

IMPROVING INVESTMENT PROPERTY ACCOUNTING IN UZBEKISTAN: A FOCUS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

O'ZBEKISTONDA INVESTITSION MULK HISOBINI TAKOMILLASHTIRISH: MOLIYAVIY HISOBOTNING XALQARO STANDARTLARI (MHXS)GA E'TIBOR

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ABSTRACT. This research paper investigates the challenges and opportunities associated with improving investment property accounting in Uzbekistan, with a specific focus on aligning practices with IAS-40. Key areas of focus include determining fair values, measuring investment properties at subsequent reporting dates, accounting for lease agreements, and disclosing relevant information in financial statements. In this article it was proposed to include accounts 0191 “Investment real estate: land”, 0192 “Investment real estate: building”, 9391 “Income from increase in value of IP” in the chart of accounts. The essence of the similar (analogous) sales method, income capitalization method, and cost method was revealed for the application of the fair value valuation model. By adopting IFRS principles and best practices, Uzbekistan can strengthen its financial reporting framework, promote investor confidence, and support sustainable economic growth and development in the real estate sector.

ANNOTATSIYA. Ushbu tadqiqot ishi O'zbekistonda investitsion mulkni hisobga olishni takomillashtirish bilan bog'liq muammolar va imkoniyatlarni o'rganib chiqadi va amaliyotni IAS-40 ga muvofiqlashtirishga alohida e'tibor beradi. Asosiy e'tibor yo'nalishlari adolatli qiymatlarni aniqlash, investitsiya mulklarini keyingi hisobot sanalarida o'lchash, lizing shartnomalarini hisobga olish va moliyaviy hisobotlarda tegishli ma'lumotlarni oshkor qilishdan iborat. Ushbu maqolada 0191 “Investitsiya ko'chmas mulki: yer”, 0192 “Investitsiya ko'chmas mulki: bino”, 9391 “Investitsiyaviy ko'chmas mulk qiymati oshishidan daromad” schyotlarini shcetlar rejasiga kiritish taklif qilingan. Adolatli qiymatda baholash modelini qo'llash bo'yicha aynan o'xshash (analogik) sotuv metodi, daromadlarni kapitalizatsiyalash metodi va xarajatli metodlarining mazmun-mohiyati ochib berildi. MHXS tamoyillari va ilg'or tajribalarni qo'llash orqali O'zbekiston moliyaviy hisobot tizimini mustahkamlash, investorlar ishonchini

oshirish, barqaror iqtisodiy o'sish va ko'chmas mulk sohasida rivojlanishga erishish mumkin bo'ladi.

KEYWORDS. Investment property, initial value, IFRS, fair value, depreciation, impairment, financial reporting, chart of accounts.

INTRODUCTION. The accounting landscape in Uzbekistan has been undergoing significant transformation in recent years, driven by the country's efforts to align its financial reporting practices with international standards. As Uzbekistan seeks to attract foreign investment and enhance transparency in its business environment, the adoption and implementation of International Financial Reporting Standards (IFRS) have become a focal point for companies operating in the country.

One crucial area of accounting that requires attention is investment property accounting. Investment properties play a vital role in the economy, serving as a source of rental income and potential capital appreciation. Accounting for investment properties in accordance with IFRS is essential for providing accurate and reliable financial information to stakeholders, including investors, lenders, and regulatory authorities.

This research paper aims to explore the challenges and opportunities associated with improving investment property accounting in Uzbekistan, with a specific focus on aligning practices with IFRS. By examining the current state of investment property accounting in Uzbekistan and identifying areas for improvement, this study seeks to contribute to the ongoing efforts to enhance financial reporting practices and promote investor confidence in the country's real estate sector.

The objectives of this research paper are as follows:

To assess the existing investment property accounting practices in Uzbekistan and identify areas where they deviate from IFRS requirements.

To analyze the specific challenges faced by companies in Uzbekistan when adopting and implementing IFRS for investment property accounting.

