

PECULIARITIES OF THE ACCOUNTING BALANCE IN MODERN MANAGEMENT SYSTEM

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Abstract: This article is devoted to the consideration of issues related to the peculiarities of the accounting balance in the modern management system, its compilation, information provision, as well as handling the balance on the basis of the International Financial Reporting Standards.

Key words: management system, balance, International Financial Reporting Standards, assets, liabilities, equity, long-term assets, current assets, fixed assets, inventories.

Introduction. The transition to the market economy has resulted in significant changes in the activities of economic entities. When analyzing financial and economic activities of economic entities, the basic source of information is efficient use of their financial statements, including accounting records. According to the international standards, the name of the accounting balance has been modified and currently in practice it is used as “Statement on the financial condition”. This form is crucially important for economic entities in making financial and management decisions, financial assessment analysis of the outcomes of their activities. The modern management system should provide useful information on the financial condition of companies, the alterations occurred, as well as financial results. In this regard, it is important for users to know what financial information to consolidate and which reports to prepare. To resolve this issue, it is necessary to clarify the concept of financial condition. As far as we know, annual accounting of the modern accounting system is considered and approved in the statutory documents before it can be submitted to the relevant authorities. In compliance with article 22 of the Law of the Republic of Uzbekistan “On Accounting” (new wording), the following forms of annual reports shall be compiled:

- 1 – “Accounting balance”;
- 2 – “Profit and Loss Account”;
- 3 – “Cash Flow statement”;

4 – “Statement of Owner’s Equity”;

5 –Notes, calculations and representations.

The balance is included in the quarterly and annual reports. This is the “net” balance sheet which informs users on the amount of the net value of the company. This is because the possible value is demonstrated to the total by subtracting the depreciation on the following items. Fixed assets, intangible assets, etc., and the sum of profits are included in the total amount only for the period of retained profit. However, the following indicators on these assets have been retained in the balance sheet for the purpose of analyzing economic activities: initial cost, current replacement cost and their depreciation, residual value, profit or loss incurred. Statement on the financial condition or accounting balance is the economic resources available to a small business entity and the total equity capital that is the opposite thereto. In other words, it is a set of indicators that reflects all sources of cash, property and other assets of an economic entity.

Financial position can be determined only for a certain period of time.

Economic resources = Total capital

The total capital of a modern management system can be divided into two types:

- equity;
- attracted capital (accounts payable).

In accounting, economic resources are called assets and accounts payable are called liabilities. The equation representing financial situation is illustrated in the following way:

Assets = Liabilities + Equity

This equation is known as the balance equation. The two parts should definitely be the same. The balance sheet reflects the financial position of a small business at a specific date, such as the end of the reporting period. The balance sheet provides economic information on the entity’s resources (assets), claims for resources (liabilities), and the share inherent to the owner (equity).

Literature review.

In the modern management system, it is significant to analyze the views of economists and scholars in this area in the process of revealing accounting peculiarities. Therefore, various points of view have been explored regarding this issue. In reliance upon this issue, such scholars-economists of Uzbekistan as Ibragimov A.K., Khasanov B.A., Rizaev N.K. (2014) expressed the following opinion: “The consolidation of the information used in the statement on the financial condition, as well as their placement in the balance sheet is reflected in the National Accounting Standards (NAS). However, the categorization applied

is strongly influenced by the industry features. Long-term and current assets in Uzbekistan are reflected in the first section of the liabilities part of the statement on the financial condition. Therefore, the purpose of the statement on the financial condition should reflect the financial position at the reporting date so that it ensures better understanding of the resources and financial structure of the entity". When analyzing reporting items the major focus should be made on sections of these items and further they are analyzed on this basis. One of these sections is the sources of their own funds which leads to launch of the equity. Kalonov M.B. (2018) has defined this concept as "Equity is the aggregate of all the assets of the company that are in its ownership. The equity of the company is used to create the share of assets. An economic entity operates with it when making transactions without restrictions and conditions". Equity comprises from paid-in capital and retained profit. In compliance with the requirements of the legislation of the Republic of Uzbekistan (2015), in order to demonstrate resources more precisely, it is required to consider directly the sections of the equity. In particular, the following sources are often typical for corporations:

- Capital stock.
- Additional capital (tier 2 capital).
- Capital reserves.
- Other capital.
- Retained earnings.

The next issue is the second section of the passive part - long-term liabilities that are not required to be used to pay current assets for the next business cycle or for the next reporting year (whichever is longer). Professor N.P. Kondrakov expressed the following opinion on this issue: "Long-term liabilities are recognized in terms of the value of the assets or services rendered, resulting in the obligations incurred". Long-term liabilities include interest recorded as period expenses. Long-term liabilities may include paid-up liabilities, paid-up long-term promissory notes, pensions, deferred long-term revenues (long-term payments of customers) and long-term rental obligations.

