

## **THEORETICAL ISSUES OF ACCOUNTING AND AUDIT OF FIXED ASSETS IN UZBEKISTAN**

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**Abstract:** This article is devoted to the consideration of theoretical issues of the accounting and audit of fixed assets in Uzbekistan on the basis of theoretical and practical materials.

**Keywords:** fixed assets, accounting of depreciation, audit of expenses, analysis, initial cost, residual value, competition, variable costs, fixed costs.

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**Introduction.** One of the main objectives of the world economic integration process is to produce the goods which meet international standards. For the production of such goods it is necessary to modernize the process of production as well as to introduce and to re-equip new technologies. In this regard, emphasizing the importance of this issue the President of the Republic of Uzbekistan Sh. Mirziyoyev has said: “We need to do much more to improve the taxation system in order to make our country attractive for investors, who are in charge of large investment projects in Uzbekistan.

It is necessary to reduce and optimize the tax burden for all business categories, thereby increasing the production and expanding the taxable base” [1; p 5.]. Thus, modernization of production in the Republic of Uzbekistan, its technical and technological re-equipment, intensive renovation of the leading sectors of the economy are considered to be the most topical current issue. Therefore, technical and technological re-equipment of agricultural industry and processing agricultural products are referred to one of the important issues. As far as we know, grain production in Uzbekistan has increased from 200 thousand tons in 2010 to 300 thousand tons in 2011. In addition, more attention has been paid to this aspect within recent years, and in 2014 the volume of grain production accounted for 8,069 million tons, and in 2015 – 8,2 million tons [2; p 456.]. The major part of the production costs of these products is the costs associated with the production and use of production techniques and grain storage facilities. Therefore, the lack of scientific research on the issues of improving the accounting and audit of fixed assets currently illustrates the relevance of the chosen topic.

As far as we know, any business activity irrespective of the form of ownership requires a certain amount of capital. In the structure of total capital assets are considered to be important and dominant in any circumstances. When assets are used efficiently the cost of products decreases, profit rises and profitability increases. Assessment of company’s assets, namely, fixed assets enables to make correct and accurate decisions on asset management based on the study of the condition and structure of assets. This ensures that reliable measures are undertaken to raise the continuity, rapid turnover and effectiveness of capital flows. In our country scientific researches on improving the accounting and audit of fixed assets are carried out and certain work has already been performed in this area.

**Literature review.** The theoretical and methodological aspects of accounting and audit of fixed assets flow under different conditions of ownership have been revealed in researches of foreign economists such as Abdukarimov I.T., Kondrakov N.P. and Terehova V.A. [3; p 272.].

Moreover, the issues of accounting and audit of fixed assets flow have been revealed in scientific papers of domestic scientists such as Abdullaev A., Ibragimov A.K., Urazov K.B. and others [4; p 201.].

In the dissertation claiming for the scientific degree of candidate of sciences by Q. Shakarov the issues of improving the accounting and audit of direct assets as well as the issues of improving the accounting and control of fixed assets in various forms of ownership in the market economy have been considered [5;p 146]. Ismanov I.N. devoted his doctoral dissertation to the issues of improving the methodology of accounting and audit of long-term assets in the period of transition to the market economy [6; p 33.].

**Discussion.** The main focus of these studies is made on the problematic issues in accounting and audit of certain aspects of fixed assets accounting in business entities. However, the diversity of viewpoints among scientists on this issue, the focus on accounting and audit of long-term assets in the context of integration into the world economy once again justifies the relevance of this topic.

Manufacturing facilities (production assets) and non-production assets which constitute fixed assets are accounted in different groups. The economic reforms carried out in our country provide independent companies with various forms of ownership and create conditions for their rapid development. From this point of view we believe that it is necessary to make some additions to the definitions given to fixed assets, their costs and service terms.

Perhaps we suppose that these definitions and regulations must be only applicable to public enterprises and institutions, as the state regulates the property under its own regulation on the basis of its own standards. Business ownership in the form of joint-stock, private or other forms of ownership is desirable for the owners to determine the duration and value of the fixed assets. The basis for the implementation of these changes is primarily the cost of the property, such as

gas stove, refrigerator, television, printer, computing machinery which cost amounts to approximately to 15-20 minimum wages, but their service term is 3 years or more.

As a result the following problems may arise:

**-first**, in which account these assets should be accounted, in particular, should they be handled in account 0100 “Account for fixed assets accounting” or in account 1080- “Inventory and household equipment”. In practice, they are accounted basing on the chief accountant’s experience and regarding the fact that the place where they are accounted should comply with the benefits of the company.

**- second**, if the amount of depreciation charged for fixed assets is added to the self-cost of the product, the self-cost may rise and thus not meet the requirements of the market regulations. Because the service term of some fixed assets accounts for 20-30 years which does not necessarily reflect the current depreciation policy.

**-third**, the economic efficiency of national production is largely dependent not on the quantitative growth of capital, but on its effectiveness, i.e. the increase of the volume of production per each unit of currency. This, in turn, leads to the change of ownership of the property in enterprises operating in various forms of ownership.

