

# Features of Application of International Financial Reporting Standards in the Accounting System for Intangible Assets of the Republic of Uzbekistan.

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## Abstract:

*The article reveals the features of the application of IFRS in the system of accounting for intangible assets of the Republic of Uzbekistan. The article presents a comparative description of the requirements of national and international standards in relation to intangible assets. The scope of NAS 7 and IAS 38 is determined. The criteria for recognizing intangible assets in accounting, the issues of determining their initial and fair value, and the conditions for calculating depreciation are considered.*

**Key words:** intangible assets, recognition, valuation, cost, depreciation, useful life, reporting

## Introduction

The Republic of Uzbekistan is currently implementing large-scale reforms in the political, economic, and social spheres, and active work is being carried out to attract foreign direct investment into the country's economy.

One of the most important conditions for effectively attracting such investments into the activities of Uzbek enterprises is increasing the transparency of corporate governance practices through the introduction of generally recognized international financial reporting standards.

IFRS (International Financial Reporting Standards) is a set of international accounting standards that specify how to report different types of business transactions in financial statements. The main purpose of IFRS is to maintain stability and transparency in the financial world. Thanks to

these standards, enterprises from different countries can understand each other's financial statements and make decisions about further mutual cooperation.

Today, the fact that not only fixed assets or assets that have a material form are a source of ensuring the profitability of an economic entity, but also assets that do not have such a fact is becoming more obvious which, as a material form, can be significant in the process of making a profit for the enterprise.

Bearing in mind the experience of the United States of America and a number of European countries, complex and one of the most discussed issues is the identification of an asset, methods of acceptance for accounting, as well as methods and methods for calculating depreciation. Having taken note of the above, it is worth considering that IFRS 38 "Intangible Assets" was the most recently developed.

The program for reforming accounting in accordance with International Standards provided for the development of regulations for the accounting of intangible assets, which became the basis for approval by the order of the Ministry of Finance of the Republic of Uzbekistan dated March 25, 2005 of the National Accounting Standard No. 7 "Intangible assets".

According to the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020, where it was decided to accelerate the transition to international financial reporting standards, as well as to train specialists in the field of accounting and accounting child according to international standards.[1]

### **Literature review.**

The issues of accounting and valuation of intangible assets are devoted to the works of local and foreign scientists, among whom: among foreign authors, this issue was studied by Andreessen D., Arena E., Baruch JL, Kaplan R., Lerner P., Norton D., Polani M., Poltorak A., Prusak JL, Reilly R.

In recent years, research has also been carried out in the republic on the practical application of the standard "Intangible Assets" (IAS 38) and, in this regard, scientific articles, monographs and textbooks have been published. These are, in particular, scientists D.Matkarimov, I.N.Ismanova, D.K.Kudbieva, Yu.Maksudova, N.K.Rizaev, S.N.Tashnazarova.

Professor A. Sotivoldiev describes as "an integral part of the assets of the enterprise, intangible assets will not have the form of an object" [6].

I.N. Ismanov described intangible assets as follows: "Intangible assets are assets that take part in the activities of an enterprise for more than a year, which can bring economic benefits in the future, are identifiable, and do not have a materialized form" [5].

Intangible assets are certified objects of property, the property of which is not maintained for the purpose of using the property of enterprises in the production process, to perform work, provide services or sell goods or perform official and other tasks over a long period of time.[7] Intangible or "hidden" assets include funds that do not have a physical form but generate income for a business entity.

Accounting for intangible assets is set out in the Law on Accounting, National Accounting Standards No. 7, Intangible Assets, and No. 11, Research and Development Costs.

In accordance with NAS No. 7, entitled "Intangible Assets," intangible assets are property items that do not have tangible or intangible content, are controlled by an economic entity for the purpose of their use in business activities, and are also intended for long-term (more than a year) use.[ 2]

### **Existing problems on the subject of research**

The existing financial accounting system in the Republic of Uzbekistan provides incomplete information about intangible assets. Based on this information, it is extremely difficult for users of financial statements to make management decisions and make informed conclusions about the state of intangible assets.

In practice, when preparing financial statements, various valuation methods are used, and accounting for certain types of intangible assets in enterprises causes difficulties.

In particular, there is no classification of intangible assets enshrined at the legislative level, the issues of assessment and accounting of certain types of intangible assets are not sufficiently developed, and the disclosure of information in financial statements about intangible assets is not sufficiently informative.

The issues of classification of intangible assets, their assessment in accounting when used in economic activities are relevant; a more in-depth study of the accounting of certain types of intangible assets is required. There is an urgent need to solve problems related to the efficiency of use and management of intangible assets.

In connection with the increasing role of intangible assets in the innovative economy, there is a need to analyze and compare national standards for accounting for intangible assets with IFRS.

### **Analysis and results.**

At this stage of economic development, the position of intangible assets in economic entities is steadily increasing.

This trend is caused by the development of digital technologies and intellectual property, their distribution, and increased competition. And also, business entities are faced with a growing need for accounting, evaluation and management of intangible assets, such as intellectual property rights, technology, design, brands, etc. Intangible assets are accounting objects that do not have a physical form, but have significant economic value and are capable of generating income for the enterprise in the long term.

