

## **PROCEDURE FOR DEPRECIATION OF INTANGIBLE ASSETS AND ITS COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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**Abstract:** The article explores in detail the procedure for calculating the depreciation of intangible assets in the condition of the global pandemic and its accounting. Also, proposals have been formed to improve the methods of calculating depreciation on intangible assets and carried the calculated depreciation expenses.

**Keywords:** Intangible assets, depreciation, straight-line method, production method, accelerated depreciation, declining balance, cumulative method, charge, international standard, financial reporting.

### **INTRODUCTION**

The spread of the global coronavirus pandemic has been more than a year, and it is still having an unprecedented impact. As a result, there is no matter what sector of the world economy, it is forcing businesses to reconsider their financial and economic activities and to search new opportunities for development. Among the countries of the world, Uzbekistan has had a significant impact on the economy, including economic subjects. Assessing the impact of the coronavirus pandemic on the preparation of interval (periodic) financial reports of sectors of the economy for the past 2020 will require more energy and labor than in previous year. It is known that the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020 №. 4611 “On additional measures for the transition to international financial reporting standards” contained the following sentence: “... harmonization of national accounting standards in accordance with IFRS” (International Financial Reporting Standards). As a result, significant work is being done in Uzbekistan to harmonize the current national accounting standard №. 7 “Intangible Assets” with №. 38 IAS (International Accounting standards).

So, today, practicing accountants are faced with the important task of how to transfer the value of intangible assets to expenses or whether to depreciate these objects. Balanced intellectual property objects have faced problems such as when and in what order they should be removed from the account.

### **Literature review.**

Intangible assets in India include: trademarks, domain names, copyrights, patents, inventions, designs, geographical names of goods, complex purpose developments, legal protection of farmers and producers, biodiversity, confidential information and trade secrets. Intangible assets in the Russian Federation include: “... literature and art creations, performances, phonograms, TV or cable performances, demonstrations, broadcasts by broadcasting organizations, inventions, industry samples, useful models, programs for electron accounting machines, databases, integral microchip topologist, selection achievements, know-how, company names, trademarks and service marks”.

Intellectual property objects in Kazakhstan include: copyright to intellectual property, trademark rights, service marks, patent rights.

§ 7. The 7th convention of the national standard “Intangible Assets” is NAS (National Accounting Standards). Depreciation is calculated by calculating the value of intangible assets through depreciation.

Depreciable amount is regularly allocated to enterprising expenses in the form of depreciation” so given (paragraph 38).

International Accounting Standard (IAS) on № 38, Intangible Assets, defines as following: “Depreciation is the cost price of an asset less its carrying amount or any other value that is reflected instead of cost price”. In this case, various depreciation methods can be used to systematize the depreciable amount of the asset over its useful service. These methods include the straight-line method, the decreasing residual method, and the production unit method. The method used is selected based on the expected pattern of future economic benefits embodied in the asset and is applied periodically. As an integral part of intangible assets, R. Dusmuratov recognizes that intangible assets have the same properties as depreciation, and emphasizes the expediency of using the straight-line method of depreciation of intangible assets.

It also divides scientists into three categories according to the order of depreciation of these objects:

