



IMPROVEMENT OF ACCOUNTING OF AUTHORIZED CAPITAL AT JOINT-STOCK COMPANIES

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| Article history: | Abstract: |
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| Received: 11 th May 2024 Accepted: 8 th June 2024 | This article is devoted to consideration of the issues of improving the accounting of the authorized capital in reliance upon the international financial reporting standards. The calculation of the equity capital is reflected in the reporting based on information obtained from practice |
| Keywords: accounting, financial reporting, IFRS, equity capital, authorized capital. | |

INTRODUCTION. Formation of the authorized capital and its accounting are regulated by the Law of the Republic of Uzbekistan № 404 "On Accounting" dated April 13, 2016 and the Law № 370 "On Protection of Joint-Stock Companies and Shareholders' Rights" dated May 6, 2014. Currently organization and improvement of the accounting of the authorized capital in reliance upon the requirements of the Ministry of Finance is one of the crucially essential issues. In world practice the accounting issues of the equity capital are reflected in several standards of international financial reporting standards. These are such standards as IFRS №1 "Presentation of financial statements", IFRS №8 "Accounting policy, changes and errors in accounting estimates", IFRS №12 "Income taxes", IFRS №32 "Financial instruments: Presentation of information", IFRS №33 "Earnings per share", IFRS №37 "Reserves, Contingent Liabilities and Contingent Assets", and others¹.

LITERATURE REVIEW.

Below we consider the opinions of scholars and economists about the authorized capital and its accounting.

According to article 3 of the Law № 370 "On Protection of Joint-Stock Companies and Shareholders' Rights" dated May 6, 2014, "The authorized fund (authorized capital) is a commercial organization that is divided into a certain number of shares confirming the rights of shareholders in relation to the joint-stock company" (2024).

The authorized capital of the company consists of the nominal value of the company's shares received by the shareholders and is expressed in the national currency of the Republic of Uzbekistan. The nominal value of all shares issued by the company must be the same. The authorized capital of the company determines the minimum amount of the company's property that guarantees the interests of the company's lenders.

The amount of the company's authorized fund (authorized capital) is determined in the company's charter. The maximum period of formation of the authorized fund (authorized capital) of the company in the amount stipulated in the charter of the company should not exceed one year from the moment of the state registration of the company².

According to article 19 of the Law of the Republic of Uzbekistan № 404 "On Accounting" dated April 13, 2016, "Equity capital consists of authorized fund (authorized capital), added, reserve capital and retained earnings.

The authorized capital reflects the sum of contributions (expressed in money) specified in the charter documents.

Tangible and intangible assets included in the form of contributions to the authorized fund (authorized capital) are valued according to the agreement between the founders (participants), and in cases provided by law, they must be valued by the appraising entity" (2024).

In the opinion of A.S. Agafonov, the capital of the enterprise is divided into its equity capital (own capital) and borrowed capital. Equity is a part of the company's assets remaining after deducting all liabilities (Agafonov, 2020).

From the point of view of N.A. Safronov, "Equity capital is the full value of the company's own funds. The amount of equity capital is determined by subtracting all liabilities of the company from the total assets on the balance sheet" (Safronov, 2016).

According to V.F. Paliy, "Equity capital is the value of assets without the weight of liabilities". In this case, the economist thought about the value of assets after deducting liabilities from assets (Paliy, 2013).

Z.V. Udalova, A.G. Saltanova, A.N. Tarasov have investigated the equity capital in terms of the accounting system and expressed the following opinion:

¹ International financial reporting standards.2018.

² Id. Articles 16, 17.



"Equity capital is the economic resources that reflect the total value of assets, after deducting liabilities, that belong to an enterprise that will generate profits in the future, including authorized, added, reserve capitals and undistributed profits" (Udalova et al., 2018).

In the opinion of I.A. Sayapina, authorized capital is a value calculated in monetary form, reflecting the minimum amount of the company's property, guaranteeing the interests of its lenders and determined by the sum of the value of the nominal shares of the company's participants (Sayapina, 2016).

S.N. Polenova and N.A. Mislavskaya have given the following definition: "The authorized capital of a joint-stock company consists of the nominal value of the company's shares purchased by shareholders. It determines the minimum amount of the company's property, which guarantees the interests of its lenders" (Polenova et al., 2013).

A. Ermatov expresses the concept of the equity capital in his research paper as follows: "Equity capital is a set of values accumulated as a result of the use of production resources in the past, capable of bringing economic benefits in the future and belonging to the owners" (Ermator, 2020).

From the point of view of E.S. Drujilovskaya and T.Yu Drujilovskaya, "capital is the most significant object of accounting and an integral element of financial reporting of any organization, but our research has shown that there are serious problems inherent in both the theory and practice of accounting and reporting in the field of its interpretation and reflection in financial statements" (Drujilovskaya et al., 2023).

