



IMPROVEMENT OF ACCOUNTING FOR OPERATING ACTIVITIES BASED ON IFRS

Doctor of Economic Sciences, Professor Mehmonov S.U.,

Vice Rector for Academic Affairs

Tashkent Institute of Finance

Email: mexmonov@tfi.uz

PhD, Khalilov Sh.A.,

Tashkent Institute of Finance

Email: khalilov.sherzod@yahoo.com

ORCID: 0000-0002-6230-5278

Abstract. This article discusses the role of construction organizations in the conditions of economic modernization and the theoretical basis for accounting for operating activities in them. Having studied the experience of developed countries, it is emphasized that business entities, including construction organizations, should divide their economic activities into operational and non-operational in the preparation of reporting and accounting on the basis of IFRS. As a result of the categorization of operating and non-operating expenses recognized in the statement of profit and loss by their nature, the possibility of obtaining information on expenses related to constant resources spent on the activities of business entities was studied. Based on the study of the requirements of IAS 1, the structure of operating activities expenses was developed based on the classification of costs for economic entities, including construction organizations, according to their nature and functions. As a result, this made it possible to correctly keep records of operating expenses and recognize them as operating expenses in the Profit and Loss Statement based on the requirements of IAS 1. Based on the requirements of IAS 1, taking into account the main features of the construction industry, a form of the

statement of "Profit and Loss" for construction organizations was developed. The possibility of using this form to obtain transparent information on income received and expenses incurred under contracts with customers from the report "Profit and Loss" of construction organizations was studied.

Keywords. Revenue, expense, cost, operating activities, statement, national accounting statement, international financial reporting statement

Introduction. Business entities are trying to maintain their position in the market by generating income from expenses for a certain type of activity and organizing the production process in conditions of fierce competition in the era of globalization.

The experience of developed countries shows that the economic activities of business entities are divided into operating and non-operating activities. Operating activities include the provision of products and works, services that constitute the primary economic purpose of the business entity, and other activities that must be carried out with products and works, and services. Non-operating activities are activities related to the financial and investment activities of an economic entity,

which are usually not repetitive in nature.

Among these types of activities, operating activities are of great importance for the business entity. Since operating activities are the main component of the activity of the business entity, employees of the entity and most of all formed assets are sent to ensure this activity. This means that operating activities are important compared to other activities of the business entity. Therefore, the development of an economic entity is carried out through operating activities.

The essence of the concept of operating activity mainly depends on the specific characteristics of the sphere belonging to the economic entity. Operating activities are mainly aimed at the market of goods, works and services, and investment or financial activities are aimed at the financial market, that is, this activity uses the human factor more than investment and financial activities. The composition of assets, turnover, balance and other characteristics of an economic entity mainly determine the income from operating activities. The income of an economic entity from operating activities depends on the qualifications of employees, the level of professional composition and labor supply, the provision of goods with material reserves, the duration of production and sales processes, and many other factors.

Under normal operating conditions of the business entity profit from operating activities takes the largest share in the total profit of the enterprise. The intensity of the development of operating activities is associated with the life cycle of the economic entity. Accordingly, operating activities also determine the direction of the overall development strategy of the economic entity. Based on the above, the

study of accounting for operational activities in business entities is of current importance.

Material and methods. The National Standard of the Republic of Uzbekistan №-9 "Statement of Cash Flows" explains the type of operating activities of an economic entity as follows: Operating activities are the main income-generating activities of an economic entity, as well as other economic activities that are not related to the investment and financial activities of the entity [1]. The Regulation on the composition of the costs of production and sale of products (work, services) and the procedure for the formation of financial results defines the methodological basis for determining the costs of production and sale of products (work, services). However, as we mentioned above, the Regulation does not specifically address operational activities. Core activities are considered the same concept as operational activities.

Other regulatory documents of the existing accounting system, the literature created by local economists, do not provide definitions of operational activity. The term core activity is more commonly used by experts and economists.