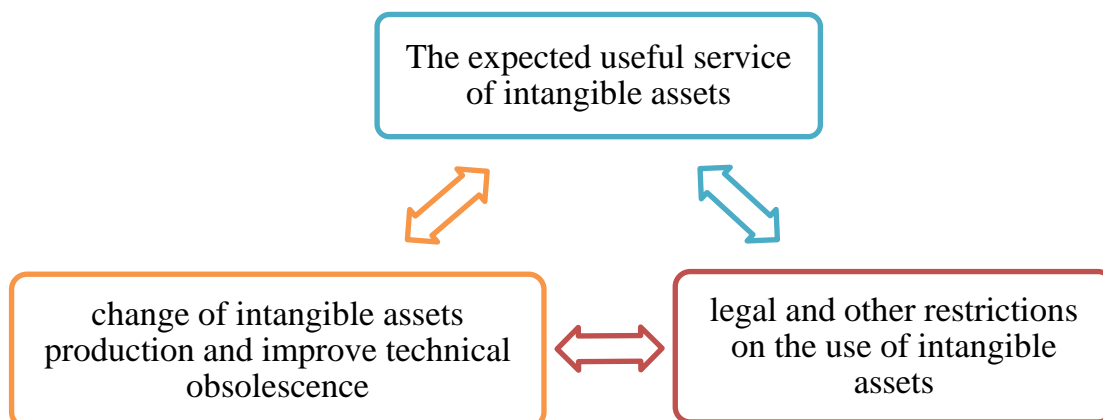
- 1) Economists who don't consider objects as assets of the enterprise in general;
- 2) Economists who say that the enterprise doesn't lose its value as an asset;
- 3) Economists who believe that the enterprise has the right to reduce its value as an asset.

So, the intangible assets depreciation means that during its useful service, its value is regularly allocated and included in the cost price of goods (works, services) or current expenses. These objects are depreciated by the business enterprise from the first month of the following month (after being taken on the balance sheet) and this process continues until the object is derecognized from balance sheet (the depreciation deduction isn't stopped during the useful life of the intellectual property).

### Analysis and results.

Depreciation intangible assets is calculated regardless of the results of the business enterprise during the reporting period and is reflected in the accounting records of the relevant accounting period (0500 – “the account of depreciation intangible assets”).

When calculating of depreciation intangible assets, it is important to determine their useful services. The following factors should be taken into account when determining the useful services of intellectual property.



**Figure 1. Factors determining the useful service time of intangible assets.**

In our opinion, it is important to cite the following factors:

*first*, that intangible assets can be managed by another management group;

*second*, expected actions by competitors;

*third*, the degree of conservation expense required to obtain the expected future economic benefits from the intangible asset;

*fourth*, the period control of intangible assets.

The useful service of an intangible asset is determined by the enterprise at the time the intangible asset is accounted for. The determination of the useful life of an intangible asset is shown in Section 7 NAS (National Accounting Standards) based on the following.

- patent, certificate and other restrictions on the use of intangible assets in accordance with the legislation of the Republic of Uzbekistan;

- The using period of this object, the period during which the business enterprise can receive economic benefits (income).

Also, certain groups of intangible assets indicate that the useful service depends on the amount of products or other material indicators of the work amount that are expected to be obtained during the operation of the facility. In turn, the rate of depreciation on intellectual property objects for which it isn't possible to determine the useful service is calculated for five years. According to the standard, unless otherwise provided by the legislation of the Republic of Uzbekistan, the useful service of these facilities shouldn't exceed the operation period of the business enterprise object is ready for use from the moment.

As we will consider in the first case, intangible assets in this standard don't have a definite useful service (in this case, in practice, intangible assets depreciation have problems in accounting depreciation and their carrying costs).

In the NAS the words "... expiration date" are given to the objects. It is more abstract than reality, what term the accountant sets. We would like to emphasize here that it's expedient to have such terms as main resources.

In the second case, this is called "... the intending using period". Typical or important peculiarities of these objects are that intangible assets are recognized as low-liquidity, high-income of waiting objects. That is to say, if the market for these objects is found, it will provide an opportunity for the enterprise to earn a large amount of income.

The most significant feature of NAS is that "... depreciation deductions are calculated for five years" for facilities where the service time cannot be determined. The introduction of this concept would be somewhat controversial if the service time of any intellectual property subject matter is not clear.

The term depreciation is also used in intangible assets (IFRS № 38 "Intangible Assets") and in the plan of accounts. This means that this object can be used only once (several times from other assets, including main resources). It is a logically impossible process to re-evaluate or re-balance these intangible assets after they have elapsed of their useful period.

For example, GMP-Uzbekistan received a patent for the production of a model S for spare parts for cars, and after some time there was a need for a new model V, as a result, the company will have to refuse the model C.