To propose strategies and recommendations for improving investment property accounting practices in line with IFRS in the Uzbekistan context.

To highlight the potential benefits of enhanced investment property accounting, including improved transparency, comparability, and investor confidence.

To achieve these objectives, a comprehensive review of relevant literature, accounting regulations, and international best practices will be conducted. Additionally, interviews and surveys with accounting professionals, auditors, and

representatives from regulatory authorities will be conducted to gather insights and opinions on the current state of investment property accounting in Uzbekistan.

LITERATURE REVIEW. The study of investment property performance has garnered significant attention in both academic and professional realms, as investors seek to maximize returns and mitigate risks in the real estate market. The issues of recognition and evaluation of investment property have been studied by foreign and Uzbek scientists.

Gaidarov K.A. made some research in his article on investment property recognition and accounting in complex situations. Lesnova Y.V. explains IAS 40 and IAS 28 application in her research papers. Siddikova D.D. discuss current issues of accounting and impairment of investment property in connection with the COVID-19 pandemic. Differences between IFRS and US GAAP on property, plant and equipment is investigated by Zemskova E.V.

Popov A.Y. discusses the features of recognition and reflection in accounting of investment real estate acquired by an economic entity for the purpose of accumulating capital from the standpoint of domestic legislation and international practice in his article “Investment property: Russian and international concepts of valuation and accounting”.

The article by Polishchuk I.R. Suprunova I.V. “Accounting for transactions with investment real estate in Ukraine: development prospects” discusses approaches to accounting for transactions with investment property in the context of elements of the accounting method, suggested directions for improving the accounting of transactions with investment property.

Ignatova N.V. discusses the need for separation in accounting for investment real estate. The approach to accounting for investment property and the corresponding requirements for disclosing information about it in accordance with IFRS 40 are disclosed.

Lukashova I.A. and Golovashchenko E.M. explores the controversial issues of determining the essence, recognition criteria and characteristic classification characteristics of investment objects.

The Galdikas family give the definitions of “investment property” for comparison. In their research methods for transferring fixed assets to investment real estate and returning them to fixed assets are presented.

Kulikova L.I. provides criteria for the recognition of investment property in accordance with International Financial Reporting Standards (IFRS). Investment real estate objects are discussed using specific examples. Particular attention is paid to assessment issues during recognition investment property, shows how

investment property is presented in individual and consolidated financial statements.

In their article, Hamdamov and Obidkhanov covered the issues of harmonization of the accounting system of investment properties based on national standards to international standards.

Soldatkina described the requirements for initial and continuous evaluation of investment real estate in accordance with the IAS 40 in an illustrative manner in his articles on improving the accounting procedure of investment property according to IAS 40.

The works of these scientists are of great scientific and practical importance. However, in our country, there are few works that have considered the issues of IKM assessment in a complex and related manner. Methodological procedures for the application of models of valuation of IPs at initial and fair value have not been developed.

METHODOLOGY. In the course of the research, scientific articles and practical materials were studied using analysis and synthesis, SWOT analysis, comparison and grouping, as well as accounting and economic analysis methods, and conclusions and proposals were developed.

ANALYSIS AND RESULTS. International financial reporting standards have been recognized by the world community as a certain standard for the formation and presentation of financial statements of organizations. Today, their use is an element of prestige for large corporations and individual states. With economic development, New Uzbekistan is also becoming an attractive, open and transparent country for foreign companies and investors, which leads to the internationalization of the accounting system. The application of international reporting rules by an organization in its activities not only contributes to openness and greater information content of reporting data, but also provides the company with a higher rating and strengthens its competitiveness. The main positive aspect of reporting according to IFRS is the ability to attract foreign capital. In addition, financial reporting according to IFRS allows you to interact with foreign partners; increases the competitiveness of an economic entity; an understanding of the economic meaning of the processes reflected in the reporting is achieved, both for users and for its compilers; the necessary basis for making management decisions will be formed. It also makes it possible to avoid problems with unreliability, transparency and information content of reporting. In this regard, the Resolution of the President of the Republic of Uzbekistan “On additional measures for the transition to international financial reporting standards” PP-4611 dated February

24, 2020 was adopted, which provides for the improvement of NAS and their harmonization with IFRS.