Foreign economists, including Thomas R. Robinson, Hennie van Greuning, Elaine Henry, Michael A. Brohain defines operating activities as follows: Operating activities are the day-to-day activities of a company that generate income, such as selling goods and providing services [2]. Henry Diederis and David Annand consider operating income as income from the main activities that generate income for the company [3]. Tim Sutton states that costs associated with selling and marketing goods and services are operating activities [4]. X. Greuning, D. Scott, S. Terblanch state that operational activities include operations

related to the determination of net income in economic entities and mainly day-to-day business functions [5]. V. Daniel, A. Bolivar believes that operating activities are directly related to the sale of goods, works and services and the selling expenses of the business entity [6]. J. Valen, S. Baginski, M. Bradshaw emphasize that operational activity is the activity that brings the main income to the main economic entity and other activities that do not include financial or investment activities [7]. A. Nandakumar, Dj. Kalpesh, P. Gosh, A. Alkafaji business entities define operating activities as follows: the amount of cash flows from operating activities is the amount of cash generated as a result of operations to pay debts and dividends, make investments, and maintain the operating ability of an economic entity without receiving any funds from external sources [8].

From the definitions given above, we can see that the operational activities of a business entity are usually repetitive in nature. In our opinion, the main activity is mainly focused on product production, work

and service provision, and operational activity ensures its continuity and continuity. This indicates that operational activity is a much broader concept than the main activity, and its economic content is not sufficiently studied. We considered it necessary to define operating activities as follows: Operating activities in the current period generate income, are inextricably linked with core activities, and are carried out mainly within the enterprise and ensure its continuity. Based on this definition of operating activities, it is indicated that the processes of supply, production, and sale of business entities take place directly within the framework of operating activities. **Results.** Therefore, the purpose of operational activity in economic entities is to ensure continuity of economic processes and develop management strategies as a result of production of products, provision of work and services and their sale to customers. It is known that the income and expenses of form №2 of the "Financial Results" statement are grouped according to the Regulation on the Structure of Expenses (Table 1).

Table-1

Statement of Financial Results (form №2)

The name of the indicators	Code
Net income from the sale of products (goods and work, services)	010
Cost of sold products (goods and work, service)	020
Gross profit (loss) from the sale of products (goods and work, services)	030 (010-020)
Period costs	040 (050+060+070)
Selling costs	050
Administrative costs	060
Other operating costs	070
Other revenue from the main activity	090
Profit (loss) of the main activity	100 (030-040+090)
Revenue from financial activities	110 (120+130+140+150+160)
Expenses on financial activities	170 (180+190+200+210)

General economic activity	220 (100+110-170)
Contingent profits and losses	230
Profit before tax	240 (220 +/-230)
Profit tax	250
Taxes other than profits and mandatory payments	260
Net profit for the reporting period	270 (240-250-260)

The report on financial results, form №-2, analyzes expenses according to their function in economic entities, and separates the expenses of the period as a separate item. This report separates the financial results of the main economic activity and general economic activity, profit before tax and net profit for the reporting period.

In accordance with paragraphs a and b of Article 81 of the International Accounting Standard (IFRS) №-1 "Presentation of Financial Statements" (Presentation of Financial Statements), the

business entity shall include all items of income and expenses recognized during the reporting period: a) in the unified statement of general income (a single statement of comprehensive income) or in two reports, i.e. a statement displaying components of profit or loss and another comprehensive income statement can be seen. In accordance with the requirements of Article 99 of this standard, economic entities present expenses recognized in profit and loss according to the methods of classification according to their nature or functions [9].