As noted above, accountants face many problems in properly and timely derecognition of intangible assets, as well as in the formation of an income tax base, due to the lack of a clear definition of the service time of intangible assets.

According to the law on accounting, the value of intangible assets is deducted from the account by calculating their depreciation (amortization) until their value is paid in full and depreciation deduction objects are made from the month after the object is put into operation.

The law on accounting statement stipulates that the value of intangible assets is deducted from the statement by calculating their amortization (depreciation) until their value is paid in full or the object is deregistered, and depreciation deductions are paid from the month following the commissioning.

It is known that every economical subject, regardless of the form property, creates a statement policy in order for organizing and maintaining the accounting statement. In this statement policy, it is necessary to select and define depreciation methods for groups of intangible assets.

Today, the following methods are used to calculate depreciation for intangible assets:

- straight-line depreciation of the depreciation.
- depreciation accounting method based on units appropriate to the amount of work performed.

- accelerated depreciation:

- a) double depreciation norm declining method of balance (double-declining-balance depreciation);

- b) cumulative method (sum-of-the-years-digits depreciation).

As we will analyze the above-mentioned methods, in practice, in a straight-line or *straight-line account method*, depreciation is accounted at the same rate as well as in equi shares based on their depreciable value over the useful service of the assets.

For each period depreciation deductions are calculated by dividing the cumulation depreciable amount by the number in the statement periods used from the object. The annual cumulation of depreciation deduction is determined on the basis of equal or straight-line depreciation accounting method on the depreciable value and useful service time of these intellectual property objects. (NAS according to the rules):

$$D_{SLD} = A_C / Y.$$

Here,  $A_C$  – initial value,  $Y$  – useful service time.

As can be seen from the above formula, the liquidation value of an intellectual property object is equal always zero. № 7 in according to paragraph 55 of the NAS Intangible Assets Standard, when accounting the depreciable value of assets, it is indicated that their liquidation value isn't taken into account, if the liquidation value is't too large. But at present such a discipline isn't followed. That is, the initial value of an intangible asset and its useful services are being accounted for.

The liquidation value of an intangible asset can be reduced to the expected charge at the end of its service time. But it is not clear the charges how much these costs will be incurred.

It would be expedient to apply this to main resources.

If the estimated liquidation value is clear, and the depreciation is accounted the following formula can be obtained:

$$D_{SLD} = (A_C - L_C) / Y$$

Here,  $A_C$  – initial value,  $L_C$  – estimated liquidation value,  $Y$  – useful service time.

If № 7 standart NAS “Intangible assets” in the statement policy is based to paragraph 56, the above formula can be changed:

$$D_{SLD} = A_C / Y$$

This standard states that the liquidation value of an asset is zero in the following cases:

- there will be no purchase agreements and contracts at the end of the expected useful service time;
- it is impossible to determine the value of active liquidity and its market doesn't exist.

According to the research, when depreciation of existing intangible assets in enterprises is accounted, it makes no sense to account their liquidation value.

The reason is that there aren't cases when the subject itself acquires the ownership right of the intellectual property object, which is fully used by another subject.

Nobody can guarantee that the right to own product that has expired or isn't morally useful in GMP-Uzbekiston JSC has been acquired by Maxam-Chirchiq JSC or that there will be an active market at the end service time of this intellectual property.

However, we cannot say that the market for newly created intangible assets is fully formed (although the liquidity of these objects is low, it is difficult to predict in advance that their future profitability will be high).

This means that innovative development doesn't allow the second using the same type of intellectual property, that is, the ideas always must be updated and improved.

This method of depreciation intangible assets will be considered by "GMP-Uzbekistan" JSC, which is the object of research, it recognizes the interprise value a useful service time of intangible assets 2400000 sum in 8 years and in financial statements represents annually 3000000 depreciation cumulation.

Debit - "Charge counter" accounts – 3000000 soums.