Investment property means land, building or a part of it, combined land and building objects, which are intended to receive income due to operational rent or increase in value over time, which are:

- (a) not used for production, supply, sale and administrative purposes; and
- (b) and must not be intended for sale as a going concern.

We can see the composition of investment property in organizations in detail in the following picture.



Picture-1. Composition of investment property in organizations¹

In research work, we consider the issues of initial valuation of IP, ongoing costs, and application of methodological rules of ongoing valuation.

¹ Prepared by the author

Initial assessment. Investment property, which is the property of the organization, is initially valued at its initial cost. Transaction costs are included in this initial estimate. The initial cost of the purchased IP includes its purchase price and all costs associated with its direct purchase. Directly applicable costs include, for example, fees for professional legal services, costs related to the transfer of real estate, and other transaction costs.

When we investigated the composition of the fixed assets of the “Posco International Textile” LLC, which was the object of our research, it was found that the accounting of investment properties was not kept correctly. Firstly, initial valuation was incorrect and it was presented according to IAS 16. Education center building cost as of February 1, 2023 was calculated without adding building project and exploitation expenses.

Table-1²

Calculations for determining the initial value of building

Cost elements for initial costing	Amount (UZS)
Construction contract-1	5 668 977 000
Construction contract-2	30 765 000
AS-IS	5 699 742 000
<i>Add Back based on IFRS:</i>	
Building project cost	121 700 000
City building inspection permit	17 566 000
Cost of fire safety permit	6 180 000
Other Professional fees	12 000 000
Revised cost	5 857 188 000

Actually, this education center building is not used for production, supply, sale and administrative purposes. So, this asset should be accounted and presented according to requirements of IAS 40. In order to account for investment property in the accounting of these processes, it is necessary to include additional accounts in the current chart of accounts. As we know, in the current composition, investment property is considered as part of fixed assets. Investment property is different from fixed assets. Their definition is different from each other. The first criterion for the recognition of investment properties is that they meet the definition. In the current chart of accounts, 0190 is “Other fixed assets” and we suggest to adjust this name to “Investment property”. Then for the types it is a good way to open two accounts: 0191-“Investment Property land”,

² Prepared by the author based on financial reports of Posco International Textile

0192-“Investment Property building”. On the other hand, it is possible to keep account of capital investments on investment property in accounts 0890.

In accordance with the requirements of the international standard, the cost of an investment property object does not include:

- expenditures for putting the object into operation, except for the costs necessary to bring it into working condition;
- initial operating losses, for example, to reach the planned level of leasing of office space;
- excessive consumption of materials, labor and other resources in the equipment and reconstruction of property objects.

In accordance with the requirements of international standards, if it is required to replace parts of the IP during its useful life, then if the relevant costs are met, the replacement costs are capitalized, they are taken to the value of the IP.

Subsequent assessment. In accordance with the standard No. 40 “Investment property”, it is envisaged that investment property objects will be evaluated on the basis of the following two models:

- accounting model based on initial cost;
- fair value accounting model.

In accordance with the rules of international standards, companies that have chosen the accounting model based on the initial cost, after initial recognition, all objects related to investment property are accounted for at the initial cost after deducting accumulated depreciation and impairment losses of assets. This can be expressed by the following formula:

$$\text{CA of IP} = \text{IC of IP} - \text{Acc.D} - \text{I}$$

CA of IP = Carrying amount of Investment property

IC of IP = Initial cost of Investment property

Acc.D = Accumulated depreciation

I = Impairment loss

Profits and losses obtained as a result of an increase in the value of IP at a fair value are carried to the financial results of this period, unlike those of fixed assets. In the case of fixed assets, the increase in value obtained as a result of the fair value measurement is reflected in other comprehensive income and then in reserve capital. Usually, IP is revalued at the end of each reporting period. Depreciation is not calculated in case of fair value model.

