid to intermediaries through which an intangible asset is acquired;
- ❖ Costs for insurance of risks of delivery (creation) of intangible assets;
- ❖ Other costs directly related to bringing the asset into working order for its intended use.

The costs associated with the payment of acquired intangible assets (expenses for the opening of a letter of credit, a bank commission for transfers, a commission for the conversion of currency for the acquisition of intangible assets for foreign currency and other banking services), with preparation, registration and closing of purchase contracts, other expenses not related directly to the acquisition of assets are not included in the cost of intangible assets. However, they should be recognized as expenses in the reporting period in which they arise.

When paying for acquired intangible assets, if the terms of the contract provide for deferral or payment by installments, actual expenses are taken to accounting for the initially recognized amount of accounts payable.

Expenses in the form of interest for the use of a loan are not included in the original significance of intangible assets acquired in full or in part from borrowed capital.

Let's see above mentioned orders in an example. Assume that "Yuniko Plus" LLC acquired a patent and, therefore, asked the consulting firm to conduct market research, which provided an invoice for their services for 500 thousand UZs. Patent was purchased from a supplier 7000 thousand UZs. These transactions are recorded in ledgers by the following entries (table no.3):

The initial significance of intangible assets created (manufactured) by the enterprise itself is defined as the sum of the actual costs of research and development.

Expenses in the form of interest for the use of a loan are not included in the original value of intangible assets acquired in full or in part from borrowed capital.

Table no.3

**Accounting treatments for acquisition of intangible assets in “Yuniko Plus”
LLC²⁴**

For rendered service by consulting firm:	
Debit 0830 "Acquisition of intangible assets" – 500000 UZs.	Credit 6990 "Accounts payable to suppliers and contractors" – 500000 UZs.
For contract value of the patent:	
Debit 0830 "Acquisition of intangible assets" - 7000000 UZs.	Credit 6010 "Accounts payable to suppliers and contractors" - 7000000 UZs.
Supplier accounts have been paid:	
Debit 6010 "Accounts payable to suppliers and contractors" - 7000000 UZs.	Credit 5110 "Settlement account at bank" - 7000000 UZs.
Inclusion of a patent to intangible assets in initial value:	
Debit 0410 "Patents, licenses, know-how" - 7500000 UZs.	Credit 0830 "Acquisition of intangible assets" - 7500000 UZs.

The initial value of intangible assets created (manufactured) by the enterprise itself is defined as the sum of the actual costs of research and development. The composition of costs for research and development is determined in accordance with the National Accounting Standard of the Republic of Uzbekistan (NAS No. 11) "Expenditures for research and development work" approved by the Ministry of Finance of the Republic of Uzbekistan on December 3, 1998 No. 64 (registration No. 581 of December 28, 1998).

During the development of intangible assets, accrued interest on loans received for their development is included in the initial value of the developed intangible assets. The initial value of intangible assets purchased for foreign currency is determined in UZs by recalculating the amount in foreign currency at the rate of the Central Bank of the Republic of Uzbekistan at the date of acquisition, including the corresponding costs provided for in paragraph 14 of NAS no.7. The initial value of intangible assets received in the account of contribution to the authorized capital of enterprises is determined based on their monetary assessment

²⁴ Made by author based on conditional example

agreed by the founders (participants) of the enterprise, unless otherwise provided by the legislation of the Republic of Uzbekistan.

Assume that “Yuniko Plus” LLC received a credit in 50000000 UZs for 6 months with annual rate of 20 % and directed the capital to create intangible assets in the form of software. Research team consists of four people spent two months for working out the software. The cost of software includes following expenses: salary for members of research team is 12000000; single social payment from fund of salary (15 %) is 1800000; overheads are 500000; depreciation of computers used for the research is 250000; household equipment and inventories are 120000. The enterprise accrues interests for credit monthly and include a part of them in the cost of developed software. The reflection of the transactions are given in the following table (table no.4).

Table no.4

Calculation of initial value of created intangible asset and its accounting treatments in “Yuniko Plus” LLC²⁵

No.	Content of transactions	Debit	Credit	Sum	Initial documents
1.	For receiving a credit	5110	6810	50000000	Credit contract, bank statement
2.	Accruing salary for members of research team	3190	6710	12000000	Payroll
3.	For accrued single social payment	3190	6520	1800000	Payroll, settlement
4.	Taking account of overheads	3190	2510	500000	Settlement
5.	For recording depreciation of computers	3190	0250	250000	Depreciation settlement
6.	For the amount of consumed household equipment and inventories	3190	1080	120000	Report, inventory list
7.	For including interests on credit to research expenses	3190	6920	1666667*	Settlement
8.	Reception of software as intangible assets in initial value	0430	3190	16336667	Reception act

²⁵ Made by author based on conditional example.

*Interests on credit for 2 months=50000000*20%*2/12=1666667

The initial value of intangible assets received by the enterprise gratuitously (under the gift contract) from other persons and from the state subsidy is determined at the present value, which is reliable if it is determined taking into account the active market for this type of intangible assets, including the corresponding costs stipulated in paragraph 14 of NAS no.7. In the absence of an active market for this type of intangible assets, their initial value is determined at the face value or at the amount of actual costs associated with bringing the intangible asset into the ready-to-use state, if any.

The initial value of an intangible asset received in exchange for a similar intangible asset in the manner prescribed by law is equal to the residual value of the transferred intangible asset.

In the case of an exchange of intangible assets with surplus, the initial value of intangible assets acquired in exchange for a similar intangible asset is equal to the residual value of the transferred intangible asset, increased (reduced) by the amount of cash funds or their equivalents (surcharges) that was transferred (received).

The initial value of intangible assets received under contracts providing for the performance of obligations (payment) by non-monetary assets in accordance with the procedure established by law shall be recognized as the current value of valuables transferred or to be transferred by the enterprise. The present value of the values transferred or to be transferred by the enterprise is established proceeding from the price at which in comparable circumstances the enterprise determines the current value of similar values.

If it is not possible to determine the current value of valuables transferred or to be transferred by the enterprise, the value of intangible assets received by the enterprise under contracts providing for the performance of obligations (payment) by non-monetary assets is determined on the basis of the current value, under comparable circumstances, similar intangible assets.

After initial recognition, an intangible asset is recognized in the financial statements either at cost (row 020, f.1) less accumulated depreciation (row 021, f.1)

or at revalued cost (an acceptable alternative method). The applied method of recording intangible assets in financial statements after initial recognition must be reflected in the accounting policy of the enterprise.

Revaluation of intangible assets is the periodic specification of the balance (replacement) value of intangible assets with a view to bringing it in line with the current level of market prices. An entity may reassess on the basis of documents that support the current value at the date of revaluation, provided that it is possible to reliably determine the present value on the basis of active market data. Revaluations must be carried out with sufficient regularity, so that the balance (replacement) cost does not differ from the market value at the balance sheet date. When reassessing an intangible asset, the entire group of homogeneous intangible assets to which the revalued asset belongs should be revalued, unless there is no active market for such assets.

Intangible assets as a result of revaluation are reflected in the accounting and financial statements at the current (replacement) cost. The current value of an intangible asset can be determined on the basis of the active market price for this type of intangible asset. If the present value of a previously revalued intangible asset can no longer be determined based on active market data, the carrying amount of the intangible asset must be its replacement value at the date of the last revaluation based on active market data, less accumulated depreciation.

For documentary confirmation of the current value for revaluation of intangible assets at the discretion of the enterprise, the following may be used:

a) data on prices for a similar intangible asset, received in writing from development companies and their official dealers, representative offices;

b) data on the value of intangible assets in hard currency at the acquisition date (if there is a supporting document) using a calculated ratio, defined as the ratio of the Central Bank's rates at the date of revaluation and on the date of acquisition of intangible assets;

c) information on the level of current prices published during the period of reassessment in the mass media and special literature, etc.;

e) the appraiser's report on the value of the corresponding intangible asset.