The use of intangible assets provides an opportunity for an organization to change the structure of production capital. In this regard, proper accounting, analysis and control of intangible assets allows you to effectively manage them and achieve your goals. However, due to the lack of a tangible form, the valuation of intangible assets is a difficult task. In addition, the legal aspects of the use and protection of intangible assets are also important aspects in their accounting and analysis.

Thus, intangible assets are by now one of the important and integral factors in increasing competitiveness and increasing enterprise income.

For a more detailed study of the essence of the concept of “intangible assets”, let’s consider how this concept is defined by normative legal acts and various authors.

In accordance with the National Accounting Standard of the Republic of Uzbekistan NAS No. 7 “Intangible assets”, registered by the Ministry of Justice on May 22, 2013 No. 1485-2 “Intangible assets - identifiable objects of property that do not have material content that the enterprise contains for the purpose of using them in in the process of producing products, performing work, providing services or selling goods, or for carrying out administrative and other functions over a long period of time.”[3]

Since, in accordance with the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020, on accelerating the transition of accounting to international financial reporting standards, we will consider the economic essence of material assets in accordance with

IFRS No. 38 “Intangible assets”.

An intangible asset is an identifiable non-monetary asset that does not have a physical form. According to the definition of an intangible asset, such an asset must be identifiable so that it can be distinguished from goodwill. Goodwill recognized in a business combination is an asset that represents future economic benefits arising from other assets acquired in a business combination that are not

individually identifiable and separately recognized. Future economic benefits may arise from synergies between identifiable assets acquired or from assets that do not individually qualify for recognition in the financial statements. An asset satisfies the identifiability criterion if it:

a) is separable, i.e. may be separated or separated from the entity and sold, transferred, licensed, leased or exchanged individually or together with a related contract, identifiable asset or liability, whether or not does the organization intend to do so;

b) arises as a result of contractual or other legal rights, regardless of whether such rights are transferable or severable from the organization or from other rights and obligations.[2]

When considering international standards, I would like to pay attention and find out the differences in accounting for intangible assets under IFRS and NAS.

Lack of material resources Mandatory Mandatory

Possibility of identification (allocation, separation) with other property Mandatory Mandatory

Use for a long time Availability of documents (patents, certificates and other documents of protection) Mandatory Optional time, over 12 months Mandatory Optional

The ability to bring economic benefits (income) to the organization in the future Mandatory Mandatory

Initial cost of intangible assets Acquisition cost Fair value

Revaluation of intangible assets Depreciation of intangible assets Not allowed (except for cases provided for by the legislation of the Republic of Uzbekistan) Mandatory

All intangible assets are amortized. Intangible assets with an indefinite useful life are not amortized.

**Table 1 Main similarities and differences between NAS and IFRS**

Indicators	Accounting in	NAS IFRS
Lack of material resources	Necessarily	Necessarily
Possibility of identification (separation, separation) with other property	Necessarily	Necessarily
Use for a long time Availability of documents (patents, certificates and other documents of protection) Mandatory Optional time, over 12 months	Necessarily	Not necessary
The ability to bring economic benefits (income) to the organization in the future	Necessarily	Necessarily
Initial cost of intangible assets	Purchase cost	fair value
Revaluation of intangible assets Depreciation of intangible assets	Not allowed (except for cases provided for by the legislation of the Republic of Uzbekistan)	Necessarily
Are depreciated	all intangible assets	Intangible assets with indefinite useful lives are not amortized

Note – own development.

NAS and IFRS define the list of assets that should be classified as intangible assets differently.

According to IFRS, the concept of intangible assets is much broader, therefore, assets that are not classified as intangible assets in Belarusian accounting are often included in intangible assets in

reporting under IFRS. This is true for categories such as employee qualifications, assets held for sale or with a useful life of less than 12 months.

According to national standards, intangible assets are accepted for accounting at their historical cost. In other words, the financial statements reflect the costs of purchasing the asset (less VAT). If additional costs were incurred to bring the intangible asset into working condition, they are included in the initial cost of the intangible asset. This simplicity is convenient for accounting, but as a result, the user of the statements may be misled by the fact that the value of the intangible asset in the statements may differ significantly from the real one.

According to IAS 38, intangible assets are recognized at fair value. When determining fair value, the leading role is played by data on purchase and sale transactions of an intangible asset concluded on the market - they reflect the market value of the asset, and on their basis, its fair value is determined. If there is an active market, the fair value and market value of the intangible asset must be the same. Thus, the value at which an intangible asset is initially recognized in the accounting records may differ from the value at which the asset was initially recognized for the purposes of preparing financial statements under IFRS.

NAS and international principles require different accounting for intangible assets after they are taken onto the balance sheet. The discrepancies relate to depreciation and revaluation. According to NAS7, intangible assets must be amortized. Under IFRS, intangible assets with an indefinite useful life (for example, trademarks) are not amortized. Both in NAS and IFRS, depreciation of intangible assets is calculated mainly using the straight-line method. However, over time, the nature of the future economic benefits that an entity expects to receive from an intangible asset may change. Therefore, international accounting provides for a revision of useful lives and depreciation methods.

### **Conclusion**

Thus, it should be noted that accounting for intangible assets according to national standards is close to accounting according to IFRS, although there are a number of conceptual differences. In particular, some national accounting items are not intangible, but according to international principles are included in their composition. In accordance with national standards, when registering, intangible assets are valued at historical cost, and according to international standards - at market value.

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