I.D. Demina and O.E. Kachkova believe that "capital is the most complex accounting category. There are many interpretations of this concept, which creates uncertainty in the concept of "capital". The interpretation of capital in International Financial Reporting Standards (IFRS) defines the methodology of accounting for the concrete facts of economic life and approaches to analyzing the financial situation of the entity. According to paragraph 49 of the "Principles of preparation and compilation of financial statements" of the IFRS, capital is the share of the remaining assets of the owners of the company after deducting all liabilities" (Demina et al., 2024)

RESEARCH METHODOLOGY. Definitions and opinions given by the scholars and economists on the equity capital and accounting of the equity have been

summarized. Such research methods as literature review, data grouping and comparison methods have been widely used.

ANALYSIS AND RESULTS.

The authorized capital of the company consists of the nominal value of the company's shares received by the shareholders and is expressed in the national currency of the Republic of Uzbekistan. The nominal value of all shares issued by the company must be the same. The authorized capital of the company determines the minimum amount of the company's property that guarantees the interests of the company's lenders.

The amount of the company's authorized fund (authorized capital) is determined in the company's charter. The maximum period of formation of the authorized fund (authorized capital) of the company in the amount stipulated in the charter of the company should not exceed one year from the moment of the state registration of the company.

The net profit of "Uzbekneftgaz" JSC, which is the object of our research, amounted to 611.6 billion UZS in 2023 and decreased by 52.6 percent compared to 2022. In the last three years, its income has decreased by five times - from 3.3 trillion UZS to 611 billion UZS. The decline in financial performance is witnessed in equity, retained earnings and gross profit.

It is noted that the net profit of the joint-stock company last year amounted to 611.6 billion UZS, which is 52.6 percent less than in 2022. In the last 3-4 years, the company's profit has decreased by 5 times. The assets of the oil and gas company reached almost 90 trillion UZS (increased by 13.1 percent compared to the previous year), and the income amounted to 14.7 trillion UZS (+11.2 percent).

It should be noted that the decrease in financial indicators is observed in capital (48 trillion UZS), retained earnings (5.7 trillion UZS) and gross profit (3.1 trillion UZS).

"Uzbekneftgaz" JSC has significantly increased dividend payments, its amount doubled during the year - up to 2.5 trillion UZS³.

The analysis of the equity capital structure is presented in Table 1 developed using the reporting data of **"UZBEKNEFTGAZ" JOINT STOCK COMPANY** for 2020-2023.

³ In 2023, the net profit of "Uzbekneftgaz" decreased by more than half.
<https://www.gazeta.uz/uz/2024/03/24/uzbekneftgaz/>.



Table 1
Analysis of the equity capital structure of "UZBEKNEFTGAZ" JOINT STOCK COMPANY for 2020-2023⁴
(million UZS)

| Nº | Elements | 31.12. 2020 | 31.12. 2021 | 31.12. 2022 | 31.12 2023 |
|----|-------------------------------|-------------------|---------------------|---------------------|---------------------|
| 1 | Authorized capital | 21536403,0 | 21,536,466,0 | 21 243 473,3 | 21 273 593,3 |
| 2 | Added value | - | - | - | - |
| 3 | Reserve capital | 10023593,9 | 9,925,768,6 | 10,069,403,0 | 8 956 228,4 |
| 4 | Retained earnings | 3440817,3 | 6,678,988,4 | 6,250,163,9 | 5 722 788,2 |
| 5 | Targeted receipts | 11761832,0 | 11,877,733,9 | 11,895,362,2 | 12 042 099,8 |
| 6 | Equity sources, total: | 46762646,2 | 50 018 956,4 | 49 458 402,5 | 47 994 709,7 |

The analysis of the data in Table 2 demonstrates that the equity capital of this joint-stock company as of December 31, 2020 constituted 46 762 646.2 million UZS, as of December 31, 2021 accounted for 50 018 956.4 million UZS, as of December 31, 2022 this indicator accounted for 49 458 402.5 million UZS, and by the end of 2023 it constituted 47 994 709.7 million UZS. As of December 31, 2023, the authorized capital accounted for 21 243 473.3 million UZS. In the new wording of the charter of the joint stock company with ordinary shares of "UZBEKNEFTGAZ" joint stock company approved by the Resolution № 10 dated June 16, 2023, the amount of the authorized capital is set at 21 243 473 351 thousand UZS.

The process of formation of authorized capital is reflected in accounting in the following manner:

Debit account 4610 "Indebtedness of the founders' shares to the authorized capital"- 21 243 473 351 UZS;

Credit account 8300 "Accounts for authorized capital accounting" - 21 243 473 351 UZS.