Table-2

Statement of Profit and Loss¹

The name of the indicators	Code
Revenue from sales	1
Other operating revenue	2
Revenue from operating activities	3 (1+2)
Changes in inventory of finished goods and work-in-progress	4
Consumption of raw materials and materials	5
Expenses incurred for employees	6
Depreciation and amortization expenses	7
Other operating expenses	8
Profit from operating activities	9 (3-4-5-6-7-8)
Net costs of financial activities	10 (11-12)
Revenue from financial activities	11
Financing costs	12
Profit before tax	13 (9+10)
Income tax expenses	14
profit of the reporting period	15 (13-14)

¹ Authors' development in accordance with IAS 1

In accordance with the requirements of Article 99 of the International Accounting Standard (IAS 1) "Presentation of Financial Statements", the meanings of the word "character" and "function" were reviewed based on the Oxford dictionary. The Oxford dictionary defines the word character as the main or distinctive features, character or qualities of something, and the word function as the activity that is natural to or intended for a person or thing [10]. According to article 102 of the International accounting standard (IAS 1) "Presentation of Financial Statements", the Statement on "Profits and losses" is formed in the above methodological sequence (table 2). The essence of the method of the nature of costs

provides information on the constant resources used to carry out the activities of the economic entity, including the costs of raw materials and materials, the costs of wages, the costs associated with the wear and tear of the main means. According to the cost function method defined in Article 103 of the IAS 1 "Presentation of Financial Statement" the statement on "Profits and losses" is formed in the following methodological sequence (Table 3). The method of cost functions allocates and accumulates cost items according to the activity in which they arise. For example, product cost includes raw material costs, labor costs, and depreciation or amortization costs.

Table-3

Statement of Profit and Loss²

The name of the indicators	Code
Revenue from sales	1
Cost of goods sold	2
Gross profit	3 (1-2)
Selling expenses	4
Administrative costs	5
Other operating expenses	6
Other operating income	7
Profit (loss) from operating activities	8 (3-4-5-6+7)
Net costs of financial activities	9 (10-11)
Income from financial activities	10
Financing costs	11
Pre-tax profit	12 (8-9)
Income tax expenses	13
Profit received from continuous activity in the reporting year	14 (12-13)

² Authors' development in accordance with IAS 1

The method of cost functions allocates and accumulates cost items according to the activity in which they arise. For example, product cost includes raw material costs, labor costs, and depreciation or amortization costs. Paragraphs a and b of Article 81, Paragraphs a, b, c, d of Article 82, Paragraph d of Articles 99 and 106 of Article 90 [11], Paragraph d of Articles 99 and 106 of the IAS 1 "Presentation of Financial Statements" "Profit and losses" report is formed on the basis of article 77 of the international standard of accounting "Income tax"[12], article 33 of the International financial reporting standards

№. 5 "Held for sale and discontinued operations"[13].

The features of the statement of "Profit and Loss" prepared based on the requirements of the international standards of financial reporting clearly distinguish the items of operational activity and non-operational activity from each other, the costs recognized in profit and loss are classified according to their functions within the business entity, and the possibility of analyzing the costs of operational activity gives. Based on the above considerations, we consider it appropriate to define operating activities as follows:

$$OA = MA + OA \tag{1.1}$$

where, OA – Operational activity;

MA – Main activity;

OA – Other activities (not related to investment and financial activities) (Figure 2).