According to the degree of the intensive use of fixed assets in the production process Professor Karimov A.A. defined the fixed assets as it follows: “According to the performance function fixes assets are divided into productive and non-productive assets” [7;p 128.]. With the aim of providing a comprehensive definition to the fixed assets some economists-scientists have developed the following definition of fixed assets: “According to the participation in the production process fixed assets are divided into the assets related to the production and the assets which are not related to the production” [8;p 11]. Shakarov Q.A. proposes the following definition: “The proposal of dividing fixed assets into the groups with the account of using these assets in any economic entity has been made. Herein while accepting fixed assets for their use, the acceptance act is filled in, and the information on service term and remuneration for the works done should be added to this document” [6; p 146.].

Based on the observations made by the author as a result of solving the above-mentioned issues the proposal to classify fixed assets as follows has been developed:

- 1.Fixed production assets.
- 2.Fixed reserve assets.
- 3.Fixed assets on repairing.
- 4.Fixed assets for continuous construction, renovation, modernization and partial production.
- 5.Fixed assets for conservation.
- 6.Fixed assets rented.

As a result we can make a conclusion that in order to achieve efficient use of fixed assets, first of all, a particular attention must be paid to their accurate division into groups.

**Table 1**

**Fixed assets flow in OJSC “Galla-Alteg”**  
(thousand of UZS)

Indicators	Residual for the beginning of the year	Inflow	Outflow	Residual for the end of the year
Initial cost of fixed assets	3796736	577722	129817	4244641
Including				
New fixed assets		500722		
Depreciation of fixed assets	2044522			2255652
Residual value of fixed assets	1752214			198889

Source : developed by the author on the basis of the OJSC “Galla-Alteg” data

On the basis of the information provided in the table the ratio defining the fixed assets flow is determined.

$$R_{po} = \frac{F_{apo}}{F_{ar\kappa}} * 100(I)$$

$R_{po}$  -Ratio of putting fixed assets into operation.

$F_{apo}$  – Fixed assets put into operation

$F_{ar\kappa}$  - Residual of fixed assets by the end of the year

$$R_{po} = 577722/4244641 \cdot 100 = 11.8\%$$

In the period of rapid technology development, the technologies which were considered to be advanced are replaced by advanced technology in the shortest possible period of 5-7 years.

$$R_{fat} = \frac{Fatv}{Farbk} * 100$$

$R_{fat}$  – Ratio of fixed assets termination

$Fatv$  – value of terminated fixed assets;

$Farbk$  – Residual of fixed assets by the beginning of the year

$$R_{fat} = 129817/ 3796736 \cdot 100 = 3.4\%$$

In market conditions fixed assets are written off from assets under the following conditions:

- when sold;
- due to the inability to use them;
- when giving to other enterprises and individuals free of charge;
- when transferring to another company as the equity capital;
- when giving for rent as leasing object;
- as a result of theft or loss.

The value added tax on fixed assets raises their initial value and if the depreciation costs increases it is gradually transferred to the expenses of the company.

**Table 2**

**Analysis of receipts of fixed assets of OJSC «Toshkent Donmahsulotlari»**

№	Name of fixed assets	The source of reception	Value	Number of analytical account	Inventory number
1.	Warehouse building (34*25,6 square m.)	Built by specialized limited liability company (Acceptance act №33 as of 12.03.2011.)	48345234,57	0120/12	012012045
2.	Grain reception area (28*45 square m.)	Built by 1-st construction brigade (Acceptance act №34 as of 12.05.2011)	11500000,00	0120/18	012018054
	total	x	59845234,57	x	x

When economic entities accept fixed assets, it is registered by the specially created commission which compiles a certificate of acceptance of fixed assets. This act contains the initial assessment of the fixed assets, the amount of depreciation, the brief description of the fixed assets accepted, and the names of the members of the commission as well as their material responsibility. Herewith, technical and other documents describing this act shall be attached and the act shall be approved by the head of the economic entity.

As a result of approval of the acceptance certificate, fixed assets are transferred to the account of the economic entity. At the end the inventory sheet is opened for each object on the basis of this certificate.

Fixed assets can be also received by economic entities by construction and in turn, construction of fixed assets can be done in two different ways: by contractor or by the economic method.

Based on the relevant contracts, the objects of fixed assets created by the specialists of economic entities and the attracted external experts are entered as fixed assets with the credit of account 0810- "Uncompleted Construction" into correspondence of the debit accounts 0110-0190 with the account of the real self-cost.

All the direct costs such as material, labor and other expenses, as well as additional costs directly attributable to the construction process shall be entered in the balance of economic entities if they built fixed assets objects by their own.

Expenses related to the construction until its completion are reflected in the account 0810- "Uncompleted construction". As soon as construction is completed and the object is put into operation the total amount of money accumulated in the account 0810 is transferred in the account 0120-«Buildings, constructions and transmission devices» and starting from the following month the depreciation is being calculated.

