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PECULIARITIES OF RECOGNITION OF FIXED ASSETS IN ACCOUNTING ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Abstract:

The article discusses the features of recognition in the accounting of fixed assets based on international financial reporting standards, reveals the significance and role of the topic under study at the present time in the development of an economic entity and ensuring the competitiveness of products. This article will consider the issue of recognition of fixed assets as one of the most important areas of accounting under IFRS based on a comparative analysis of national accounting Standards (NAS).

Keywords: fixed assets, investment property, non-current assets, lease, acquisition of fixed assets, sale of fixed assets, accounting, accounting policy.

INTRODUCTION

According to the decree PD-4611 of the President of the Republic of Uzbekistan "On additional measures for the transition to international financial reporting standards" dated February 24, 2020 joint-stock companies, commercial banks, insurance organizations and legal entities which are classified as large taxpayers have started accounting in accordance with International financial reporting standards (IFRS) since January 01, 2021 and they have been required to prepare financial statements based on IFRS by June 15, 2022 and submit them to the state tax authorities.
Fixed assets are of great importance for business not only in terms of assessing the sustainability of the company as an independent economic entity, but also in assessing its attractiveness as an investment object.
Accounting of fixed assets under IFRS is mainly regulated by the same-named 16-IFRS [1]. Some of the issues of accounting for fixed assets include IFRS No. 1 entitled "Presentation of Financial Statements", IFRS No. 23 entitled "Debt expenses", [6] IFRS No. 36 entitled "Impairment of assets", IFRS No. 40 entitled "Investment property", [7] IFRS No. 41 entitled under the title "Biological assets", IFRS No. 5 (IFRS) under the title "Non-current assets and unfinished activities", IFRS No. 16 under the title "lease", [4] "geological exploration and evaluation of minerals" were also covered in IFRS No. 6. Therefore, IFRS No. 16 should be applied when accounting for fixed assets, but excepting the cases where other standards require or allow a different accounting procedure.

RESEARCH METHODOLOGY

A number of different methods and techniques such systematical and factual analysis, functional and comparative analysis, information processing have been used in the process of writing the article.

ANALYSIS AND RESULTS

In practice fixed assets are mainly accounted on the basis of national accounting standards No. 5 [2] and [8-12].
Firstly definitions of fixed assets and the criteria for their recognition should be analysed throughoutly in order to compare the relationship of international financial accounting standards and national accounting standards regarding selective accounting issues of fixed assets.
The definition of fixed assets in these standards is reflected below in the table 1.

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Table 1. The definition of fixed assets is given in International financial accounting standards (IFRS) and National Accounting Standards

According to Article 6 of the International financial accounting standards 16 (IFRS)	*According to articles 3-4 of National accounting standards No. 5*
Fixed assets are tangible assets that meet the following criteria:	Fixed assets are tangible assets held by an enterprise for a long period of time for use in the process of manufacturing products, performing works or rendering services, or for the purpose of performing administrative and socio-cultural tasks.
a) intended for the production of products or the delivery of goods, or the provision of services, or rent to other parties, or for administrative use	4. The fixed assets include material assets that simultaneously meet the following criteria: a) service life of more than one year;
b) material assets that are expected to be used for a longer period of time.	b) items which cost per unit (set) exceeds fifty times the minimum wage established in the Republic of Uzbekistan (at the time of purchase). The head of the enterprise has the right to set a minimum threshold for their cost to account for items as part of fixed assets in the reporting year.

According to the analysis of the information provided, there are 2 significant cases between the requirements of International financial accounting standards (IFRS) No. 16 for the definition of fixed assets and the conditions established by national accounting Standards No. 5.

1. International financial accounting standards (IFRS) do not consider tangible assets held for use in the implementation of socio-cultural objectives as fixed assets. Because, according to Article 7 of International financial accounting standards (IFRS) No. 16, the initial cost of an item of fixed assets is recognized as an asset only if the following criteria are met:

(a) if the organization receives future economic benefits associated with this object;

(b) when it is possible to reliably estimate the initial cost of an object.

As can be seen, International financial accounting standards (IFRS) No. 16, despite the same requirement for the recognition of an object of fixed assets, can recognize these objects as basic only if they bring economic benefits to the enterprise; however these objects are recognized as fixed assets by National accounting standards No. 5.