Credit – 0510 "Patent, licenses and know-how" depreciation" account – 3000000 soums.

**Table 1.**

**"GMP - Uzbekistan" the depreciation in the JSC accounting in strait-line depreciation method**

Years	Value of balance	Annual depreciation	Accumulated depreciation	Value of reduce
1-year	24000000	3000000	3000000	21000000
n-year	0	0	24000000	0

Also, there isn't a clear normative procedure on what the estimated liquidation value of an intangible asset is, and what percentage is taken relative to the initial value. In international practice, this is assumed approximately ten percent of the initial value (at the end, corrective notes are given and the actual liquidation value is determined). In our national accounting, the liquidation value is defined in a standard related to intangible assets, and it's difficult to estimate how much it will be.

№ 7 NAS provides the following definition: "Liquidation value - is the estimated amount which the asset is expected at the end of its useful service time, less the expected costs of disposal of the intangible asset".

In our view, there aren't cumucation or charges expected to be received for the disposal of the intangible asset, there aren't any differences between them.

For intangible assets, depreciation is one of the most acceptable methods for depreciation accounting or production method to the amount of work performed. Because depreciation charges are calculated in proportion to the amount of work performed in the enterprise and help to determine the amount of products (or works and services) as a result the using of these assets. Depreciation of intellectual property is determined on the basis of the natural amount products (works, services) and the depreciable amount in relation to the amount of intangible assets for the entire useful service time.

The calculation of depreciation deductions for intellectual property is determined on the basis of the natural amount of products (works, services) and the depreciable value in relation to the amount of intangible assets for the entire useful service time. As a data are received the number of product units, times, and etc:

$$D_{DBU} = A_C / N$$

Here,  $A_C$  – initial value,  $N$  – performed work amount.

As mentioned above, in international practice, the estimated liquidation value of an object is accounted (according to the IFRS rules):

$$D_{DBU} = (A_C - L_C) / N$$

By epдa,  $A_C$  – initial value,  $L_C$  – approximate liquidation value,  $N$  – performed work amount.

$$\text{ёки } D_{DBU} = A_C / N$$

The object of research JSC “Maxam-Chirchiq” received the right of ownership license (value 4000000 soums). According to the business plan of the enterprise, 440000000 products are produced under the license (useful service time is 3 years). In that case, the accountant shall indicate in the depreciation account for intellectual property objects 9 soums per unit of product and the annual depreciation in the amount 13200000 soums.

Debit – “Charge counter” accounts – 13200000 soums.

Credit – 0510 “Patent, licenses and know-how” depreciation” account -13200000 soums.

In the process of financial analysis, it is possible to determine the effectively using of intangible assets through this method.

**Table 2.**

**In “Maxam - Chirchiq” JSC the accounting procedure method the production of depreciation (depreciation based on units).**

Years	Value of balance	Annual depreciation	Accumulated depreciation	Value of reduce
1-й ил	44000000	13200000	13200000	30800000
n-й ил	0	0	44000000	0

Intensively used from intangible assets and in the process of calculating depreciation due to the scientific and technical process, the norm reduction method with a double depreciation rate is used.

According to the double depreciation rate the residue reduction method annual cumucation of depreciation deduction is determined at the beginning of the reporting year based on the residue value of intangible assets and the useful service time of the object and the double calculated depreciation rate.

$$DDB = 2 (100 \text{ percent} / n). \text{ or, } 100 / Y \times 2.$$

Here, 2 – double depreciation rate

The difference of this method from other depreciation methods is that the estimated liquidation value isn't check off from the initial (recovery) value when calculating depreciation. That is, the initial value in the primary period and the residual value for subsequent periods are taken into account.

Analyzes show that in our practice, the residue depletion is limited to the word “double”. In our country, independent coefficients can't used in the calculation of depreciation with an intensive method (3, 3,5 or 4 times). International experience shows that the accountant independently determines the coefficients based on the useful service time of intangible assets, based on the financial condition of the company.