In case of revaluation of the original (replacement) value of intangible assets, their accumulated depreciation at the date of the revaluation is adjusted to the corresponding indices of the change in the original (replacement) value of intangible assets, and the subsequent accrual of depreciation is made from the revalued (replacement) value. The revaluation index is determined by dividing the current value of an intangible asset by its original value.

The amount of revaluation of intangible assets as a result of the revaluation is included in the reserve capital in the account 8510-"Adjustments for the revaluation of long-term assets".

The amount of impairment of intangible assets as a result of revaluation is attributable to a decrease in reserve capital under the 8510-"Adjustments for the revaluation of long-term assets" account within the amounts of the revaluation of this object carried out in previous reporting periods. The excess of the amount of markdown of an object over the amount of its reappraisal is charged to other operating expenses.

2.3. Accounting procedure for evaluating long-term investments in accordance with national standards

In the conditions of modernization of the economy, the role of investments in the activities of business entities is increasing. The features and laws of the formation and development of the market economy condition this process. Investing activities of business entities are enlarging year by year because of deepening conglomeration processes. For instance, "Yuniko Plus" LLC, the research object, has also implemented investing activities by organizing its subsidiary enterprise, which is named at "Guzal Voha Biznes" SE.

You will find more information on this enterprise below.

"Guzal Voha Biznes" subsidiary enterprise of "Yuniko Plus" limited liability company was founded in 2009, Urgench, Khorezm. The enterprise runs the following activities according to its Charter:

- wholesale, retail and commission business;
- brokerage and dealer;
- other any activities unrestricted by the laws of the Republic of Uzbekistan.

Main requisites of the enterprise are given below (table no.5)

Table no.5

Main requisites of “Guzal Voha Biznes” SE²⁶

Requisites	Code in accordance with general classificatory
Organizational-legal form	1100
Form of ownership	148
Mailing address	1733401
Legal entity code	23007370
Branch code	71261
Identification number of taxpayer	301342680
Area code	07774
Location	Amudaryo street, no.3, Urgench, Khorezm

“Yuniko Plus” LLC is considered parent enterprise of “Guzal Voha Biznes” SE and 100 % of the property of “Guzal Voha Biznes” SE belongs to its parent entity.

Next trend analysis of basic financial-economic indicators of the enterprise are illustrated (table no.6).

Table no.6

Analysis of main profit indicators of “Guzal Voha Biznes” SE²⁷

№	Indicators	2016 year	2017 year	Deviation (+;-)	Growth, in %
1.	Net sale	3157227,5	5909583,4	+2752355,9	87,2
2.	Cost of sale	2732099,3	5044711,3	+2312612	84,6
3.	Gross profit from sale	425128,2	864872	+439743,8	103,4
4.	Profit from principal activity	372226,6	803791,3	+431564,7	115,9
5.	Net profit	245937,5	508312,1	+262374,6	106,7
6.	Profitability of sale, %	13,5	14,6	1,1	x
7.	Total profitability, %	9,0	10,1	1,1	x

²⁶ Source. The Charter of “Guzal Voha Biznes” SE (Appendix-2)

²⁷ Source. The statement of financial results of “Guzal Voha Biznes” SE for 2017 year. (Appendix-3)

Analysis results show that all indicators that express financial results of the enterprise have increased steadily in 2017 than 2016. Net sale grew to 87,2 % and net profit to 106,7 % respectively. It means the subsidiary enterprise managed to increase the volume of net profit twice in 2017. The growth of profit indicators is considered positive, but the quality of achievements are not enough well. Therefore, profitability indicators show the poor growth of financial results by quality. In reporting year the enterprise could turn just 14,6 % of its net sale to net profit. However, this figure should not be less than 20-30 percent. On the other hand, a thousand sum of expense brought at least 100 sum net profit to investors or shareholders. In condition of 14 % inflation rate in the country, the growth results of profit indicators in analyzing enterprise are not satisfied and not profitable for owners.

If we have analyzed principal balance indicators of the enterprise, the results have been the following (table no.7).

Table no.7
Analysis of main balance sheet indicators of “Guzal Voha Biznes” SE²⁸

№	Indicators	2016 year	2017 year	Deviation (+;-)	Growth, in %
1.	Total assets, including	644499,5	940152,7	+295653,2	45,9
2.	Long-term assets	0	0		
3.	Current assets	644499,5	940152,7	+295653,2	45,9
4.	Source of own equity	731965,3	905169,6	+173204,3	23,7

Horizontal analysis of Balance sheet shows that there are no long-term assets in “Guzal Voha Biznes” SE while total assets consists of current assets. The current or total assets of the enterprise increased 45,9 % from 2016 while source of own equity 23,7 %. According to the theory of growth in the company, if the following conditions are done, the company will achieve real growth.

$$\Delta A \leq \Delta NS \leq \Delta NP \quad (1)$$

Hereafter:

ΔA -the growth of assets in percent;

²⁸ Source. The balance sheet of “Guzal Voha Biznes” SE for 2017 year. (Appendix-3)

Δ NS-the growth of net sale in percent;

Δ NP-the growth of net profit in percent.

In analyzing enterprise, the results are in the following view:

$$45,9 \leq 87,2 \leq 106,7$$

Therefore, we can conclude that the enterprise has reached the real growth, unless the quality is not satisfied enough.

The analysis of financial statements of “Guzal Vohta Biznes” SE showed that there are no long-term assets in the enterprise. That is why we see valuation of long-term investments and their accounting theoretically.

Valuation of financial investments in accordance with national accounting standards are implemented using NAS#12 “Accounting for financial investments”, NAS#8 “Consolidated financial statements and investments to associated entities”, NAS#19 “Organization and conduction of inventorying”, NAS#21 “The chart of accounts and instruction on applying it” and so on.

According to NAS#12 financial investments are evaluated by the following ways:

- upon acquisition, financial investments are valued at a purchase price, including costs such as fees for brokerage services, fees for banking services, fees and other expenses (Figure no.8);

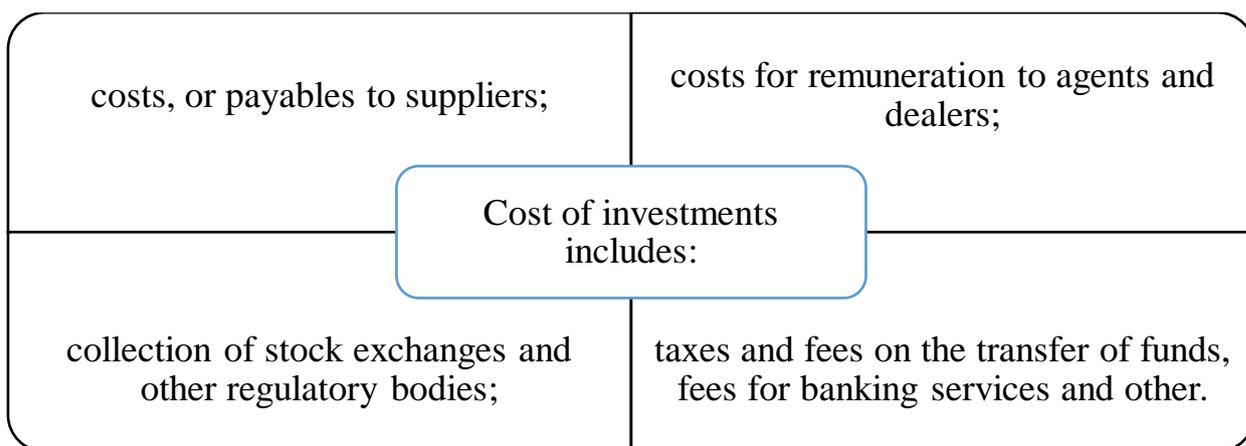


Figure no.8. Composition of cost of investments²⁹

- if the investment is acquired in whole or in part by issuing shares or other

²⁹ Made by author

securities, the purchase price is equal to the current value of the issued securities, rather than their nominal value. If the investment is acquired in full or in part in exchange for another asset, the cost of its acquisition is determined at the present value of the transferred asset;

- acquisition of financial investments at a cost that includes the percentage of interest accrued dividends for the period until the acquisition is accounted for at the acquisition price less the amount of interest paid by the buyer to the seller;

- the difference between the purchase price and the cost of repayment of investments in debt securities (a discount or a premium on purchase) is written off by the investor during the period from the moment of acquisition to the moment of repayment in order to have a constant income on investments.