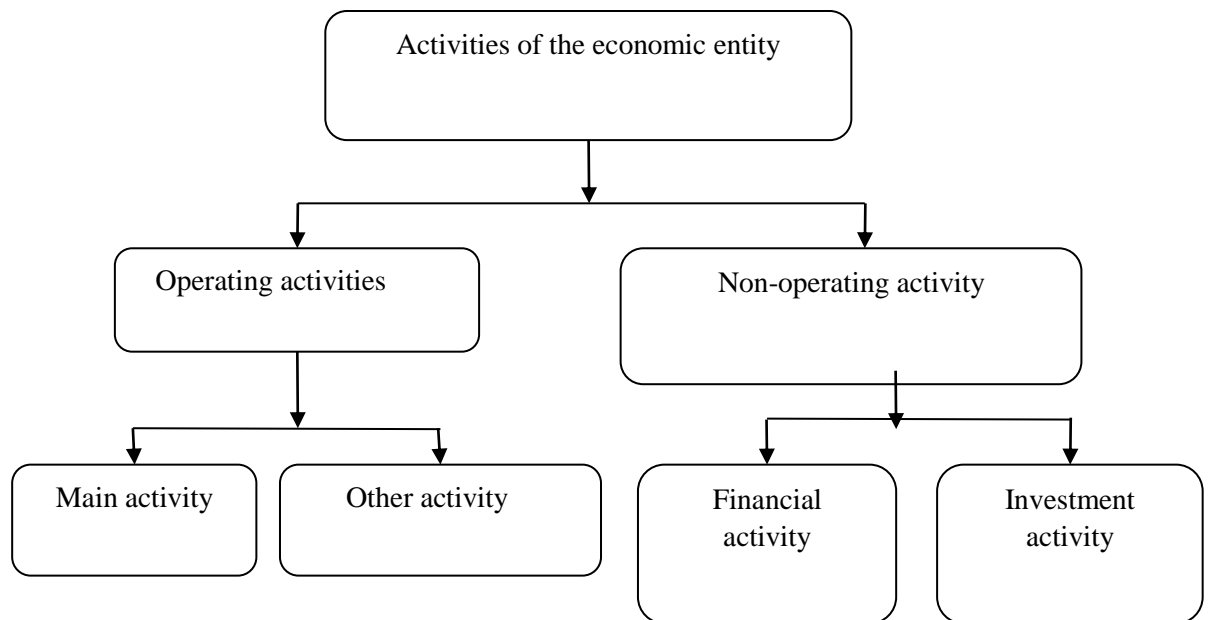


Figure-2. Types of business entity activities³

³ Authors' development

Based on articles 102-103 of the IAS 1 "Presentation of Financial Statement", we consider it appropriate to form the structure of operating expenses recognized in the

"Profit and Loss" statement according to the nature and functions of expenses (Figure 3).