Short-term liabilities include liabilities that must be covered by current assets or refinanced by other short-term liabilities. Short-term liabilities include the following:

- Accounts payable for goods and services related to the company's core business.

- Revenues received as debt for the next reporting period (advance rental payments).
- Obligations on payment of salaries (wages), interest and taxes (including income taxes and property taxes which haven't been transferred to the budget yet).
- Indebtedness to the Founder.
- Current portion of long-term debt obligations to be repaid during the reporting period (including rental commitments).
- Short-term bank and non-bank loans and borrowings.

In the financial statements it is not possible to make mutual settlements between current assets and current liabilities. Mutual settlement implies deducting liabilities from assets, as well as by limiting the actual current coefficient of the company, to demonstrate a better one.

In the opinion of S.N. Tashnazarov (2016) regarding this issue, the balance sheet includes the type of assets held by the entity and their disposition in turnover over a particular period of time. "Fixed assets" illustrate the value of the labor facilities disposed by the company in the initial cost section. It also reflects the current replacement cost - depreciation and residual value of fixed assets, etc. "Intangible assets" refer to the value of invisible assets held by the company. The next item, "Amortization", shows how much the cost of intangible assets has been reduced. "Residual value" reflects the residual value of intangible assets after deducting amortization amount.

"Production reserves" balance item reflects the overall amount of "Raw materials and consumables", "Auxiliary supplies", "Fuel materials" and other production reserves in the warehouses disposed by the company. "In-process inventory" (work in process) balance item reflects the amount of spending made on non-finished goods at the production workshops of the enterprise. "Finished goods" implies the goods produced at this enterprise and designed for sales. "Cash" and "Settlement account" balance items show the amount of funds available at the enterprise at the certain period of time. "Indebtedness to the suppliers of goods and contractors" and "Indebtedness with other debtors", as well as other balance items illustrate the debt of the enterprise to other enterprises in terms of the goods sold and other operations.

It is obvious that active items of the balance sheet are very specific and their contents do not require much explanation. However, liabilities items are quite different. Moreover, it is not always easy to determine the essence of some of these items depending on their purpose. The first item of the liabilities is "Charter capital (fund)". Its amount consists of

the amount of funds generated during the establishment of the enterprise. It shows the total amount of own funds of the enterprise, and the funds provided from this source are clearly specified in the balance sheet items.

“Retained profit (uncovered loss)” item (credit balance) reflects the amount of accrued (capitalized) profit from the beginning of the enterprise up to the reporting date.

After determining the amount to be paid, an enterprise shall indicate its amount in the balance sheet under this item. The balance sheet is compiled on the first day of the reporting period. The composition and volume of economic resources during economic activities are continuously changing under the influence of ongoing operations.

In our opinion, the balance sheet of small entrepreneurship entities should be presented in a way that reflects various aspects that constitute the financial condition. The following items shall be recognized as compulsory elements of the balance sheet:

- Tangible assets;
- Intangible assets;
- Financial assets;
- Reserves;
- Accounts receivable;
- Cash and cash equivalents;
- Accounts payable;
- Deductions;
- Obligations requiring payment of interest;
- Own equity and reserves.

Total amount of long-term and current assets, equity, long-term and current liabilities should be precisely disclosed in the balance sheet.

Analysis and results. With the aim of analyzing this process, as the basis for research we have selected the data from the statement on the financial condition of Cotton gin plant of Pskent district of Tashkent region. This is the sector where materials and assets are widely and effectively used in these processes. The Cotton gin plant is considered to be an economic entity which deals with accepting, processing, manufacturing and exporting cotton. In addition, this independent economic entity possesses the right of the legal entity.

The cotton gin plant has the right to make contracts, possesses all relevant property rights and obligations, namely, the rights to open a current account and other accounts at the banking institutions, as well as to possess its own stamp, seal, letterhead and other details. Below we can comprehensively consider the composition of assets on the basis of the balance items.

Table :Analysis of the assets items of the accounting balance of Pskent Cotton grin plant*

Composition of resources	2015		2016		Change (+, -)		Growth in 2016 in relation to 2015
	Amount, thousand UZS	Share, %	Amount, thousand UZS	Share, %	Amount, thousand UZS	Share, %	
1	2	3	4	5	6(4-2)	7(5-3)	(6:2 x 100)
1. Long-term assets	4322666	10	6564059	14.0	2241393	4.0	51.9
2. Current assets	38663381	90	40163602	86.0	1500221	-4.0	3.8
Including:	-	-	-	-	-	-	-
a) Inventories	14572812	37.7	15202301	37.9	629489	0.2	4.3
b) Cash and cash equivalents	294312	0.8	901063	2.2	606751	1.4	206.2
c) debtors	3721471	9.6	3435768	8.6	-285703	-1.0	-7.7
d) deferred expenses	9607453	24.8	11615378	28.9	2007925	4.1	20.9
Other current assets	10467333	27.1	9008492	22.4	-1458841	-4.7	13.9
Total assets in the balance	42986047	100	46727661	100	+3741614	0	8.7

As it is obvious from this table, in the composition of assets of the Cotton grin plant of Pskent district, mainly current assets were subject to change which was justified by the growth of the inventories by 629489 UZS in relation to previous year.