Investments classified as non-current assets are accounted in the balance sheet by choosing one of the following three values.

- By acquisition price (cost of investment);
- At cost in view of revaluation;
- At the least valuation from the acquisition cost and market value determined by the investment portfolio method.

Long-term financial investments are revaluated periodically like other non-current assets. To reassess long-term financial investments, it is necessary to determine the frequency of revaluations, including long-term investment categories. In the practice of most business entities, it is observed soon that entities do not reflect the frequency of revaluations of financial investments on their Accounting policies. In our opinion, taking into account the requirements of national and international accounting standards companies have to reveal these issues on accounting policy.

Moreover, a decrease in the cost of investment, except for a temporary decrease in book value, reduces the book value of all long-term investments. Such a reduction is determined and prepared for each individual financial investment.

Long-term investments are recorded at cost. In case of irreversible reduction in the cost of long-term financial investments, the book value of these investments should be reduced for each investment separately. At the same time, risks are taken

into account, the share of the investor in the investee.

The temporary decrease in the book value of long-term investments is not reflected in the accounting.

The amount of the appraisal of long-term financial investments as a result of revaluation is credited to equity capital as a revaluation gain. With a decrease in the cost of financial investments, the decrease is due to the amount of the revaluation of the same investments reflected in equity. If the amount of the decrease in the value of financial investments exceeds the amount of income from revaluation, then this difference should be recognized as an expense. The amount of the revaluation of investments, the value of which was reduced, refers to the increase in equity after the loss from the same investment.

Generalization of information on the availability and movement of long-term investments (investments) in securities of other enterprises, the authorized capital of subsidiaries and affiliated companies and other enterprises established in the country and abroad, as well as long-term loans extended to other enterprises is provided on the following accounts:

0610 "Securities";

0620 "Investments in subsidiaries of economic entities";

0630 "Investments in associates";

0640 "Investments in an enterprise with foreign capital";

0690 "Other long-term investments".

Account 0610 "Securities" takes into account the presence and movement of long-term investments (investments) in bonds, in shares and other securities.

On the accounts 0620 "Investments in subsidiaries", 0630 "Investments in associates", 0640 "Investments in an enterprise with foreign capital" take into account the existence and movement of long-term investments, respectively, in subsidiaries and affiliated companies, in an enterprise with foreign capital .

Account 0690 "Other long-term investments" takes into account other long-term investments not provided for in the above bills.

Shares, bonds and other securities are accounted for under the debit of account

0610 "Securities" at the purchase price in correspondence with the accounts on which the values transferred to these investments are taken into account.

According to NAS #21, accounting treatments of financial investments are the followings (table no.8).

Table no.8

Correspondence on the accounts of long-term investments³⁰

№	Contents of the business transaction	Correspondence of accounts	
		Debit	Credit
1	Acquisition of securities by providing the enterprise with a fixed asset	0610	9210
2	Acquisition of securities by providing the enterprise with a seller with intangible assets and materials	0610	9220
3	Acquisition of securities by providing the enterprise with the seller products, goods, works, services	0610	9010, 9020, 9030
4	Acquisition of securities by providing the enterprise with equipment for installation	0610	9220
5	Received free of charge as a long-term investment securities	0610	8530
6	Securities of other enterprises were purchased	0610	5010-5530
7	Acquisition of securities due to accounts receivable	0610	Accounts receivable
8	Restructuring of short-term investments was made	0610	5810-5890
9	The value of securities provided by the founders as their contributions to the authorized capital of the enterprise	0610	4610
10	The difference between the purchase and nominal value of bonds and other debt securities		
	a) the nominal value is higher than the purchase price	0610	9590
	б) purchase price above par value	9690	0610
11	Exchange differences on transactions with long-term investments in foreign currency:		
	Positive	0610	9540
	Negative	9620	0610
12	Reflection of long-term investments in:		
	a) subsidiary entities	0620	9010-
	б) associated entities;	0630	9030,
	в) entities with foreign capital	0640	9210-9220
13	Redemption (redemption) of securities accounted for as long-term investments	5110- 5530	0610
14	Sale of securities accounted for as long-term investments	9220	0610

³⁰ National accounting standard of the Republic of Uzbekistan NAS#21.—Tashkent: "NORMA", 2010, p.43-47

If the purchase price of bonds and other debt securities purchased by the enterprise is higher than their nominal value, then part of the difference between the purchase price and the nominal value is written off during the period from the acquisition to the maturity. In this case, records are made on the debit of account 9690 "Other expenses for financial activities" and credit account 0610 "Securities".

If the purchase price of bonds and other debt securities purchased by the enterprise is below their nominal value, then part of the difference between the purchase price and the nominal value is charged additionally during the period from the acquisition to the maturity.

In this case, records are made on the debit of account 0610 "Securities" and credit account 9590 "Other income from financial activities."

In both of the above cases, by the time the securities are redeemed, the valuation in which they are accounted on account 0610 "Securities" should correspond to the nominal value.

When calculating interest (dividends) on securities, entries are made on the debit of 4830 "Interest to Receive" or 4840 "Dividends to Receivables" and to the credit of accounts 9530 "Income in the form of interest" or 9520 "Income in the form of dividends".

Analytical accounting for long-term investments accounts (0600) is carried out by types of long-term investments and objects in which these investments were made (securities trading enterprises, subsidiaries and affiliated companies and other enterprises to which the enterprise is a participant, etc.). At the same time, the construction of analytical accounting should ensure the possibility of obtaining data on long-term investments in facilities on the territory of the Republic of Uzbekistan and abroad.

Conclusion for the second chapter

The main conclusions for the second chapter are considered followings:

1. Theoretical and practical aspects of evaluating fixed assets have been discussed in the example of “Yuniko Plus” LLC. Composition of fixed assets have been analyzed in practical data of “Yuniko Plus” LLC and formed basic summaries.

2. Accounting for valuation and revaluation of fixed assets have been disclosed based on existing legal documents and special literatures. The issues have been supported by practical cases in the example of “Yuniko Plus” LLC. Revaluation order of main funds in organizations has also been opened with the help of current resolutions.

3. Valuation of fixed assets, their accounting and disclosure in financial statements have been investigated bot theoretically and practically. Accounting treatments on acquisition of intangible assets and their documental formalization process have been reflected by conditional examples in “Yuniko Plus” LLC.

4. Problems of revaluating intangible assets, including, brand, intellectual property, novelties etc., have been exposed.

5. The author highlighted features of evaluating long-term financial investments in accordance with national accounting standards. Reflection of financial data on long-term financial statements and ledgers have been shown by conditional examples.

6. Accounting procedures for recording transactions on financial investments have been indicated based on national accounting standards such as national accounting standards no.8, 12, 21, and 22.

CHAPTER 3. INTERNATIONAL PRACTICE OF VALUATING AND ACCOUNTING FOR LONG-TERM ASSETS

3.1. Foreign experience of accounting and evaluating fixed assets

Improvement of accounting, adaptation of the domestic system to international counterparts, scientific justification and practical application of important accounting procedures in accordance with the requirements of IFRS act as almost determining factors in the recovery of the country's economy in conditions of globalization. With the increasing integration of domestic business entities into the world economy, the demands placed on the level and quality of financial information are significantly increased. Given this fact, the government of the country over the past years has taken many measures to streamline and regulate the accounting system and financial reporting, bringing the current system closer to internationally accepted practice. At the same time, despite significant changes in this direction, due to the complexity and lack of preparedness of the profession, many accounting procedures are carried out contrary to the requirements of the conceptual framework for the preparation and presentation of financial statements and have no logical justification.

