



IMPROVING THE ACCOUNTING OF FIXED ASSETS

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JEL Classification: M1,M4,M41

Abstract: This article covers the issues of improving the accounting of fixed assets. In particular, the article presents considerations, approaches and suggestions on improving the theoretical, organizational and methodological foundations of accounting related to the calculation, accounting and reflection of depreciation on the fixed assets in agricultural activities by business entities.

In the article, business entities operating in our republic today are divided into two categories according to the order of accounting and financial reporting. In business entities of the first category, perennial plants are recognized as fixed assets in accordance with NAS № 5 "Fixed assets", are evaluated, accounted for and reflected in financial statements. This article reveals the main rules of the current legislation on the calculation of depreciation for perennial plants and their differences for accounting and taxation purposes through a comparative analysis.

At the same time, the article describes the issue of calculating depreciation of perennial plants and reflecting it in financial statements in the second category of business entities. In particular, only if biological assets are used in a business entity for the purpose of selling, converting them into agricultural crops or additional biological assets, they are included in the scope of application of the International Accounting Standard (IAS) № 41 "Agriculture" and are recognized as fixed assets. If these fixed assets do not comply with the requirements they are accounted in accordance with IAS № 16 "Fixed Assets". That is, such assets are considered productive

plants according to IAS. These may include tea plants, vineyards, fruit trees and rubber trees. However, agricultural products obtained from them are included in the scope of application of IAS № 41. Moreover, biological assets recognized as fixed assets and depreciable based on international financial reporting standards and depreciation methods in a classified manner.

Keywords: agriculture, agricultural activity, fixed asset, biological asset, perennial plants, productive plants, agricultural product, depreciation, depreciation calculation method.

Introduction. The effectiveness of economic reforms on the digitization of the economy is directly related to the level of agricultural sector development. The agricultural sector is essential in the national economy, as it develops the food supply of our country, ensures its independence, satisfies the demand for raw materials of the processing industry, as well as creates new jobs for the population. Therefore, a number of scientifically grounded measures are being implemented in the area of rapid development of the economy of the agrarian sector of our country, including the intensive development of agriculture. For example, the Decree of the President of the Republic of Uzbekistan №PD-5853 dated October 23, 2019 "On approval of the strategy of agricultural development of the Republic of Uzbekistan for 2020-2030" and the Decree of the President of the Republic of Uzbekistan №PD-60 dated January 28, 2022 "On the development strategy of New Uzbekistan for 2022-2026" set the number of objectives, such as modernization of

agriculture and diversification of production, improvement of the system of introduction of market mechanisms and implementation of scientific achievements, as well as the increase of material benefits of business entities and the successful implementation of these objectives has yielded positive results. Herewith one can mention increase in the volume of the gross harvest of fruit products grown by farms and other agricultural enterprises in the Republic of Uzbekistan in 2022 compared to 2021 (Table 1).

According to Table 1, in 2022 the gross volume of fruit products grown by farms and other agricultural enterprises in the Republic of Uzbekistan constituted 1913538 thousand tons, which demonstrates that this indicator has increased by 82200 thousand tons compared to 2021. Moreover, when this indicator is studied by the regions of the republic, an upward trend is observed in all regions except Namangan region.

In general, there is a dynamic increase in the volume of the gross harvest of fruit products raised by farms and other agricultural enterprises in our republic, which indicates that market mechanisms are being introduced in this sector and a competitive environment is being created. Therefore, such indicators can be evaluated as a positive result. However, it should be noted that in our republic, the fruit crops planted in the fields allocated for fruit

cultivation are considered the main tools used in agricultural activities, and the growth of the gross harvest is directly dependent on the efficiency of their use. This, definitely, requires increasing the volume and productivity of agricultural products obtained from the fixed assets used in agriculture, reducing the prime-cost of products, increasing the net profit, accurate organization of the accounting of fixed assets and improving its methodology.

It should be noted that perennial plants are one of the fixed assets used in agriculture to grow crops. The main rules of their accounting in our national accounting system, in particular, determining the moment of recognition as an asset, determining their balance value and depreciation calculation methods that must be applied to these assets, as well as determining other changes in balance value and financial results from their departure, and the procedure for defined in the National Accounting Standard №5 (NAS №5) entitled "Fixed assets".