In addition, as the analysis illustrates, in the asset part, a significant share belongs to inventories, which is reflected in the negative changes in the total balance sheet assets.

Summarizing the information stated above, we believe that it is necessary to undertake measures to efficiently use the assets available at the Cotton grin plant in Pskent district.

The next important issue is to study the passive part, including liabilities and short-term liabilities because, to a great extent, liabilities, adequacy of own funds, as well as composition of attracted funds are very important. With this aim we can study sources and their efficient use as the case-study of the Cotton grin plant of Pskent district. Moreover, in our opinion, it is recommended to undertake relevant measures to ensure their efficient use.

Table 2:Analysis of the liabilities items of the accounting balance of Pskent Cotton grin plant†

Composition of resources	2015		2016		Change (+, -)		Growth in 2016 in relation to 2015
	Amount, thousand UZS	Share, %	Amount, thousand UZS	Share, %	Amount, thousand UZS	Share, %	
1	2	3	4	5	6(4-2)	7(5-3)	8(6/2*100)
1. Sources for own funds	9518440	22.2	3025803	6.5	-6492837	-15.7	-68.2
2. Liabilities	33467607	77.8	43701858	93.5	10234251	15.7	30.6
Including:	-	-	-	-	-	-	-
Current liabilities	33467607	100	43701858	100	10234251	15.7	30.6
Total liabilities in the balance	42986047		46727661		3741014		8.7

*Financial reporting of Cotton grin plant of Pskent district for 2015-2016.

†Financial reporting of Cotton grin plant of Pskent district for 2015-2016

From the information represented in the table we can see that the trend was upward and the amount of total liabilities increased by 3741014 UZ\$ or 8,7% in relation to 2015 at the Cotton grin plant of Pskent district. It should be noted that by 2016 the reduction of property sources at the Cotton grin plant in the Piskent district should be considered to be a negative phenomenon.

Conclusion

As a result of analyzing the theoretical foundations of the financial reporting and the basic principles of compiling financial statements in the modern management system, the following conclusions have been made:

1. In our opinion, the following measures should be undertaken to improve the conceptual framework of financial statements:

- alongside with further simplification of compiling financial statements and their submission, it is necessary to expand its information provision and enhance its analytical base;

- it is required to develop separate forms of financial reporting based on the activities of economic entities. For example, the Profit and Loss Account is not multi-tiered form of report for small entrepreneurship entities, and maybe it would be efficient to compile one-tiered form and herewith the main focus should be made on the accurate determination of their profit and loss. Moreover, we suppose that that Equity statement is not so significant for the small entrepreneurship entities in terms of its form and content.

2. As it has been revealed from the analysis of the accounting balance of the Cotton grin plant of Pskent district, at the end of the current year in relation to the previous year the inventories increased and cash and short-term placements reduced. In addition, accounts receivable decreased as well. As the reduction of accounts receivable accelerates working capital of the funds of Cotton plant, and improves the solvency, the total change of the balance assets demonstrates a negative trend due to the high share of inventories in the composition of assets and in this regard we recommend applying appropriate measures for efficient use of assets.

3. From our point of view, in terms of modern management system cotton grin plants must have a separate staffing position for the accountant who will separately deal with accounting and compiling of financial statements;

- in terms of modern management system it is required to work out the ways for efficient use of available tax incentives, for example, raising the export volume, settlements through plastic cards of customers and etc.

4. Currently our republic experiences the tendency of bringing the accounting balance and financial statements in compliance with the international standards IAS, IFRS. This fact necessitates to introduce appropriate modifications to “Profit and Loss Account” (form 2). In this regard we consider necessary to shift from multi-tier system to one-tier system. In the existing multi-tier system net profit is calculated by five indicators (gross income, income from core business, income from common economic activity, income before tax and net profit). This, in turn, requires additional labor resources for cotton grin plants. In the form we propose, only three elements of financial statements are reflected - income - expenses - net profit.

We believe that the implementation of the aforementioned proposals and considerations will facilitate improvement of the the concept of compiling and submitting financial statements at cotton grin plants.

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