One of the most important accounting areas, which is the most problematic in terms of carrying out accounting activities, is the reserves for the revaluation of long-term tangible assets. Separate aspects of the organization and accounting of revaluation of tangible assets have been studied in the works of local and foreign researchers. In the Republic of Uzbekistan, the issues of accounting and reporting of revaluation results in the reporting have not been subjected to research, which has led to many problems for business entities. In order to eliminate various contradictions related to the different interpretation of the requirements of IFRS, we consider it necessary to consider the most important problems of accounting for revaluation results from the perspective of international practice, taking into account the specific economic realities of domestic enterprises.

First, we will consider the scientific validity and expediency application of the term "Assets revaluation reserve" as an isolated of the accounting object. As you

know, in the applied domestic regulatory accounting documents as reserves are considered not only components of capital, but also certain types of liabilities and regulatory accounts of assets.³¹ In some literary sources, the term "reserves" is referred to as "adjustments", "amendments" or "provisions". In fact, the term "adjustments" or "amendments" is more appropriate for changes in the value of long-term use objects, since reserves are created for a specific purpose and at the expense of what either can not be tracked when reflecting a value appraisal.³²

Let's consider in more detail the options for applying the term "reserves":

1. Reserves as allowance. As such, the so-called "valuation reserves" are considered that regulate or clarify the value of specific items of assets subject to reduction cost:

- receivables - the account "Estimated reserves for bad debts";
- financial investments - the account "Provisions for the devaluation of financial investments";
- goods and materials - the account "Estimated reserves for decrease in the cost of stocks. "

These categories are neither assets, nor obligations, nor capital. They do not appear on their own in the Financial Statements report; their purpose is to clarify the valuation of the relevant assets, because they are usually defined in the accounting theory as "contract". Consequently, they are not reserves, since the presence of such contracts does not mean the creation of any fund to cover any decline in the value of assets. Due to these reserves are estimated, and the formation of such reserves again depends on the professional judgment of the accountant, and they can not be recognized as a reserve - a source of coverage for future losses - reducing the value of assets, they should be referred to as "Valuation Amendments". In the banking system of Uzbekistan, such estimated reserves known as the funds for covering possible losses, but the word "Funds" in this case is incorrect.

³¹ The law of the Republic of Uzbekistan "On accounting", 13.04.2016, No.404, article 11.

³² M.A.Vakhrushina.,L.A. Melnikov International Financial Reporting Standards. – M.: "Omega-L", 2009, P.135.

Note that the international standards, in addition to recognizing the decline in the value of financial assets, including, accounts receivable (governed by IAS 39 “Financial Instruments: Recognition and Measurement” and IAS 2 “Inventories”), it also provides for the clarification of the carrying amount of intangible assets, property, plant and equipment and investment property (IAS 36 Impairment of Assets).³³

2. Reserves as separate articles of obligations (provisions). In this case, it refers to "special" obligations recognized in both domestic accounting and reporting, reflected in the Statement of Financial Position as obligations on the accounts of the group "Reserves for future expenses and payments" or otherwise "Estimated reserves", and in international standards (IAS 37 "Estimated Liabilities, Contingent Assets and Contingent Liabilities"). It is pertinent to note that in the professional literature the term "provision" is used as the translation of the term "provisions". We consider that the term "Estimated liabilities" corresponds more to the economic content of this category of accounting objects, and the name of this type of reserves (provisions) as "Reserves for future expenses and payments" is incorrect, because, according to the economic content, composition and order of recognition, these accounting objects are not reserves to cover future expenses or losses. When recognizing an appraisal obligation, it is necessary to immediately reflect the expense in the statement of comprehensive income, or to increase the value of a particular asset, which will be written off in the future at the expense of the estimated amount of future payments (or a decrease in the value of the asset).

Consequently, obligations with an indefinite period and an undetermined amount of repayment should be called an appraisal obligation, since the total value of this object depends more on the professional judgment of the accountant. An example of such an obligation is "Estimated liabilities on warranty service", created during the period of revenue recognition from the implementation of something in order to comply with the principle of matching income and expenses. This estimated

³³ IAS 16. // <https://www.iasplus.com/en/standards/ias/ias16.>, IAS 36. // <https://www.iasplus.com/en/standards/ias/ias36.> [Electronic resource] - (Date of circulation: 10.11.2017).

liability is adjusted in the subsequent reporting periods upon warranty service.

3. Reserves as part of capital. According to the requirements of domestic regulatory legal acts, the own sources of education of economic resources of an enterprise in the Statement of Financial Position are reflected in the section "Sources of own capital". Here, as reserves are considered:

– additional capital, where the results of revaluation of long-term non-current assets, called "Adjustments for revaluation of fixed assets", "Adjustments for the revaluation of other assets" are reflected;

– Reserve capital representing appropriations from retained earnings, formed in accordance with the requirements of the current legislation and constituent documents, accounted for under the item "Assessed retained earnings". In the IFRS for the designation of similar objects, the term "Reserves". At the same time, it should be noted that the list of reserves-capital elements under IFRS is broader. We are convinced that only part of the reserve capital should be designated as "reserves" so that the English-language terminology does not conflict with domestic practice.³⁴ Therefore, to indicate the results of the revaluation of long-term assets, it is appropriate to use the term "Adjustments", since these assets should periodically be subjected to impairment tests in accordance with the requirements of IAS 36 "Impairment of Assets". As is known, IAS 16 "Property, Plant and Equipment", along with the actual cost model, suggests the use of an alternative fixed asset accounting model at a revalued cost. Economic entities in our country are to a greater extent forced to use an alternative model in connection with the legislative establishment of mandatory revaluation of fixed assets in the direction of increasing costs and, therefore, allow in the process of accounting for many errors in the reflection of the results of the appraisal and their adjustments.

Analysis of accounting data of individual enterprises such as "Yunika Plus" LLC and its subsidiary enterprise "Guzal Voha Business" shows the presence of the following typical mistakes made in the reflection of revaluation results and their

³⁴ International Financial Reporting Standards: Problems and Contradictions: A Monograph / Н.А. Миславский - М.: Русайнс, 2015, P.27. <http://www.scopus.com>

adjustment:

- conducting a selective revaluation of the objects of a specific category of fixed assets, which is unacceptable in accordance with the requirements of paragraph 36 of the IFRS (IAS) 16;

- artificially overestimating the value of individual items of property, plant and equipment despite a real decrease in their fair value, which is not applicable to the requirements of IAS 16 and IAS 36;

- full or partial transfer of the amounts accumulated in the account "Adjustments for revaluation of fixed assets" in the composition of the declared (statutory) capital or retained earnings (losses) on the fact the revaluation work towards an increase in value contrary to the requirements of IAS 16;

- revaluation after a long period of time from the date the fair value changes "retroactively", etc.

In view of these problems, we will try to show below the procedure for accounting for adjustments to the revaluation of fixed assets from the position of IFRS.

Thus, according to IAS 16, the revaluation should be carried out with sufficient regularity so that the book value of the objects does not differ materially from the fair value at the date of the financial statements. The fair value of property, plant and equipment is usually their market value determined by an independent valuation. If it is not possible to determine the market value due to the specific nature of the fixed assets or because of the occasional sale of such fixed assets (for example, only as part of an operating enterprise), they are estimated at the residual replacement cost. Consequently, conducting a reassessment by a directive method on the part of the state is completely inconsistent with the requirements of international practice.