One of the problems in accounting for the formation of authorized capital is to reflect the share contributed by foreign founders and exchange rate differences arising in foreign exchange in the relevant accounts.

In this regard, N.G.Sapojnikova and M.V.Tkacheva expressed the following opinions: The

exchange rate difference related to the formation of the authorized capital of the corporation is recognized as the difference between the assessment in roubles of the debt of the founder (participant) for the contribution to the authorized capital of the corporation calculated in the charter documents. Amount of deposits and foreign exchange calculated at the exchange rate of the Bank of Russia on the day of receipt of the ruble value of this deposit in the charter documents. The negative exchange rate difference on the foreign investor's deposit in foreign exchange is not reflected as a part of the additional capital, because a debt appears in the settlement accounts with the founders, and the deposit is not recognized as paid. Additional capital funds can be used to increase the authorized capital in terms of positive exchange differences.

Another scholar-economist Sh.A. Tashmatov has expressed similar opinion: "When changing the amount of the authorized capital of an economic entity, positive exchange rate differences that occur between the date of registration of the charter documents and the date of entering the funds into the authorized fund are reflected in accounting as added capital in account 8420 "Exchange rate differences that occur during the authorized capital formation". If in this case, negative exchange rate differences occur, within the framework of positive differences that occurred during the

⁴ Developed by the author on the basis of the financial reporting data of JSC.



formation of the charter capital in previous periods, they are reflected in account 8420 "Exchange rate differences arising in the authorized capital formation", but if the negative exchange rate differences are more than the positive differences that occurred during the formation of the charter fund in the previous periods, in that case, the remaining part will be spent on financial business activities.

In order to eliminate the above the problem specified above, the following proposal is made:

- open working account 4620 "Indebtedness of foreign founders' shares to the authorized capital". First of all, it determines the amount of authorized capital, and secondly, it enables to correctly determine the difference in the foreign currency exchange rate and reflect it in the book-keeping accounts.

As a result of implementing the working account 4620 "Indebtedness of foreign founders' shares to the authorized capital" in practice, the following accounting entries are made:

To the sum of the foreign founder's indebtedness for the contribution to its authorized capital after the state registration of the enterprise;

Debit account: 4620 "Indebtedness of foreign founders' shares to the authorized capital",

Credit account: 8310 "Ordinary shares".

The amount of foreign exchange contribution of the foreign founder to the authorized capital of the enterprise:

Debit account: 5210 "Domestic currency accounts",

Credit account: 4620 "Indebtedness of foreign founders' shares to the authorized capital",

Amount of positive exchange rate difference arising in foreign exchange as a result of settlements with founders:

Debit account: 4620 "Indebtedness of foreign founders' shares to the authorized capital",

Credit account: 8420 "Exchange rate difference in the authorized capital formation".

The amount of the negative exchange rate difference arising in foreign exchange as a result of settlements with the founders:

Debit account: 8420 "Exchange rate difference in the authorized capital formation",

Credit account: 4620 "Indebtedness of foreign founders' shares to the authorized capital".

The reflection of the negative exchange rate difference that occurred during the authorized capital

formation is the use of additional capital, which is written off based on the amount of funds in the account 8420 "Exchange rate difference in the authorized capital formation". If the amount in account 8420 "Exchange rate difference in the authorized capital formation" is not adequate to cover the amount of the negative exchange rate difference arising in foreign exchange, the remaining amount is covered from the profit of the reporting year and reflected in the accounting accounts as follows:

Debit account: 8710 "Retained earnings (unrecovered loss) of the reporting period,

Credit account: 4620 "Indebtedness of foreign founders' shares to the authorized capital".

Using the above-mentioned basic approaches of the accounting records of the IFRS, it helps to improve the reflection of the authorized capital in the accounting and financial statements and raises the quality of the provided information. Moreover, the data on the state and movement of the authorized capital of the joint-stock company is correctly formed and meets the requirements set by international standards.

5. CONCLUSION AND PROPOSALS:

Organization of the accounting of the authorized capital on the IFRS basis is considered an urgent issue.

We propose to open working account 4620 "Indebtedness of foreign founders' shares to the authorized capital".

With the aim of improving the accounting of the authorized capital it is recommended to use IFRS (IAS) №1 "Presentation of financial statements", IFRS (IAS) №8 "Accounting policy, changes and errors in accounting estimates", IFRS №12 (IAS) "Income taxes", IFRS (IAS) №32 "Financial instruments: Presentation of information", IFRS (IAS) №33 "Earnings per share", IFRS (IAS) №37 "Reserves, Contingent Liabilities and Contingent Assets", and other international financial reporting standards, include them in the accounting policy and apply when accounting for the equity capital.

Organization of the accounting of the authorized capital in reliance upon the international financial reporting standards adjusts the accounting of our country in compliance with the world practice.

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