In this article, we would like to consider in detail the issue of calculating depreciation for perennial plants, which is one of the main rules for fixed assets established in (NAS №5) entitled "Fixed assets".

Table 1

Analysis of the dynamics of the gross yield of fruit products grown on farms and other agricultural enterprises (thousand tones)¹

№	Region	2021 year	2022 year	In 2022 in relation to 2021 (+; -)
1	Republic of Karakalpakstan	30074	34740	+4666
2	Andijan region	280991	298346	+17355
3	Bukhara region	146430	150988	+4558
4	Jizzak region	70409	80396	+9987

¹Developed by the author in reliance upon the data of the Ministry of Agriculture of the Republic of Uzbekistan.

5	Kashkadarya region	150342	166448	+16106
6	Navoi region	54081	57083	+3002
7	Namangan region	161090	142250	-18840
8	Samarkand region	225383	227886	+2503
9	Surkhandarya region	105355	115614	+10259
10	Sirdarya region	43514	47517	+4003
11	Tashkent region	206469	219605	+13136
12	Fergana region	306769	317623	+10854
13	Khorezm region	50431	55042	+4611
Total by the republic:		1831338	1913538	+82200

Material and method. The issues of improving the accounting of fixed assets, in particular, calculation of depreciation of fixed assets, accounting and reflection in financial statements are presented in the research and academic papers of the foreign scholars and economists of the Republic of Uzbekistan. That is, they described the issues of calculation, accounting and financial reporting of depreciation of fixed assets classified according to the requirements of the national legal framework and international standards and the rules established by them. However, they have not adequately studied the issue of calculating depreciation for of the fixed assets used in agricultural activity in terms of the specific features of agricultural activity accounting.

In particular, foreign economists A.D.Tulenova and N.A.Satanbekov [7] in their works generally describe the significance of fixed assets in the operation of the enterprise, classify fixed assets by dividing them into small groups, and also describe the nature of depreciation and the need to calculate depreciation for fixed assets providing certain evidences.

T.N.Kadjametova and A.Sh.Asanova [8] describe the methods of calculating

depreciation for fixed assets and the procedure for their selection, calculation, and reflection of depreciation deductions in accounting. That is, the authors explain the straight-line method of calculating depreciation of fixed assets, residual reduction, cumulative and proportional to the volume of work, and the method of calculating and accounting for depreciation using them in reliance upon a general basis of the statutory acts based on relevant statutory acts.

In contrast to the foreign economists mentioned above, economists Yuvita M. F.Goni and Novi Swandari Budiars [9] have defined methods of calculating depreciation of fixed assets, methods of calculating depreciation determined according to taxation rules, calculation of depreciation of fixed assets in accordance with accounting and tax legislation, as well as analysis of its impact on taxable profit based on practical data.

Moreover, in the opinion of such scholars-economists of our country, as A.A.Karimov, A.K.Ibragimov, N.K.Rizaev and N.M.Imamova [10], the procedure for calculating depreciation for fixed assets is the international accounting standard №16 (IAS №16) "Fixed assets" requirements and the rules specified in it are of a general nature. At

the same time, economists categorize fixed assets based on the requirements of the IAS №16. However, the considerations of these economists aren't focused on the group of perennial plants, which are considered fixed assets.

From the point of view of the economist S.N. Tashnazarov, "In the accounting policy each enterprise independently determines the composition of "property: land, building, machinery and equipment" used in the process of production, rendering services or administrative management, which serves more than one period. In IAS №5 "Fixed assets" it is necessary to list the components of "property: land, building, machinery and equipment" in compliance with international standards and to develop a standard defining the principles of recognition of working and productive animals and perennial plants as biological assets. S.N. Tashnazarov believes that in accordance with the requirements of international standards, it is appropriate to allocate separate lines in the balance sheet for "investment real estate" (line 080), "biological assets" (line 120) and "long-term assets classified as held for sale and assets of exiting groups" (line 150) [11]. According to the economist's approach, it is necessary to recognize "Working and productive animals" and "Perennial plants" as biological assets according to international standards and separate them in a separate line in the financial reporting. Furthermore, if perennial plants are recognized as biological assets in accordance with the above approach, they are not depreciated.