The frequency of revaluation depends on the fluctuations in the fair the value of the item of property, plant and equipment subject to revaluation. If the item of property, plant and equipment was revalued, the accumulated depreciation on the

revaluation date is accounted for in accordance with one of two options:

- is reassessed in proportion to the change in the cost of the asset so that, after reassessment, the carrying amount asset is equal to its revalued amount. This method is often used when the asset is revalued to the depreciated replacement value by indexing;

- is subtracted from the gross book value, and the residual value is recalculated to the revalued amount of the asset value.

The amount of the adjustment arising from the proportional revaluation of accumulated depreciation or its write-off is a part of the total amount of increase or decrease in the carrying amount. When revaluing one item of property, plant and equipment, the entire group of fixed assets to which the asset belongs. A group (or class) of fixed assets is assets that are similar in content and use.

If the carrying amount of an asset increases as a result of a revaluation, the increase should be reflected:

- and in the capital section under "Adjustments for revaluation of fixed assets";

- and in other comprehensive income to the extent that it restores the amount of the decrease in value from the revaluation of the same asset previously recognized in the Statement of Comprehensive Income. If the carrying amount of an asset decreases as a result of a revaluation, the reduction should be recognized in the Statement of Comprehensive Income as expenses. Losses from revaluation should be recorded in the debit of the account "Adjustments for revaluation of fixed assets" in an amount not exceeding the amount of profit from revaluation with respect to the same asset.

The gain from revaluation of fixed assets, included in the capital, is transferred to retained earnings if:

- the item of fixed assets was eliminated;
- as "amortization" of adjustments for revaluation of fixed assets as depreciation of the revalued object value is charged, not reflected in current financial

results.

We consider the above points for an example. Assume that December 31, 2016 “Yunika Plus” LLC decides to reassess its equipment due to a significant difference between the balance sheet and the fair value. The initial cost of the equipment is 32000000 sum. The accumulated depreciation at the date of revaluation is 18000000 sum. Useful life equipment - 8 years. The depreciation method is straightforward. The fair market value of the property at the date of revaluation is 28000000 sum. In the first method of reflecting revaluation results, the gross method first determines the revaluation coefficient by dividing the fair value by the book value of the object. In our case, the coefficient is 2.0 (28000000/14000000). Further, this coefficient is applied to both the original cost (32000000 × 2 = 64000000 sum), so and to the accumulated wear (18000000 × 2 = 36000000 sum). As a result, the new book value will be equal to the fair value (64000000 - 36000000 = 28000000). In accounting, the difference between:

- "new" and "old" original cost (64000000 - 32000000 = 32000000);
- "new" and "old" accumulated depreciation (36000000 - 18000000 = 18000000).

And the difference between the amounts on debit and credit is reflected in the credit of the "Revaluation adjustments" account with the following posting (Table no.9):

Table no.9

Accounting treatments

Account Name	Debit	Credit
Equipment	32000000	
Accumulated depreciation of equipment		18000000
Revaluation adjustments		14000000

The revaluation result can be clearly seen by comparing the data before revaluation and after revaluation:

The disadvantage of this method is that the overestimated cost and accumulated depreciation increase artificially to unrealistic values.

Table no.10

Results of revaluation

Account Name	Before revaluation	After revaluation
Equipment	32000000	64000000
Accumulated depreciation of equipment	(18000000)	(36000000)
Carrying value	14000000	28000000

With a net method at the date of revaluation, the "old" original value is first "cleared" of accumulated depreciation, and the residual value is increased to fair value. Postings in this case are as follows (tables no.11):

1. Closing of the "Accumulated equipment depreciation" account at the revaluation date:

Table no.11

Accounting treatments

Account Name	Debit	Credit
Accumulated depreciation of equipment	18000000	
Equipment		18000000

2. Reflection of revaluation:

Table no.12

Accounting treatments

Account Name	Debit	Credit
Equipment	14000000	
Revaluation adjustments		14000000

In this case, the result from the revaluation is similar to the first method:

Table no.13

Results of revaluation

Account Name	Before revaluation	After revaluation
Equipment	32000000	28000000
Accumulated depreciation of equipment	(18000000)	0
Carrying value	14000000	28000000

In the future, as the depreciation is accrued, the amount reflected in the credit of the "Revaluation adjustments" account is transferred proportionally to the retained earnings account, and not to other income, since none of the capital components can be related to income and expenses. Next, consider the order of reflection of depreciation of the revalued object, taking into account the fact that the depreciation method and the service life of the object do not change. The following methods for calculating depreciation and adjusting the amount of revaluation are known:

1. Direct method: In this case, by the end of the following year, for annual depreciation, we make the following entries:

Table no.14

Accounting treatments

Account Name	Debit	Credit
Expenses on impairment	8000000	
Accumulated depreciation of equipment		8000000
Simultaneously:		
Revaluation adjustments	4000000	
Retained earnings		4000000

2. Indirect method: In this case, the transfer of the amount of adjustment to retained earnings is not made:

Table no.15

Accounting treatments

Account Name	Debit	Credit
Expenses on impairment	(14000000 / 3,5 years)4000000	
Revaluation adjustments	4000000	
Accumulated depreciation of equipment		8000000

Summarizing our study it should be noted that the above scheme of reflecting the results of revaluation is more recommended, since IFRS do not establish rules for recording specific objects, but only regulate the format and content of financial statements. Moreover, consequently, in order to approximate the domestic accounting system and reporting to international practice, more thorough research is required on the accounting for each item of financial statements.

3.2. Improvement of evaluating methods of intangible assets

Intangibles are all around the business world. What intangible assets are, have been under a lot of study for more than forty years and still there is no generally accepted approach on how to measure their value or what makes them to increase or decrease. In the need of a known reference to build the theory for intangibles, the accounting theory analogies are still being made even though the intangible asset concept has evolved to a broader one, intellectual capital (IC). IC still uses an accounting terminology but is studied by a managerial approach.

Intangible assets are defined as intangible non – monetary assets that can not be seen, touched or physically measured, which are created through time and/or efforts and are identifiable as separate assets. Intangible assets include patents, copyright, trademarks, trade names, franchise licenses, government license, goodwill and other item that lack physical substance but provide long-term benefit to the company. These are assets that you can't touch or feel but still have economic reality. There are two primary forms of intangibles (Figure no.9)

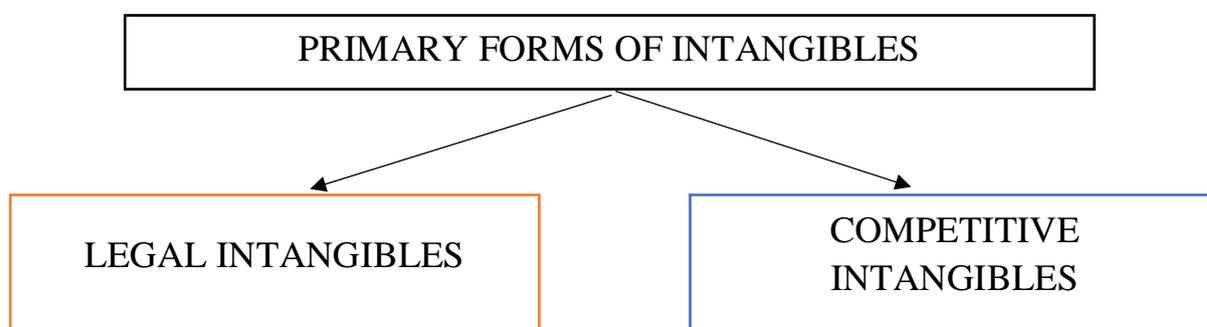


Figure no.9. Primary forms of intangibles³⁵

Legal intangibles are under the generic term intellectual property and generate legal property rights defensible in a court of law. Competitive intangible, whilst legally non own able, directly impact effectiveness, productivity, wastage and opportunity costs within an organization and therefore affect cost, revenues, customer service, satisfaction, market value and share price. The cost of intangible assets are systematically allocated to expense during the assets useful life or legal

³⁵ Made by author based on foreign literatures' review.

life, whichever is shorter and this life is never allowed to exceed 40 years.