Considering that health, culture and sports facilities belong to social and cultural facilities at enterprises and that such facilities can rarely generate income, in accordance with international financial accounting standards (IFRS), in each case of their recognition as fixed assets, it is necessary to ensure full compliance with the above requirements, depending on their nature, purpose and method of usage.

At the same time, we consider it appropriate to use the following questionnaire for each case:

- for what purposes is the object intended?
- is there an opportunity to sell it?
- does the company have social obligations that lead to the need to own an asset?
- how did the object get into the company: was it donated for use by the local municipality, or built independently, or bought for a fee?
- what is the reaction of the management to the gratuitous transfer of the object to the local municipality / other company?
- is there an internal policy for paying employees for the use of the facility?[3]

If an object of the social sphere can be sold, in particular economic benefits can be received from this object in the future and if it meets the criteria of international financial accounting standards (IFRS) then it can be accounted for as a fixed asset, or as part of non-current assets intended for sale.

If the object of the social sphere is transferred by the state or a higher organization on the basis of the characteristics of the territory in which the network and (or) the enterprise are located, without the right to dispose of the company for certain specified purposes and change the purpose of its use, and is currently used for its intended purpose, and regardless of whether it is economically justified or not, it can be recognized as an asset relying on the article 11 of International financial accounting standards (IFRS) No.16 as an important condition for organizing production activities.

An object of the social sphere can not be recognized as an asset if it is transferred to the state or a higher organization without the right to change the purpose of its disposal, it is not currently being used and does not receive economic benefits.

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In the presence of such situation, the management in the process of transforming the company's financial statements into International financial accounting standards (IFRS) should take measures to prevent the write-off of the cost of the object into expenses and use it as investment property to organize its intended use.

2. International financial accounting standards (IFRS) No. 16 do not provide a specific cost criterion per unit of fixed assets. However, in accordance with Article 9 of this standard, the organization must take into account when applying the recognition criteria in the specific circumstances of each case. From this point of view, we believe that there are no major differences in both standards. Because in accordance with Article 4 of the National accounting standards No. 5, the head of the enterprise has the right to set a minimum threshold for the cost of a unit of production for accounting for goods as part of fixed assets in the reporting year. We believe that this is a situation close to that described in International financial accounting standards (IFRS) No. 16.

The above-mentioned article 11 of International financial accounting standards (IFRS) No.16 sets out the situation in which an object can be recognized as part of fixed assets, even if it does not fully comply with the requirements of the standard. In accordance with it, the objects of fixed assets at enterprises, the functioning of which is subject to special requirements from the state, can be acquired in order to ensure safety or environmental protection. The purchase of such fixed assets may be necessary for an organization to obtain future economic benefits from other assets, although this does not directly increase the future economic benefits from a particular fixed asset that exists. National accounting standards No.5 do not contain an indication that objects can be included in fixed assets under such circumstances, even if they do not meet the criteria for recognition of an asset.

Another noteworthy issue is the recognition of the initial cost of fixed assets when they are acquired with deferred payment or in installments. The table below provides information on the expressed attitude to this issue in International financial accounting standards (IFRS) No.16 and National accounting standards No.5.

Table 2. Recognition of fixed assets as overdue or purchased in instalments

In accordance with Article 23 of the International financial accounting standards (IFRS) No. 16	*According to Article 11 of the National accounting standards No. 5*
The initial cost of an item of property, plant and equipment will be equal to the equivalent price, which can be immediately paid in cash at the date of recognition. The difference between the equivalent price and the amount of all payments that can be immediately paid in cash, if the payment is made by deferral beyond the normal terms of lending, and if it is not capitalized in accordance with national accounting standard No. 23, is recognized as interest expense over the entire loan term.	If the terms of the contract provide for a deferred or installment payment for the acquired fixed assets, then the specified fixed assets are accepted for accounting at the cost of acquisition with a deferred or without taking into account the installment payment. At the same time, the difference arising between the purchase price and the total amount of payment is transferred to financial expenses (expenses as a percentage), depending on the specific weight of the current payment in the total amount of installments or installments during the deferred payment period.

When comparing the data of both standards in this case, in addition to the deferred payment method, national standards provide for its payment in installments over several periods.

Consider the example of the circulation of the purchase of fixed assets with deferred payment, permitted in accordance with Article 23 of International financial accounting standards (IFRS) No. 16.