At the same time, the economist G.M. Rakhimova [12] proposed to categorize the fixed assets based on national and international standards, and according to her opinion, "Working and productive animals" and "Perennial plants" can be considered as fixed assets in accordance with our national standards and recognized as a biological asset in compliance with the International

Accounting Standard №41 "Agriculture". According to the economist's opinion, "Working and productive animals" and "Perennial plants" are biological assets for business entities that prepare financial statements based on international standards, and they should be recognized as fixed assets for those who prepare financial statements based on national standards. Such an approach can be evaluated as the approach given in general terms because, according to the current NAS №5, they are recognized as fixed assets and reflected in the financial statements. However, the issues of depreciation calculation, accounting and reflection of these assets in the financial statements have not been specified.

According to the economist K.B.Urazov, "... the library book fund; perennial plants; working and breeding animals; conserved fixed assets are not subject to depreciation [13]. According to the current NAS №5, depreciation is calculated for perennial plants and working animals, in which only productive livestock is not subject to depreciation.

Herewith it should be noted, that theoretical and empirical research methods have been widely used in the process of improving theoretical and methodological foundations of the accounting of fixed assets used in the agricultural activities, in particular, depreciation of fixed assets and their reflection in financial statements.

Results. If we pay attention to the review of statutory acts, which acknowledge the approaches of the above economists, we can observe different aspects in the rules on the procedure for calculating depreciation of fixed assets for accounting and taxation purposes (Table 2).

Moreover, monographic studies demonstrate that some business entities are using the norms established for taxation purposes when calculating depreciation of fixed assets, in particular, perennial plants. In



our opinion, this approach implemented by business entities is not correct because the accounting entity and the heads of the accounting service should determine the useful life of the existing perennial plants and choose the depreciation calculation method in the enterprises. At the same time, if there are various changes related to them (significant change in economic benefit, extension or shortening of useful life) it is necessary to reconsider the methods of calculation of useful life and depreciation. Such changes should definitely be reflected in the accounting policy of the business entity.

In this regard there are questions about the calculation of depreciation in business entities for the purposes of accounting and taxation at the same rates or at different rates or for the purposes of accounting at rates higher than those specified in the Tax Code, in particular, how to coordinate the rules of the accounting policy for the purposes of accounting and taxation in general.

We would like to present our approach to these questions through the following explanations:

first, calculating depreciation at the same rates. According to Article 306 of the Tax Code, the rate of depreciation set for perennial plants is 15 percent. This implies their use during 7 (100:15) years. The business entity defined the useful life of perennial plants as 8 years. So, for accounting purposes, the depreciation rate for these perennial plants is set at 12.5 (100:8) percent in the accounting policy. Since it allows the application of lower depreciation rates than the rates specified in Article 306 of the Tax Code, the 12.5 percent rate set for accounting purposes is also

strengthened in the accounting policy for taxation purposes, ensuring their mutual compatibility and the application of the same rates.

second, depreciation calculation using different rates. In order to use perennial plants for 10 years the business entity is supposed to define the useful life as 10 years, and for accounting purposes has set the depreciation rate as 10 (100:10) percent and reflected it in the accounting policy. Due to the fact that it allows the application of depreciation norms within the norms defined in Article 306 of the Tax Code, the business entity has set a 15 percent norm for perennial plants in the accounting policy for taxation purposes. In this case, a temporary difference occurs because for accounting purposes the depreciation period is set 10 years. For tax purposes the value of perennial plants is written off as expenses in 7 years.

third, calculating depreciation in the event that the norms set for accounting purposes are higher than the norms set by the Tax Code. For example, a business entity has set the rate of depreciation for accounting purposes in the amount of 20 (100:5) percent in the accounting policy considering the use of perennial plants included in fixed assets for 5 years. In this case, the business entity has the right to include only the 15 percent depreciation amount specified in Article 306 of the Tax Code as deductible expenses for taxation purposes. That is, the amount of depreciation on the difference of 5 percent in the middle is not deducted in the current year, but in the following periods, it is made to the expenses that are deductible in the tax calculation.