According to studying foreign literatures on accounting for intangible assets, we discovered that categories of intangible asset can be the following (figure no.10).

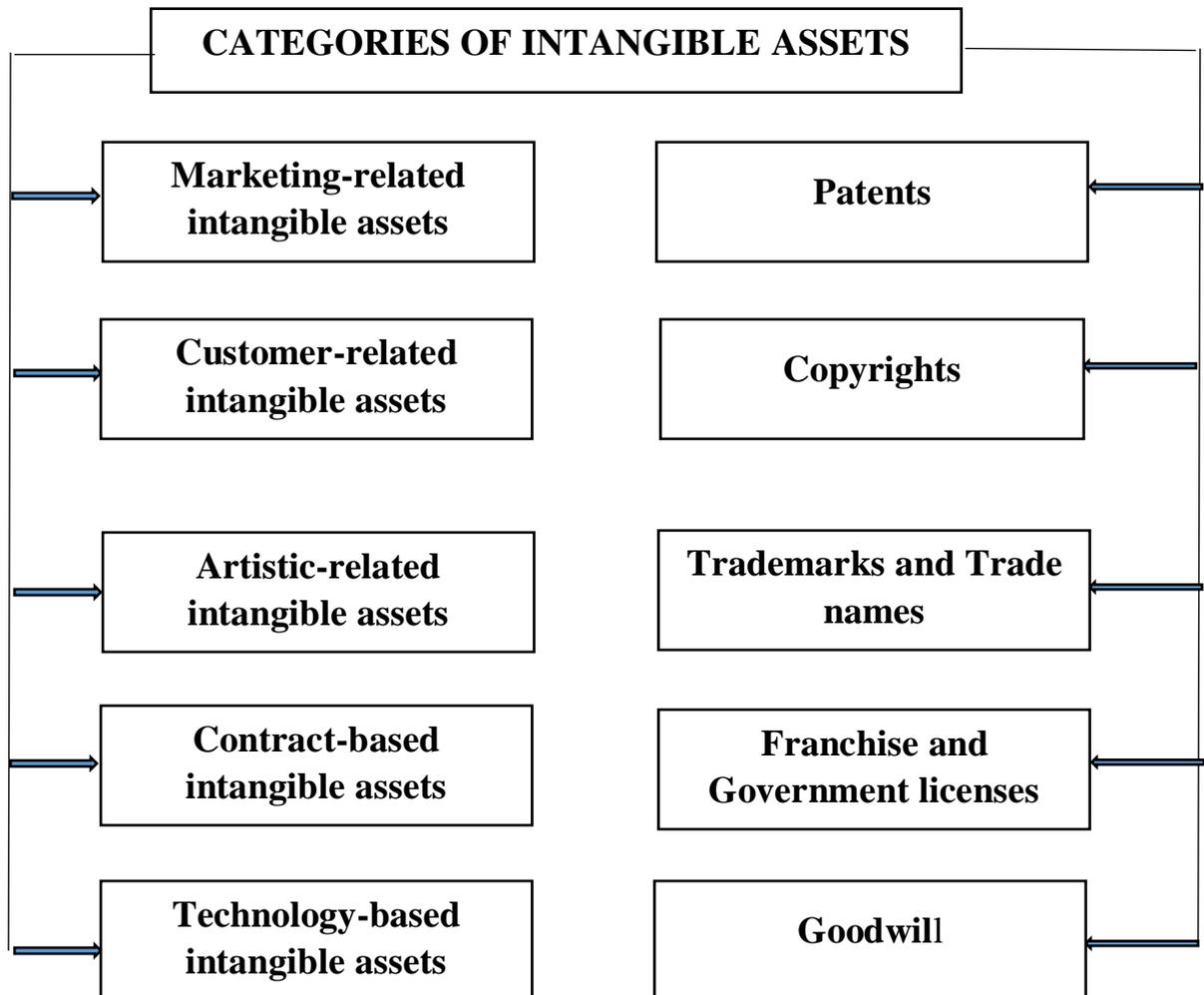


Figure no.10. Categories of intangible assets in foreign practice³⁶

Marketing-related intangible assets: Trademarks, Trade Names, Service marks, Collective marks, Certification marks, Trade dress (unique color, shape, or package design), Newspaper mastheads, Internet domain names and Noncompetition agreements.

Customer-related intangible assets: Customer lists, Order or production backlog, Customer contracts and related customer relationships and Non-contractual customer relationships.

Artistic-related intangible assets: Plays, Operas, Ballets ,Books, Magazines,

³⁶ Made by author.

Newspapers, other literary works, Musical works such as compositions, Song lyrics, Advertising jingles, Pictures, photographs, Video and audiovisual material, including motion pictures, Music videos, and television programs.

Contract-based intangible assets: Licensing, Royalty, Standstill agreements, Advertising, construction, Management, Service or supply contracts, Lease agreements, Construction permits, Franchise agreements, Operating and broadcast rights, Use rights such as drilling, water, air, mineral, timber cutting, Servicing contracts such as mortgage servicing contracts and Employment contracts.

Technology-based intangible assets: Patented technology, Computer software and mask works, unpatented technology, Databases, including title plants and Trade secrets, such as secret formulas, processes, recipes.

Patents: Patents provide exclusive rights to produce or sale new inventions.

Copyrights: Copyrights provide their owner with the excusive rights to reproduce and sell artistic works, such as books, songs or movies.

Trademarks and Trade names: Trademarks and trade names include corporate logos, advertising, jingles and product name that have been registered with the government and serve to identify specific companies and products.

Franchise licenses: The purchaser of a franchise licenses receives the right to sale certain products or services and to use certain trademarks or trade names. This right is valuable because they provide the purchaser with immediate customer reorganization.

Government licenses: The purchaser of a government licenses receives the right to engage in regulated business activities.

Goodwill: Goodwill equals the amount paid to acquire a company in excess of its net assets at fair market value. It should be noted that while goodwill is technically an intangible assets, it is usually listed as a separate item on a company's balance sheet.

The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IAS. The standard requires an enterprise to recognize an intangible asset if, and only if, certain criteria are met. The

standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures regarding intangible assets. The accounting treatment for intangible assets has been a controversial topic. Under companies act 1985 intangible assets is a main heading that should appear on face of the balance sheet. A company according to whether they are purchased from others or internally developed may classify intangibles. Walker concludes that it is difficult to find any stated purpose for classification in many papers that do classify intangibles⁵. However, one purpose seems to be for management purpose. In order to manage successfully one has to make visible and put labels on different resources; one way to do that is to put them into different categories. From a marketing point of view Guilding and Pike classify Intangible assets into four categories based on a conceptual representation of the series of events that lead to the creation of a competitive advantage: value creators, marketing assets, value manifestations and the synthesis of marketing assets: competitive advantage. Classification of Intangibles based on source like purchased and internally developed. It is also based on useful life as following-

Intangible assets with finite life. The cost less residual value of an intangible asset with finite useful life should be amortized on a systematic basis over that life. The amortization method should reflect the pattern of benefits. If the pattern cannot be determined reliably, amortize by the straight line method. The amortization charge is recognized in profit or loss unless another IFRS requires that it be included in the cost of another asset. The amortization period should be reviewed at least annually. The asset also should be assessed for impairment in accordance with IAS 36.

Intangible assets with indefinite lives. An intangible asset with an indefinite useful life should not be amortized. Its useful life should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an

accounting estimate. The asset should also be assessed for impairment in accordance with IAS 36.

An entity must choose either the cost model or the revaluation model for each class of intangible asset.

Cost model- After initial recognition the benchmark treatment is that intangible assets should be carried at cost less any amortization and impairment loss.

Revaluation model- Intangible assets may be carried at a revalued amount (based on fair value) less any subsequent amortization and impairment losses only if fair value can be determined by reference to an active market. Such active markets are expected to be uncommon for intangible assets under the revaluation model, revaluation increases are credited directly to "revaluation surplus" within equity except to the extent that it reverses a revaluation decrease previously recognized in profit and loss.