In calculating the depreciation for fixed assets, we believe that they should focus on the efficiency which they will bring to the accounting, in particular:

- production capacities expected in future;
- usage regime (number of working shifts) and physical depreciation connected with aggressive impact of the environment;
- strengthening of the need for modernization due to future moral obsolescence due to the competition development, etc.

Reconstruction of fixed assets will increase the need for investment-oriented financial resources especially during the period of the ongoing inflation. Therefore, starting from the depreciation process, it is necessary to form a reserve of funds directed to the restoration of fixed assets.

The cost of a fixed asset that has become a working capital in the form of depreciation charge will be constantly operating in the composition of the working capital. Its source is not considered in the balance sheet separately. If we search the sources of depreciation in current balance sources we can only find it only in the structure of profit.

## Conclusion

1. In the context of integration into the world economy economic reforms implemented in the Republic of Uzbekistan along with the provision of independent companies and organizations of various types of ownership are aimed at creating conditions required for their rapid development. From this point of view, in our opinion, it is necessary to make some additions to the definitions given to fixed assets, the value and service term. In addition, it is advisable to apply these definitions and regulations only for state-owned enterprises and institutions, because the state regulates the property under its own regulation on the basis of its own standards. Moreover, in our opinion it would be useful if in the joint-stock companies, business entities in the form of private and other forms of ownership, service term and the value of fixed assets would be assessed by property owners. The main reason for this is the following:
  2.
    - **first**, if according to the depreciation policy, the depreciation sum calculated for the fixed assets is added to the self-cost of the goods produced, it can result in the increase of the self-cost

which will not meet the regularities existing in post-crisis period. Thus it would be necessary to undertake relevant measures aimed at reduction of self-cost;

- **second**, the service time of some fixed assets may account for 50-100 years which may not be in compliance with the depreciation policy adopted by economic entities;

- **third**, the cost of some equipment such as gas stove, refrigerator, television, printer, computing machinery may be less than 50 minimal wages, but their service term can be 5-20 years.

In our opinion, when accepting these facilities as fixed assets in the accounting of economic entities, the following compulsory aspects must be taken into consideration:

- these facilities can be used for production of goods, offering services or other management needs;

- the term of their efficient use should be prolonged for many years;

- economic entities must not plan resale of these assets;

- when accounting certain fixed assets it is recommended to consider not their service term but the volume of goods produced.

2. In the process of performing audit of fixed assets if the property is exchanged by the additional cost, fixed assets acquired by the exchange are equal to the amount of the cash or its equivalent of the residual value. Under such conditions re-assessment and of the fixed assets is considered to be an important and urgent issue. Thus, in our opinion, the cost of valuables which are transferred or must be transferred by the company should be admitted as an initial cost of fixed assets received according to the contract stipulating transactions in non-monetary forms in compliance with the established order. It is suggested that the value of the assets transferred or being transferred by the company must be determined by the company on the basis of its comparison with the value of existing similar assets.

3. In our opinion, it is recommended to define the following aspects as the system of observance and analysis carried out by the auditing companies: reliable reflection of the transactions

performed with fixed assets in the entities incorporated with the JSC Uzdonmakhsulot in the accounting and financial statements, their compliance with current legislation and internal documents of the company, determining the efficiency of using available assets and providing with the lacking items.

4. From our point of view, with the aim of establishing the “Fund for fixed assets depreciation” accountable for purchase of such fixed assets, it is recommended to open a particular account. While establishing this Fund, it is proposed to use the following entries required for calculating the depreciation amount:

Debit-8710- “Retained profit of the reported period (uncovered loss)”,8720 “Accumulated profit (uncovered loss)” accounts

Credit -“Fund for fixed assets depreciation” account.

By the re-assessment of fixed assets:

By the balance value

Debit-0100 “Fixed assets”

Credit- “Fund for fixed assets depreciation”

By the depreciation value

Debit - “Fund for fixed assets depreciation”

Credit-0200 – with wording “Fixed assets depreciation”

Therefore, when formulating fixed assets, in particular, acquiring them

Debit – “Fund for fixed assets depreciation”

Credit-6010 “Settlements with deliverers of goods”

When implementing construction works

Debit - 0810 “Capital placements”

Credit – “Sources for expenses” (6010,1000,6710,0200 and others)

By the total expenses amount

Debit- “Fund for fixed assets depreciation”

Credit -0810 “Capital placements”

Accepting as receipts to the structure of fixed assets

Debit- “Fixed assets” 0100

Credit – with wording “Fund for fixed assets depreciation”.

5. In our opinion, the financial stability of the company is determined not only by the source of funds, but also by the fact how properly they are entered in their financial reporting assets. Therefore, the auditor should also examine the structure of borrowed funds along with assessing the structure of the equity capital. For this purpose, an appropriate conclusion is drawn from the use of analytical methods of capital attracted in the audit process. Taking this into consideration, we recommend using the following indicators of financial analysis for auditing of fixed assets:

- ratio of putting into operation;
- renewal ratio;
- withdrawal ratio;
- depreciation ratio;
- termination ratio;
- ratio for expanding the machinery and equipment park.

In addition we suppose that the ratios stated above can serve as the basis for assessing the level of use of material resources of the company.

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