Table 2

Comparative analysis of the procedure for calculating depreciation on fixed assets for accounting and taxation purposes²

Indicators	For accounting purposes	For taxation purposes
Calculation of depreciation	<ul style="list-style-type: none"> - starts from the 1st day of the month following the month in which the object is included in the fixed assets; - the depreciable value of the object is fully extinguished or suspended from the 1st of the month following the month in which it was written off from the balance sheet. 	<ul style="list-style-type: none"> - starts from the date of commissioning (as part of fixed assets); - the value of fixed assets is eliminated from the date of full write-off or when it is removed from the composition of depreciable assets on any basis.
Depreciation norms	In the accounting policy, the estimated useful life of fixed assets and depreciation is determined depending on the calculation method.	The tax is determined in the accounting policy for tax purposes. They should not exceed the norms of depreciation expenses included in deductible expenses.
Depreciation calculation methods	<p>The following methods are used to calculate depreciation:</p> <ul style="list-style-type: none"> - single rate (straight line) calculation of depreciation; - calculation of depreciation in proportion to the volume of work performed (production method); - the method of reducing the balance with a double depreciation rate; - sum of years method. 	Depreciation is calculated using the straight-line method.
Calculation of depreciation on revalued fixed assets	In cases where the initial (restoration) value of fixed assets is revalued, the subsequent depreciation is calculated at the expense of the revalued value	Only the results of the revaluation conducted before January 1, 2021 are taken into account when determining the deductible expenses for depreciation
No depreciation	Depreciation on the relevant part received or purchased (created) at the expense of resources specified in clauses 8-11 of part 7 of Article 306 of the Tax Code	Depreciation is not considered for the relevant part received or purchased (created) at the expense of sources specified in clauses 8-11 of part 7 of Article 306 of the Tax Code.

² Developed by the author based on the NAS №5 «Fixed assets and Tax Code

Discussion. Currently the business entities operating in our republic are divided into two categories according to the procedure for accounting objects and reflecting them in the financial reporting:

business entities belonging to the *first category* take into account account items based on national accounting standards and reflect them in financial statements;

business entities belonging to the *second category* take into account the objects of account in accordance with international financial reporting standards and reflect them in the financial reporting.

In business entities of the first category, perennial plants are recognized as fixed assets, evaluated, accounted for and reflected in financial statements in accordance with NAS №5. The basic rules of the current legislation on the calculation of depreciation for perennial plants and their differences in terms of accounting and taxation purposes have been revealed through a comparative analysis.

Below we consider the issue of calculating depreciation of perennial plants and reflecting it in financial statements in business entities belonging to the second category. First of all, we need to know which assets perennial plants are recognized, evaluated, reflected in accounts and financial statements according to international financial reporting standards.

It is known that according to the international financial reporting standards, the agricultural activities of business entities are governed by the rules established in the International Accounting Standard (IAS) №41 "Agriculture". Perennial plants recognized as fixed assets according to NAS №5 are considered biological assets. Therefore, business entities that have switched to accounting on the basis of the IFRS should recognize perennial plants as biological assets in accounting, take into account and reflect

them in financial statements. It is definitely essential that the business entity determines the purpose of using biological assets. That is, perennial plants, which are part of some biological assets, may be excluded from the scope of application of IAS №41 due to the fact that they do not comply with the definition of agricultural activity because in IAS №41 it is defined as "Agricultural activity is the *management of biological transformation and collection of biological assets for sale or transformation into agricultural crops or additional biological assets by a business entity*".

Therefore, only if biological assets are used in a business entity for the purpose of selling, turning them into agricultural products or additional biological assets, they are included in the scope of application of IAS №41. Biological assets that do not comply with these requirements are recognized as fixed assets based on the requirements of IAS №16 "Fixed Assets". Such assets are considered to be productive plants according to the IAS. These may include tea plants, vineyards, fruit trees and rubber trees. However, agricultural products obtained from them are included in the scope of application of IAS №41. That is, they are biological assets (Figure 1).