Intangible assets, the strategic key to a business enterprise's future, are invisible with respect to traditional bottom-line thinking and corporate practice.³⁷ Current accounting methods do not convey the relevant and timely information that is critical to the survival and success of today's business enterprises.³⁸ Prior to the knowledge era, businesses lived in a world of tangibles, which work well with current accounting practices; however, things are different in today's world of intangibles. The framework of intangible valuation areas (FIVA) allows a business to identify and link performance measurements /indicators to its intangible value drivers. It supports the capture and subsequent evaluation of leading and lagging indicators in the achievement of a knowledge management strategy.³⁹ The proportion of intangible assets as part of the overall total assets of the company is often greater than that of the tangible assets. However, the value of the majority of them do not appear on the financial statements, as the lack of transparency or the

³⁷ Rivette K. and Klein D., *Rembrandts in the Attic: Unlocking the Hidden Value of Patents*, Harvard Business School Press, Boston, MA, 2000.

³⁸ Lev B., *Intangibles, Management, Measurement and Reporting*, Brookings Institution Press, Washington, DC, 2001.

³⁹ Green A. and Ryan J.J., A framework of intangible valuation areas(FIVA): Aligning business strategy and intangible assets, *Journal of Intellectual Capital*, 6(1), 43-52 (2005).

absence of a benchmark market makes it difficult to value them. Acceptable methods for the valuation identifiable intangible assets and intellectual property falls into three broad categories. They are market based, cost based or based on estimates of past and future economic benefits. In an ideal situation, an independent expert will always prefer to determine a market value with reference to comparable market transactions. This is difficult enough when valuing assets such as bricks and mortar because it is never possible to find a transaction that is exactly comparable. In valuing an item of intellectual property, the search for a comparable transaction becomes almost futile. This is not only due to lack of compatibility, but also because intellectual property generally not developed to be sold and many sales are usually only a small part of a larger transaction and details are kept extremely confidential. Other impediments limit the usefulness of this method. Cost-based methodologies, such as the “cost to create” or the “cost to replace” a given assets, assume that is some relationship between cost and the approach has very little to command itself other than case of use. The method ignores changes in the time value of money and ignores maintenance. Past and future economic benefits can be broken down in to four limbs.

The capitalization of historic profit while this capitalization process recognizes some of the factors, which should be considered, it has major shortcomings, mostly associated with historic earning capability. The method pays little regard to the future.

Gross profit differential methods are often associated with trademark and brand valuation. This is the difference in the sale prices, adjusted for differences in marketing cost. That is the difference between the margin of the branded or patented product and an unbranded or generic product. This formula is used to drive out cash flows and calculate value.

The excess profits method looks at the current value of the net tangible assets employed as the benchmark for an estimate rate of return. This is used to calculate the profits that are required in order to induce investors to invest into net those net tangible assets.

Relief from royalty considers what the purchaser could afford, or would be willing to pay. The royalty stream is then capitalized reflecting the risk and return relationship of investing in the assets.

Intangible assets valuation can be carried out in a number of ways. Intangible business considers all approaches for all intangible assets valuation, including brand valuations, business valuations, share valuations, contract valuations, for valuing customer relationships, valuing shares, valuing patents and for all other intangible assets valuations.⁴⁰ The most appropriate intangible assets valuation method is then selected for the specific asset and purpose. Generally there are three main approaches intangible business uses when valuing intangible assets (figure no.11.):

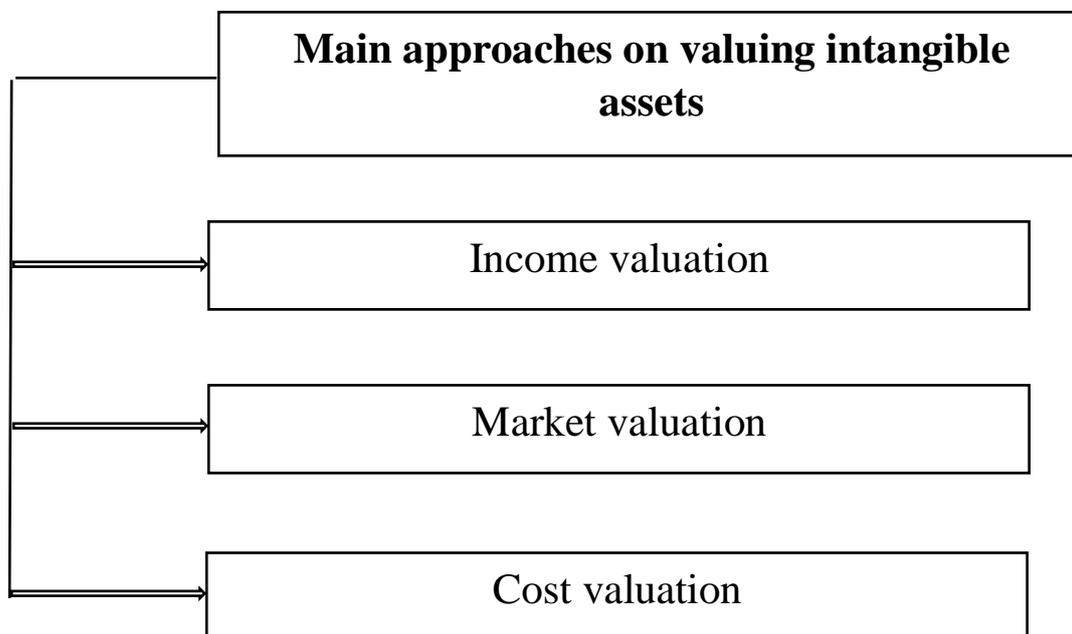


Figure no.11. Main approaches on valuing intangible assets⁴¹

Income valuation. Further earnings that are attributable to the brand or other intangible asset are forecast over its useful life and discounted to its net present value. This requires an appreciation of market trends, competitive dynamics, and the nature of the intangible assets and their relationship with the consumer.

Market valuation. Transactions are analyzed for comparability, including

⁴⁰ Damodaran A., Dealing with intangibles: Valuing brand names, flexibility and patents, Stern School of Business, 2006. <http://www.sciencedirect.com>

⁴¹ Made by author

licensing arrangement which can be investigated to benchmark an appropriate royalty rate.

Cost valuation. The cost of recreating the intangible asset is considered alongside the historic cost of the initial creation. Generally, intangible business uses the income valuation approach of the relief-from royalty methodology for intangible asset valuation. This is because it is the most economically in-line with commercial reality and can be benchmarked most accurately, resulting in a valuation with as much objectivity as possible. The resulting brand values an intangible asset values can be used in a number of ways including: compliance financial reporting standards such as IFRC. IAS and US GAAP, inter-company reporting, tax planning, ROI analyses, licensing arrangements. There is one other method of valuation of intangible assets.

The Discount Method of Valuation. In the discount method of valuation, the goal is to determine for a specific asset, what the future cash flow would be over its projected economic life, and thereby derive what the net present value of the asset. Every asset tangible or intangible has a given economic life over which it provides the vast majority of its income to the owner. For some patents and copyrights, the remaining economic life can be as long as 20 years. For others it may be as short as six months.

Choosing an appropriate valuation methodology. Although market methods are best where available, the lack of market evidence means that income methods are more often applied. The determination of appropriate assumptions requires experience and judgment due to the subjectivity involved. The process of selecting an appropriate royalty rate range based on market evidence needs to be rigorous, as the value implications of a small change in the royalty rate can be significant. The determination of the cost of capital requires experience and judgment. The cost of capital should be consistent with the risks and rewards of the intangible asset being valued. Projections need to be carefully reviewed as this will influence the value of the intangibles and will have a bearing on future impairment reviews. Avoiding double counting of intangible value as two or more intangible assets may contribute

to the same stream of earnings e.g. a well-known trademark and the underlying technology.