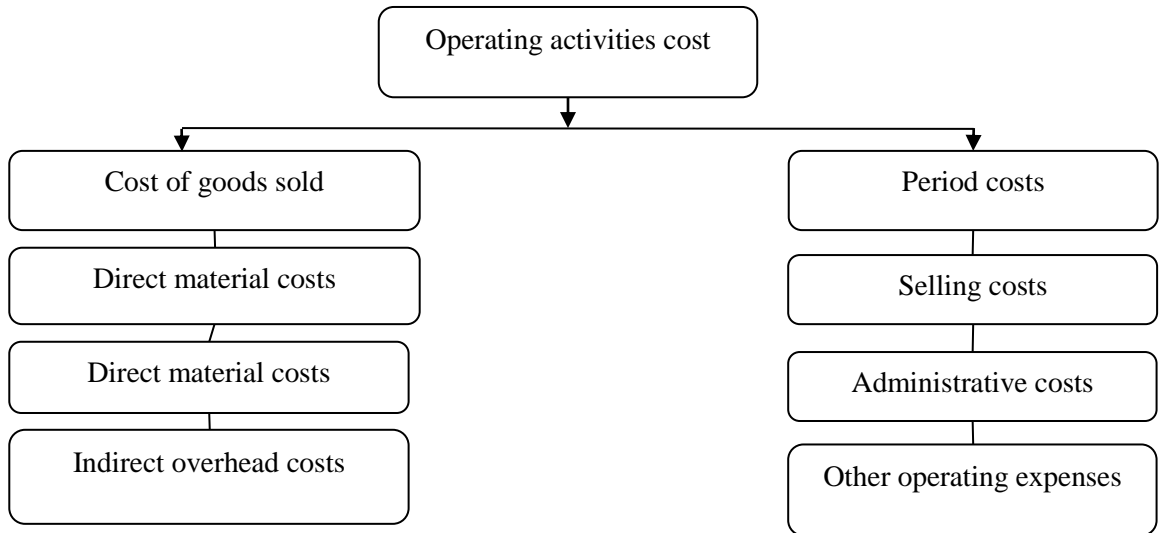


Figure -3. The structure of operating costs⁴

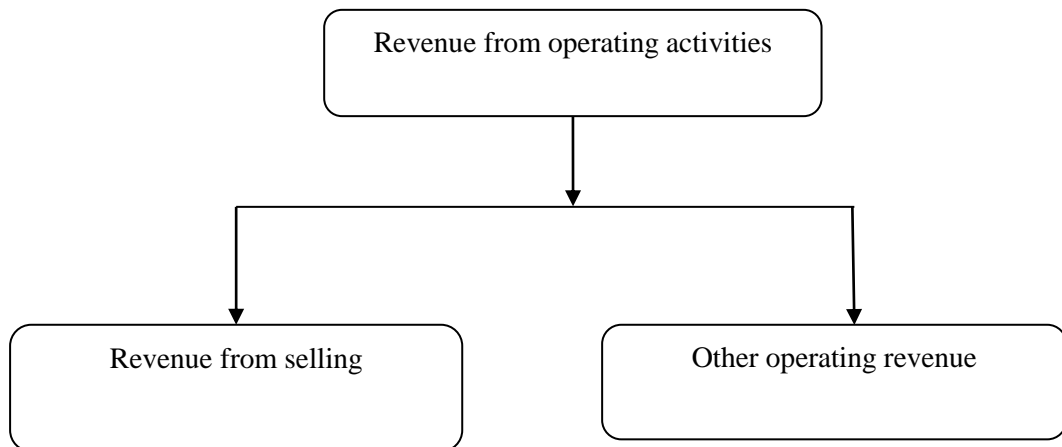


Figure 4. The structure of operating revenue in business entities⁵

⁴ Authors' development in accordance with IAS 1

⁵ Authors' development in accordance with IAS 1

Operating activities costs of business entities include production of products (work and services), their sale, and other costs not included in non-operating activities. Therefore, the information on operational costs is one of the main levers in determining production reserves, controlling material, technical, labor and financial resources and increasing profitability. On the other hand, revenue from operating activities means the revenue obtained as a result of the operating activity of the economic entity. In accordance with Article 82 of the IAS 1 "Presentation of Financial Statement", we believe that it is appropriate to formulate the composition of operating revenue recognized in the "Profit and Loss" report as follows (Figure 4).

Discuss. In the Statement of "Profit and Loss", we can notice that business transactions occurring within the operating

activities of the business entity have a higher frequency than non-operating (investment and financial) activities. Based on the above considerations, we found it necessary to define operating activity in construction organizations as the sum of all processes related to the construction of construction objects and the implementation of work and services and their transfer to customers and not related to financial and investment activities. In construction organizations, as a part of operating activity, the obligations specified in the contract concluded with the customer on the basis of the construction project are fulfilled, the construction object is transferred to the customer, or construction work and services are provided. This determines the regularity of the formation of revenue from operating activities under normal working conditions of the construction organization.

Table-4

Statement of Profit or Loss⁶

Name of the Indicator	Code
Revenue from the contract	1
Contract cost	2
Gross profit	3 (1-2)
Selling costs	4
Administrative costs	5
Other operating expenses	6
Other operating revenue	7
Profit (loss) from operating activities	8 (3-4-5-6+7)
Net costs of financial activities	9 (10-11)
Income from financial activities	10
Financing costs	11
Pre-tax profit	12 (8-9)
Income tax expenses	13
Profit received from continuous activity in the reporting year	14 (12-13)

⁶ Authors' development in accordance with IAS 1

Operating income in construction organizations consists of income from the contract concluded within the project and other operating income. Contract income is also referred to as contract income (Revenue from the Contract) by foreign experts.