In compliance with Figure 1 business entities should calculate depreciation for productive plants recognized as fixed assets.

In this case, different methods of depreciation calculation can be used to distribute the depreciable value of the productive plant on a systematic basis during its useful life. The following methods of calculating depreciation for fixed assets are recommended in IAS №16 (Figure 2).

Definitely, the method chosen by the business entity to calculate the depreciation of productive plants should reflect the economic value obtained from them in the future in terms of the peculiarities of their expected consumption. Therefore, the business entity

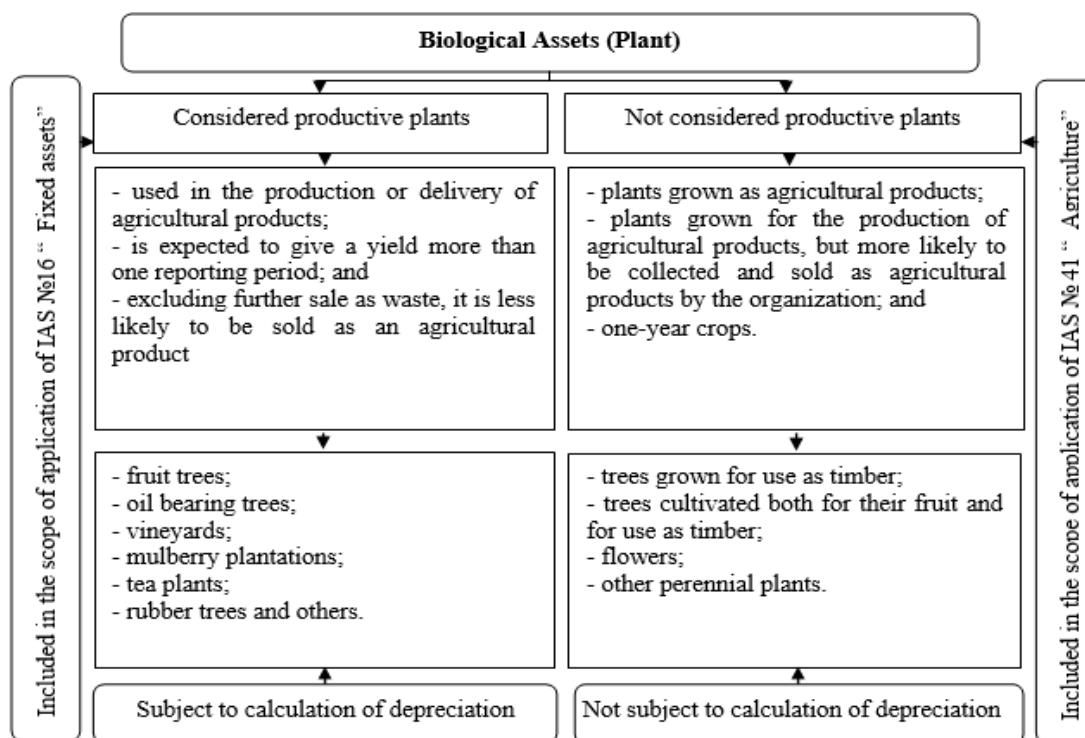


Figure 1. Biological assets recognized as fixed assets and subject to depreciation³