For a trademark with a balance value of 5000000 soums in “Kyzylkumsement” JSC, it is necessary to calculate depreciation deductions of 2000000 soums in the first year, which, if given the opportunity to make an independent choice, this could amount to 3000000 or 4000000 soums.

Debit - “Charge counter” accounts – 3000000 soums.

Credit – 0510 “Patent, licenses and know-how” depreciation” account – 3000000 soums.

This will allow for more intensive using of facilities and upgrade them faster.

Table 4

**In “Kyzylkumsement” JSC the accounting procedure of depreciation in double depreciation rate method (*double-declining-balance depreciation*)**

Years	Value of balance	Annual depreciation	Accumulated depreciation	Value of reduce
1-year	5000000	2000000	2000000	3000000
n –year	0	0	5000000	0

When the sentence referred in paragraph 48 of NAS 7 above is applied, it isn't possible to determine the assumed liquidation value of the intangible asset. At the same time, the idea that 1C: accountant's program (program support) with a initial value of 10000000 soums from JSC “Andijanyogmoy” can be sold to 1000000 soums after five years doesn't make sense.

Therefore, the sentence in paragraph 48 of NAS 7 should amended or removed altogether:

*”with double depreciation norm the residue decreasing method in calculating depreciation, the estimating liquidation value isn't deductible from the initial value.”*

According to cumulative method each year depreciation rate is determined as a percentage of the depreciable amount until the end of the depreciation period. The share is determined by dividing the full years remaining until the end of the depreciation deduction by the sum of the years ordinal numbers that constitute the depreciation period:

$$D_{SYD} = N / S \times C.$$

*Here: N – IPO service time, S – cumulative number, C-initial value.*

Depreciation on intangible assets during the accounting year is calculated monthly at 1/12 of the annual amount, regardless of the accounting method applied (excluding the production end of the depreciation accounting), which is discussed in the following example:

The term of using the trademark in JSC “Andijanyogmoy” is 4 years. Balance value - 16000000 com. In that case, the depreciation sum for the first year is 6400000 soums.

Debit – “Charge counter” accounts – 6400000 soums.

Credit - 0560 “Franchising depreciation” account – 6400000 soums.

Different methods of depreciation are applied to the types of intangible assets used in enterprises. In this case, only one type is applied to intangible assets of the same method (group, type, etc.).

Table 5

**In “Andijanyogmoy” JCS the accounting procedure of depreciation in the cumulating method (*sum-of-the-years-digits depreciation*)**

Years	Value of balance	Annual depreciation	Accumulated depreciation	Value of reduce
1-year	16000000	6400000	6400000	9600000
n -year	0	0	16000000	0

So, if one method of depreciation (straight-line accounting method) is selected for an intangible asset at the beginning of the year in accordance with the enterprise’s statement policy, the other method (production or residual reduction method) can't be used after half year or in a certain accounting period. Because this situation is confirmed in the

enterprise's "Statement policy" and will not be changed. Changing of depreciation accounting methods will depend on changes in normative documents.

It should be noted that in the Tax Code, the costs incurred for intangible assets are calculated by the taxpayer on a monthly basis in accordance with the norms calculated on the basis of their initial value and using period, but not exceeding the term of the taxpayer and this can be deducted from total income as depreciation. It is obvious that there is a need to develop annual norms on intellectual property. To this end, we consider it necessary to introduce the "Depreciation policy of intellectual property objects" (below is a sample form of this work table).

**Table 6**

**Depreciation policy of intangible assets**

<b>№</b>	<b>Types of intangible assets</b>	<b>Service time</b>	<b>Annual depreciation rate</b>
1.	Inventions	20 year	5
2.	Industry samples	10 year	10
3.	Useful models	5 year	20
4.	Trademarks	10 year	10
5.	Service symbols		
6.	Place of origin name		
7.	Firm name	Related to activity	5
8.	Selection achievement	20 -25 year	5
9.	Software	5 year	20
10.	Topology of integrated circuits	10 year	10
11.	Copyright	During the life and after the death + 70 year	5
12.	Other types of intangible assets	-	20

In practice, which method is more useful for enterprise it is determined by an accountant's analysis. The following information can be obtained if the productivity of the depreciation accounting methods on franchising is analyzed.