To value productions or new works not yet produced and marketed, one may follow the same rules as presented above, but with some notable exceptions. First, he must investigate with great care what the projected economic life will be on the new asset. That means asking question, how much use has been realized out of similar rights, licenses, lists or other assets. The estimate of a usable economic life should not just be some “wild guess”. If the asset is to have a long economic life, costs are to be factored into update the asset to keep it valuable. Since one does not have a track record on this asset, sales projections and cost projections must be made to forecast, as best and a conservative net operating income for the asset. This is called a “preformat” in financial circles. Once he has completed a Performa on the new asset, divide the forecasted net income by its proposed economic life and divide by the anticipated capitalization rate—and he will have the estimated present value of that intangible asset. Any accurate valuation of a single asset or a whole company must include some discussion as to terms under which it might be sold and the market it its being sold to, supply and demand still rule pricing in the free market in the industry to find out if the asset is in great supply, high demand or neither. Valuation Models can be used to value intangible assets such as patents, copyrights, software, trade secrets, and customer relationship valuation of intangible assets are often necessary for financial reporting and intellectual property transactions. There have been several new tools developed recently adding in the valuation of intellectual property. The 25% tool, Monte Carlo analysis, and derivative revenue model are just a few of these tools. In addition, traditional methods such as net present value, internal rate of return, and discounted cash flow can also be used.

Intangible assets cannot be seen and physically measured but have immense value for the business. There are two primary forms intangible and competitive intangibles. Intangibles assets have four major characteristics. They have no physical substance and future economic benefits but the value of those benefits are difficult to determine. Their useful life can't be readily determined. They generally

have operational use v/s investment use in the business. Although yet there are a number of intangibles assets but a few are very popular in the parley of intangible assets such patents, copyright trademark and trade names, franchise licenses, government licenses and goodwill. The intangible assets a primary classified in five category. They are marketing related intangibles assets, customer related intangible assets, artistic related intangible assets, contract- based intangible assets, and technology based intangible assets. The chapter also highlights accounting treatment of intangible assets related aspects.

Conclusion for the third chapter

Transition to the world economy and strengthening globalization process require transforming international standards. Taking account a great changes and implementing reforms in our country, learning and applying international experience in the activity if business ventures serve as a fundamental of conglomeration to the world and attracting foreign investors. Thus, foreign practice of long-term assets' valuation and accounting highlighted in this chapter. Summary of the chapter has been illustrated with the followings:

1. Foreign experience in evaluating and accounting for property has been studied thoroughly. The term of "Reserve" and its content has been conveyed by analyzing different opinions of foreign scientists. Conducting valuation and revaluation of long-term assets under international financial reporting standards and procedures of recording its results in accounting books have been analyzed and revealed.

2. Theoretical aspects of long-term assets' valuation and its accounting disclosed with conditional practical examples in research object. The impact of revaluation results to the taxation process of the property and consequences have been illustrated.

3. The problems connected with long-term assets' valuation have been discussed and we tried to show the procedure of accounting for adjustments to the revaluation of fixed assets from the position of IFRS.

4. Content and classification of intangible assets have been described based on international standards and foreign literatures. According to past and future economic benefits four limbs have been studied.

5. Approaches on valuing intangible assets have been illustrated and the methods of intangible's valuation have been discussed by opening advantages and disadvantages of them.

6. At consequences of studying accounting for intangible assets' valuation based on IFRS, some recommendations on choosing revaluation models of the assets and reflecting these transactions in accounting journals of entities have been worked out.

CONCLUSION AND OFFERS

With globalization of financial flows and the rising level of integration of world financial markets and liberalization of national economy theoretical and practical issues of accounting for long-term assets' valuation has become a very important topic for both business ventures and research. The reasons behind this interest is that national economy is not stable and further reforms on developing the country is based on liberalization of economy by transiting to free exchange of foreign currency. It follows therefore that business entities and owners of businesses need to value their properties coming from market conditions.

Coming from above mentioned opinions, we came to the following conclusions in our final qualification on the topic of "Accounting for long-term assets' valuation".

1. Theoretical essentials of long-term asset disclosed based on literature reviews and the role, content of long-terms assets were given by taking account modern requirements of economic development. The composition of long-term assets has been conveyed by deep analysis of special literatures and legal documents such as NAS.

Recognition, valuation and accounting principles of long-term assets have been studied thoroughly and basic concepts have been highlighted.

2. Theoretical and practical aspects of evaluating fixed assets have been discussed in the example of "Yuniko Plus" LLC. Composition of fixed assets have been analyzed in practical data of "Yuniko Plus" LLC and formed basic summaries.

3. Accounting for valuation and revaluation of fixed assets have been disclosed based on existing legal documents and special literatures. The issues have been supported by practical cases in the example of "Yuniko Plus" LLC. Revaluation order of main funds in organizations has also been opened with the help of current resolutions.

4. Valuation of fixed assets, their accounting and disclosure in financial statements have been investigated bot theoretically and practically with identifying problems of revaluating intangible assets, including, brand, intellectual property,

novelties etc., have been exposed. Accounting treatments on acquisition of intangible assets and their documental formalization process have been reflected by conditional examples in “Yuniko Plus” LLC.

5. Analysis of financial-economic performance of one of research objects, “Guzal Voha Biznes” SE by using its financial statements. The business performance of the enterprise has been analyzed and evaluated in position of information users such as external and internal. We tried to introduce financial-economic activity and general information of the enterprise based on statutory documents.

6. The author highlighted features of evaluating long-term financial investments in accordance with national accounting standards. Reflection of financial data on long-term financial statements and ledgers have been shown by conditional examples. Accounting procedures for recording transactions on financial investments have been indicated based on national accounting standards such as national accounting standards no.8, 12, 21, and 22.

7. Foreign experience in evaluating and accounting for property has been studied thoroughly. The term of “Reserve” and its content has been conveyed by analyzing different opinions of foreign scientists. Conducting valuation and revaluation of long-term assets under international financial reporting standards and procedures of recording its results in accounting books have been analyzed and revealed.

8. Theoretical aspects of long-term assets’ valuation and its accounting disclosed with conditional practical examples in research object. The impact of revaluation results to the taxation process of the property and consequences have been illustrated.

The problems connected with long-term assets’ valuation have been discussed and we tried to show the procedure of accounting for adjustments to the revaluation of fixed assets from the position of IFRS.

9. Content and classification of intangible assets have been described based on international standards and foreign literatures. According to past and future

economic benefits four limbs have been studied. Approaches on valuing intangible assets have been illustrated and the methods of intangible's valuation have been discussed by opening advantages and disadvantages of them. At consequences of studying accounting for intangible assets' valuation based on IFRS, some recommendations on choosing revaluation models of the assets and reflecting these transactions in accounting journals of entities have been worked out.

On the basis of conclusions the following suggestions were given on the object and subject of the final qualified work:

- Based on literature review new approach on classification of long-term assets has been worked out and recommended. In point of our view, long-term assets consist of long-term tangible and intangible assets, long-term investments and other long-term assets.

- By reviewing special literatures and legal documents advantages and disadvantages of accounting principles used for long-term assets' valuation and recognition order have been indicated and author's recommendations have been worked out.

- The formula for calculating initial (historical) cost fixed assets have been worked out based on the requirements of national accounting standards and suggested for applying in practice.

- Formation options of revaluation methods by business entities has been proved with indicating economic efficiency and size of businesses. In condition of economic liberalization index method of revaluation is not desirable for use because under free exchange of foreign currency and unstable economic development it is difficult and impossible working out indexes high accuracy. Therefore, we recommend using direct method because this method is based on fair value of assets.

- It is suggested that to create reserves for long-term financial investments by revaluating these assets. Foreign practice shows that reserves for financial investments brings to decrease future risks connected with investing. That is why our suggestion is that there should be opened a new contra passive account 0680- "Reserves for long-term financial investments" in The chart of accounts.

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