If we take the building built by Posco as an example, by the end of 2023 year, the fair value of this type of building is estimated at 6 billion UZS. If the accounting policy is carried out according to the fair value model, a double entry can be made as follows:

Dr	0192-“Investment Property building”	0.1 billion
Cr	9391-“Gain on IP value increase”	0.1 billion

$$\text{Gain} = 6 \text{ bln} - 5.9 \text{ bln} = 0.1 \text{ bln}$$

Here we used in charter of account new account 9391 for value increase of investment properties.

As a result of valuation in the fair value model, investment property may be impaired compared to its previous value. In such cases, this is recognized as a impairment loss. In the period in which the loss occurred, it is carried to the profit and loss of this period.

It is natural to ask how to determine the fair value if we use fair value model for investment properties. In practice, there are several methodological recommendations for determining the market price: analogous sales method; income capitalization method; cost method. Analogous sales method is a widely used method, and this method is effective if there is a database of market data. Based on this method, the sale price of exactly similar (analogous) or interchangeable real estate is found in the market. In the income capitalization method, the market value is determined based on the expected future income in the form of cash flows arising during the use of this property. In the cost method, the fair value of the real estate object is determined by the cost of the resources used for the new construction of this object. Regardless of the method used, the market value of the investment property must be financially based, truthful, objective, reliable and probable.

The transfer of the object to the investment property or its exclusion is carried out in cases where the direction of its use has changed:

- when the owner starts using the property - transferring the object from the composition of investment property to the composition of the property used for its own purposes;
- when preparation for sale begins - transfer to inventory;
- at the end of the owner's use - transfer from the composition of the property used for its purposes to the composition of investment property
- upon completion of construction or reconstruction - transfer from the structure of the property in the process of construction or reconstruction to investment property

If an asset is transferred from property, plant and equipment to investment property and the fair value model for investment property is used the asset must first be revalued per IAS 16 and then transferred into investment property at fair value. If the cost model is used for investment properties the asset is transferred into investment properties at the current carrying amount and continues to be depreciated.

For example, Posco International Textile company is planning to transfer owner occupied building to investment property at carrying amount of 500 mln and fair value is 520 mln UZS. If accounting policy for IP is fair value, then:

Dr	0120-“Building”	20 mln
Cr	8510-“Gain on revaluation”	20 mln

Dr	0192-“Investment Property building”	520 mln
Cr	0120-“Building”	520 mln

If accounting policy for IP is initial cost model, then:

Dr	0192-“Investment Property building”	500 mln
Cr	0120-“Building”	500 mln

If an asset is transferred from investment property to property, plant and equipment and the fair value model for investment property is used revalue the property first per IAS 40, taking the gain or loss to the statement of profit or loss, and then transfer to property, plant and equipment at fair value. If the cost model is used for investment properties the asset is transferred into property, plant and equipment at the current carrying amount and continues to be depreciated.

CONCLUSIONS. As can be seen from the above opinions, investment property is not maintained as a separate accounting object in national standards, since the procedure for reflecting this object in accounting has not been established. We believe that the further development of national standards will have a clear tendency to increase convergence with IFRS regulations, since timely and correct accounting of investment property in accounting, assessment based on the requirements of international standards ensures the reliability of the prepared financial statements. We believe that the implementation of the above proposals in practice will lead to the correct organization of accounting for investment property and will play an important role in improving the work of accounting in modern conditions of economic development.

The use of the above-mentioned new accounting schemes and double entries serves to increase the weight of foreign direct investments as a result of increasing

the reliability of the information in the reports and the accounting of investment property according to IFRS in the Posco International Textile enterprise and in all enterprises.

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