Example 1. "XYZ" company plans to purchase an office building. The owner of the building recommended to the management of the company 2 ways to sell it. According to the proposal, the company agrees to fully pay the cost of the building immediately for 500 million sums, if it wants to make a payment within 3 years, for 400 million sums. 180 million sums deferred for 3 years.The Company found it possible to purchase this office building with deferred payment. The cost of the company's capital at the time of purchase of the building is 12%.

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When purchasing fixed assets with deferred payment, their initial cost is formed taking into account the discount according to International financial accounting standards (IFRS). However, there is no such requirement in National accounting standards. This condition is formalized in accordance with International financial accounting standards (IFRS) by the following accounting records.

When the amount of the payment for the building is recognized at once

Dt main instrument 400 million sums

Ct Bill being paid 400 million sums

By the amount of the overdue payment amount for 1 year

(180 mln.sums/3 years) = 60 mln. sums

Dt Expenses in percentage terms 60 million sums

Ct Interest which is paid 60 million sums

Article 16 of International financial accounting standards (IFRS) No. 16 establishes that the initial cost of an item of fixed assets includes an obligation to dismantle and remove an item of fixed assets at the time of acquisition of an item of fixed assets or during a certain period of its use for purposes unrelated to the production of reserves, as well as expenses incurred to restore natural resources in its location. it sets out the summation of the initial accounting estimate of the host organization for these costs. Resevres arising as a result of the same business turnover are recognized and assessed in accordance with International Accounting Standards No. 37 "Estimated liabilities, conditional liabilities and conditional Assets".

This situation is not provided for by national accounting Standards No. 5, and our national accountants have no experience of reflecting such appeals in accounting [5]. Therefore, as an example, we will consider the procedure of invoicing and registration of this situation with accounting records.

Example 2. The company "XXX" acquired fixed assets for 200 million sums. In accordance with the granted right of land use, the object is obliged to dismantle and remove after 20 years and restore natural resources on the land area occupied by it.

The costs of this include (mln.sums) :

Maintenance of machines and mechanisms - 10

Salary expenses - 5

Other expenses - 5

Total costs - 20

The cost of the company's capital for this period is 10%.

Year 1.

To the cost of acquisition of fixed assets

Dt fixed assets 200 mln sums

Ct Suppliers 200 million sums

Initial estimated cost including dismantling and removal of fixed assets and restoration of natural resources on the land area occupied by them

$$RV = \frac{20\ mln.sums}{(1\ +\ 0{,}1)^{\wedge}20} = 20\ x\ 0{,}1486 = 3{,}0\ mln.sums$$

Dt Fixed assets (dismantling costs) 3,0 mln. sums

Ct Provision for dismantling of fixed assets 3,0 mln. sums

Year 2

$$RV = \frac{20\ mln.sums}{(1\ +\ 0{,}1)^{\wedge}19} = 20\ x\ 20\ x\ 0{,}1635 = 3{,}27\ mln.sums$$

(3,27 mln. sums – 3,0 mln. sums) = 0,27 mln. sums

Dt Financial costs 0,27 mln. sums

Ct Provision for dismantling of fixed assets 0,27 mln. sums

Another case, which, in our opinion, is not covered in the theory and practice of National accounting standards, but is essential subject to study, is reflected in article 8 of International financial accounting standards (IFRS) No. 16. According to it, substances such as spare parts, spare equipment and auxiliary equipment are recognized in accordance with this standard when they meet the definition of fixed assets. In practice, parts of individual fixed assets may require regular replacement during operation. For example, the working parts of steelmaking furnaces, valuable parts of production equipment, engines of water and air transport, seats and kitchens of aircraft can be replaced several times during their useful life.

The company recognizes the costs of replacing part of the object as a separate object in the carrying amount of the fixed asset at the time of occurrence of these expenses, if such expenses meet the recognition criteria.

Such spare parts in the process of capitalization are put into a separate account as an integral part of the fixed asset object. Because its useful life may differ from the remaining useful life of the object of the main tool.

Example 3. The engine driving the company's production equipment has been replaced with a new one. The useful life of the new engine during installation by specialists is set at 5 years. The remaining useful life of the production equipment is 8 years on the date of installation of the new engine.