Comparable data of depreciation methods show that it is natural for the accountant to focus on accelerated methods, as the intellectual property object covers 70-75 percent of its initial value over two years. Another important aspect of the article is that the accelerated methods affect the financial activity of the enterprise. The accountant recognizes the difference between the depreciable amount of the depreciated amount and the amount of the depreciable amount of the depreciation in the future as a deduction from the taxable profit of the reporting period and reduces it over the specified period (for example, ten years).



Table 7

## Assessment the efficient of the depreciation accounting method

№	Indexes	Depreciation			
		At the beginning reporting period	At the end reporting period	Total	Covering depreciation in percent
1.	Straight-line accounting method ( $D_{SLD}$ )	4000000	4000000	8000000	50,0
2.	Production method ( $D_{DBU}$ )*	5400000	4360000	9760000	61,0
3.	Residue decreasing method ( $DBD$ )	8000000	4000000	12000000	75,0
4.	Years cumucation method (cumulative method) ( $D_{SYD}$ )	6400000	4800000	11200000	70,0

If the depreciation accounting is considered in the enterprise statement policy in acceptable option using years amount method, then the depreciation deduction, which is reimbursed to the tax base at the beginning of the year, is 2400000 soums and at the end of the year it is 800000 soums, resulting in a total of 3200000 soums over 2 years. In the third year of depreciation, the amount added to the tax base is zero (-800000 soums) (3200000 - 4000000).

In other words, after two years, there will be created an opportunity to ownership (purchase) new intangible assets. It should be noted that the financial activity of the enterprise (the formation of income) can be changed simply by choosing of the depreciation method. Sometimes in international practice, the concepts of “Tax Depreciation” are used in relation to the straight-line and production methods, and to the accelerated methods “Accountant Depreciation” are used:

Table 8

## Mutual comparison of concepts applied to depreciation accounting methods

On “Tax depreciation”:	On “Accountant depreciation”:
<i>For 2018 year:</i>	
4000000 soums.	6400000 soums.
+2400000 soums	
<i>For 2019 year:</i>	
4000000 soums.	4800000 soums.
+800000 soums	
<i>For 2020 year:</i>	
4000000 soums.	3200000 soums.
-800000 soums	

In our opinion, it is better to use the concept of “Accounting Depreciation” for the rapid introduction of new technologies and increasing the efficiency of production, development of the enterprise in the future.

**Table 9**

**In “Ferganaazot” JSC procedure for depreciation to programm support**

Years	<i>Sstrait-line depreciation</i>			
	Value of balance	Annual depreciation (20 percent)	Accumulated depreciation	Value of reduce
	Thousand soum			
1-year	278624	55725	55725	222900
2- year	278624	55725	111450	167175
3- year	278624	55725	167175	111450
4- year	278624	55725	222900	55725
5- year	278624	55725	278624	0
Years	double depreciation norm declining method of balance (double-declining-balance depreciation)			
1- year	278624	111450	111450	167174
2- year	278624	66870	178320	100304
3- year	278624	40121	218441	60183
4- year	278624	24073	242514	36110
5- year	278624	14444	256958	21666

### Conclusion

The conclusion is that the depreciation of intangible assets and the order in which they are depreciated is a process that requires seriousness. To do this, the accountant is required to:

*first*, to clearly define the useful service times of intangible assets (setting annual norms);

*second*, the ability to properly apply depreciation accounting methods for intangible assets (designation in account policy);

*third*, the expression of amortized depreciation amounts on intangible assets in accounting accounts (aggregation of relevant amounts);

*fouth*, expression of information on intangible assets as an appendix to the relevant forms of financial statements.

**List of used literature:**

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