Operating expenses include expenses related to construction works under the contract concluded with the customer as part of the construction project, as well as sales, administrative and management expenses and other operating expenses. Usually, the costs associated with construction work by foreign experts are called contract cost. Based on the opinions expressed, we consider it appropriate to use the above sample when compiling a statement on "Profits and Loss" according to the cost function method specified in Article 103 of the IAS 1 "Presentation of Financial Statements" (Table 4).

Conclusion. As a result of production of products, provision of work and services and their sale to customers within the framework of operational activities in economic entities, it ensures the continuity of economic processes and plays an important role in the development of management strategies. As a result of the classification of operational and non-operating expenses recognized in profit and loss by their nature, it makes it possible to

obtain information about the expenses related to the fixed resources used to carry out the activities of economic entities. Considering the requirements of IAS 1 "Presentation of Financial Statement" (Presentation of Financial Statement), economic entities are considered in the composition of operating expenses in the composition of operating expenses in the composition of other operating expenses without separately indicating the item of scientific development and research expenses. and when preparing the report on "Comprehensive income", research and development costs should be shown as a separate operating activity cost item in the report. As a result of researching the requirements of IAS 1, the structure of operating income was developed, and as a result of this, it is possible to recognize operating income on contracts concluded based on the requirements of IFRS 15 and to correctly reflect them in the statement of "Profit and Loss". Based on the requirements of IAS 1, taking into account the basic features of the construction industry, the proposal to use the "Profit and Loss" statement form developed for construction organizations increases the possibility of obtaining transparent information on the revenue received and the expenses incurred under the contracts concluded with the customers.

REFERENCES:

1. 9-сонли "Пул оқимлари тўғрисидаги ҳисобот" Бухгалтерия ҳисоби миллий стандарти Ўзбекистон Республикаси Молия Вазирлиги томонидан тасдиқланган. 1998. <https://www.nrm.uz>
2. Thomas R. Robinson, Hennie van Greuning, Elaine Henry, Michael A. Broihahn, International Financial Reporting Statement Analysis, 6-Chapter Understanding the Cash Flows Statement, Published by John Wiley & Sons, Inc., 11-p. 2009. USA
3. Henry, D., David A. Introduction to financial Accounting: Based on International Financial Reporting Standards. Second edition. Valley Educational Services Ltd. 43-p. 2014. Canada



4. Sutton, T., Corporate Financial Accounting and Reporting, Second Edition. Pearson.139-p.2004. UK.
5. Greuning, H., Scott, D., Terblache, S. International Financial Reporting Standards: A Practical Guide. Seventh edition. The World Bank. 38-p.2006. USA
6. Daniel, W.H., Bolivar, A.S., Construction Management. Fourth edition. John Wiley & Sons, Inc. 216-p. 2011.USA
7. James M. Wahlen , Stephen P. Baginski, Mark T.Bradshaw . Financial Reporting, Financial Statement Analysis and valuation. Seventh edition. South-Western, Cengage Learning. 185-p.2008.USA
8. Nandakumar, A., Kalpesh, J., Ghosh, P., Alkafaji, A. Understanding IFRS Fundamentals. John Wiley & Sons, Inc.12-p.2010.Canada
9. IAS 1 Presentation of financial statements.15p. IFRS Foundation.2010
10. <https://www.lexico.com/definition>
11. IAS 1 Presentation of financial statements.16p. IFRS Foundation.2010
12. International Accounting Standards Board (IASB), 2010. "IAS 1 Presentation of financial statements", in IASB (ed.), 16p.2010.The IFRS Foundation, London
13. International Accounting Standards Board (IASB), 2010. "IAS 12 Income tax".16p. The IFRS Foundation. London
14. International Financial Reporting Standards. 2010. "IFRS 5 Non-current Assets Held for Sale and Discontinued Operations".14p 16p.The IFRS Foundation. London.
15. <http://www.iasplus.com>