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Therefore, in order to amortize the newly installed engine for its useful life - 5 years - the company takes it into account separately from the production equipment.
If the useful life of the newly installed engine (10 years) consists of the remaining useful life of the production equipment (8 years), then the transition to the newly installed engine is carried out during the remaining useful life of the production equipment.
The last issue that is planned to be considered in this article is related to the study of the accounting procedure in international and national standards for the costs incurred to improve them at leased facilities. At the same time, first of all, it would be more correct to compare these standards with the attitude to rent. In accordance with articles 6 and 7 of the National Accounting standards called "lease", the lease account depends on its type: financial lease objects are recorded on the lessee's balance sheet, and current lease objects are recorded on its off-balance sheet account. Accounting of leased objects is regulated in international practice by the same-named IFRS (IFRS) No. 16, which recognizes leased objects as assets on the right of use, regardless of their type.
Currently, most companies rent premises for offices or production purposes. Often rented premises do not meet the requirements of tenants. Therefore, they carry out reconstruction, repairs and various improvements of u(s) at their own expense.
In national accounting standards No. 5, special attention is paid to capital investments in fixed assets, in accordance with article 23 of which the costs of retrofitting fixed assets, equipping with additional equipment, reconstruction, modernization, technical re-equipment, after their liquidation, if, as a result of their implementation, the originally adopted normative indicators of the use of fixed assets (normative indicators of the use of fixed assets useful use, capacity, quality of application, etc.), increasing the initial cost of such an object.
Although International Financial Accounting Standards (IFRS) No. 16 does not specifically mention accounting for possible capital expenditures on facilities, its article 10 provides a general reaction to such cases. That is, the company estimates all expenses on fixed assets at the time of their occurrence according to this recognition criterion.
Having studied by example the procedure for recognizing expenses aimed at improving leased facilities, based on the requirements of International Financial Accounting Standards (IFRS) No. 16, we found it necessary to present the following situation, which, in our opinion, will be more understandable to the readers of the article.
Example 4. A large company decided to carry out reconstruction at the level permitted by the terms of the contract in a building that it rented 1 month ago for an office for 10 years. During the reconstruction, a large room in the building was divided into means of perfect structures, separate sections were organized for 2 management employees of the company, in which modern glass doors and plastic frames were installed. The cost of repair work amounted to 10 million sums.
These changes are an integral part of the leased office building, and after the expiration of the lease term, the tenant cannot use these premises.
The dismantling of these structures after the expiration of the lease term and the use of materials that have come out of them on another object may be economically impractical and cause significant damage to the building during the dismantling process.
Thus, the issue of recognizing the costs of reconstruction (improvement) of an office building as capital (CAPEX - Capital Expense) or writing off the expenses of the current period (OPEX - Operating Expense) should be decided by the chief accountant of the company on the basis of his professional judgment. To resolve this issue, the chief accountant of the company, in our opinion, should analyze this situation in the context of the conditions for recognizing an object as the main instrument in International Financial Accounting Standards (IFRS) No. 16 under the title "Fixed Assets", using the following table (table 3)

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Table 3. Recognition of an object as a fixed asset by International financial accounting standards (IFRS) No. 16 under the title "Fixed assets"

Recognition criteria according to International financial accounting standards (IFRS) 16	*Object: reconstruction (improvement) works carried out in order to create 2 additional premises in a rented office building*	*Fulfillment of the criterion for recognition of fixed assets*
1. Purpose of using the object	The premises that have arisen as a result of reconstruction (improvement) are used by the chief accountant and general manager of the company in their current activities.	Yes
2. Estimated period of use of this object	During the lease term, particularly 10 years	Yes
3. The probability of obtaining economic benefits in the future from the use of this object	The probability of obtaining economic benefits is high, since the use of additional created premises in the rented office allows it to be used effectively	Yes
4. The possibility of a reliable assessment of the initial cost of the object	The cost of reconstruction (improvement) works amounted to 10 million US dollars.sums. This amount is economically justified and documented	Yes

The company can capitalize expenses and recognize them as separate accounting items from assets eligible for use in accounting since these expenses comply with all the requirements of International financial accounting standards (IFRS)16.

CONCLUSION AND SUGGESTIONS

All aspects considered, it can be claimed that the issues show that there are many cases occur during the process of recognizing fixed assets in accounting and reporting in national accounting practice provided for a different solution at enterprises that have switched to the application of International financial accounting standards (IFRS) in our country. Thus, in order to ensure proper accounting of fixed assets in accordance with International financial accounting standards (IFRS) at these enterprises and their reasonable reflection in the financial statements, accountants and auditors should study these standards in depth and improve existing experience in this area.

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