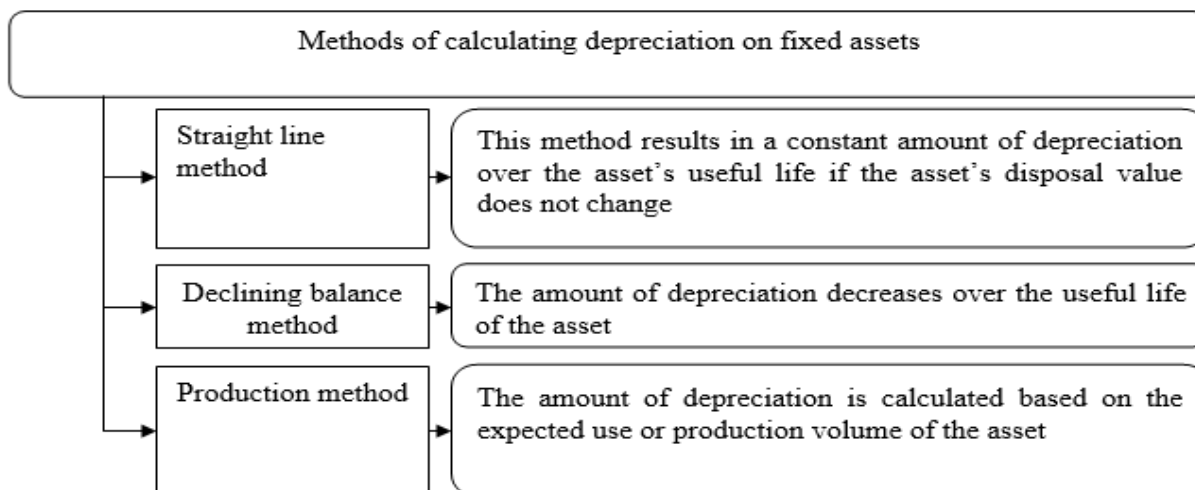


Figure 2. Methods of calculating depreciation on fixed assets⁴

³ Developed by the author in reliance upon the IAS №16 and IAS №41.

⁴ Developed by the author in reliance upon IAS №16.

should choose the method that more accurately reflects the consumption peculiarities of the economic name obtained in the future from the alternative methods recommended in IAS №16. The method chosen by the business entity must be specified in its accounting policy.

From the time when the business entity has the opportunity to use productive plants, it is included in the fixed assets followed by the depreciation calculation.

The amount of depreciation calculated for productive plants during the reporting period is included in the prime-cost of agricultural products collected from them, and the amount of accumulated depreciation during the period of their use is deducted when calculating the balance value of productive plants. Depreciation of productive plants and changes in it are specified in detail in the notes to the financial statements.

Conclusion. Thus, the following conclusions and proposals have been developed as a result of the research conducted in connection with the calculation of depreciation, accounting and reflection in the financial report on the improvement of the calculation of the fixed assets used in agricultural activities:

first, the procedure for calculating the depreciation of productive plants used in the agricultural activities of business entities has been investigated in reliance upon the requirements of national and international standards and the procedure for coordinating the rules of the accounting policies for accounting and taxation purposes has been justified;

second, academic and research papers of economists, current legal documents and international financial reporting standards have been studied in a view of the comparative analysis. As a result, the business entities have been classified into two categories according to the accounting and financial reporting procedures. Methodological instructions for

calculating depreciation for perennial plants in business entities belonging to the first category are presented. Moreover, the procedure for recognizing productive plants as biological assets as fixed assets in business entities belonging to the second category and the procedure for calculating their depreciation, accounting and reflecting them in financial statements has been justified. This fact definitely allows for the accurate classification of account objects, the correct calculation of the amount of depreciation, accounting and the exact formation of financial reporting indicators;

third, when calculating depreciation of productive plants, the calculation value of their useful life is considered important. Therefore, it should be done through a professional approach based on the expected period of use of productive plants by the business entity (based on the period of entry into the harvest of each productive plant) or the agricultural products expected to be obtained from them;

fourth, at the end of each accounting year, the business entity must review the cost of termination and the useful life of the productive plant. If the expectations of economic benefit as a result of certain technological, biological or climatic changes differ from previously established accounting estimates, such changes in accounting estimates should be accounted for in accordance with IAS №8 "Accounting Policy, Changes and Errors in Accounting Estimates";

fifth, the depreciation method specified in the business entity's accounting policy for productive plants should also be reviewed at the end of each reporting year, because if there are various changes related thereto (significant change in economic benefit, lengthening or shortening of the useful life), the depreciation calculation method can be changed to reflect this change. Such changes are also considered in compliance with the quality of changes in accounting estimates specified in IAS №8 "Accounting Policy, Changes and Errors in



Accounting Estimates". We believe that the opinions, approaches and proposals presented above will serve to improve the theoretical, organizational and

methodological foundations of accounting for the fixed assets in agricultural activities.

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