

IMPROVING THE ACCOUNTING OF EXPENSES ON DEBT OBLIGATIONS IN ECONOMIC ENTITIES

Kozimjonov Abrorbek

Tashkent State University of Economics, PhD.

buxgalterabor@inbox.ru

Abstract: *This article discusses the problem of financial leasing accounting by business entities in accordance with International Financial Reporting Standards and the capitalization of interest expense on financial lease and their solutions.*

Keywords: *financial lease, interest expense, IFRS (International Financial Reporting Standards), capitalization, property, plant and equipment.*

INTRODUCTION

Implementing deep structural changes in the economy, accelerating the transition to a competitive market economy by forming a quality market for goods and services, improving and strengthening the social protection system, the introduction of market principles in the management of state assets will play an important role in the new stage of economic development. Emerging financial leases and forms of leasing also play an important role in the development of the economy.

Because of financial lease relations, it is possible to achieve such achievements as modernization of the economy, support of private entrepreneurship, small business, and localization of production, increasing the volume of exports and reducing the volume of imports. Because of these achievements, the unemployment rate of the population will decrease and the income of the population will increase. Therefore, it is important accurately and accurately account for business processes in financial lease relationships. This article describes the main points of capitalization because of International Financial Reporting Standards (IFRS), the costs of which mainly related to the financial lease.

ANALYSIS OF THE LITERATURE ON THE SUBJECT

Many economists are conducting research on financial lease relationships, and because of this research, scientific and practical recommendations made.

According to economist D. Gozibekov, “three or more entities are involved in financial leasing (leasing): equipment suppliers, leasing companies and users” [2]. Another economist, T. Malikov, states that “financial leasing is one of the financial and credit relations, which means the long-term lease of machinery, equipment and

the like by enterprises” [3]. From an economic point of view, there are also similarities between the credit relationship used for leasing and the purchase of property. I. Berner and J. Colli, two foreign economists, says that “the lease of movable and immovable equipment is a form of professional credit which provides for its sale to the lessee” [4].

RESEARCH METHODOLOGY

In the process of organizing and conducting the research, methods such as expert evaluation, comparative analysis, content and inventory analysis, systematic and factor analysis used because of accounting methods.

In particular, the factor analysis method used to identify the internal and external factors that cause and influence the emergence of the concept of capitalization of interest expenses related to financial leases. The method of systematic analysis used to reveal the components of the problem of organization of interest costs, the interrelationships between them. The method of comparative analysis used in the comparative study of the content of international documents and scientific works, which reflect the concept of financial lease. The content analysis method used to collect data on the concept of interest expense on leasing in less time by determining the amount of words used in the text when working with large amounts of data. Event analysis used to analyze the content of events that occurred in the system of International Financial Reporting Standards. In addition, the expert, price, analysis method used to study the opinions of experts in the form of a summary on the essence of the concept of capitalization of interest expenses.

CONCLUSIONS AND SUGGESTIONS

A lease is a type of contract that allows the owner of the property to use the property for another party, the owner of the money or another asset. Business entities widely use two types of lease in accounting. The two most common types of rent are:

- Operational lease;
- Financial lease.

To distinguish between these two types of leases, it is necessary to take into account the extent to which the rights and obligations associated with the ownership of the asset have passed from the lessor to the lessee. If the rights and obligations related to the ownership of the asset, the risks fully transferred in accordance with International Financial Reporting Standards, the financial lease is, if not fully transferred, the operating lease. Businesses use International Financial Reporting Standards (IFRS) number 16 to recognize, evaluate, present and disclose financial leases on a lease basis. The purpose of this Standard is to provide consistent, accurate and relevant information on leasing transactions by tenants and lessors.

In financial leasing practice, the lease term is generally more than one year, while in an operating lease it is generally up to one year. In distinguishing between operating and financing leases, problems may arise in considering the extent to which the rights and obligations associated with the ownership of the asset have passed from the lessor to the lessee. Therefore, when assessing a lease as a financial lease, it is necessary to comply with at least one of the following procedures.

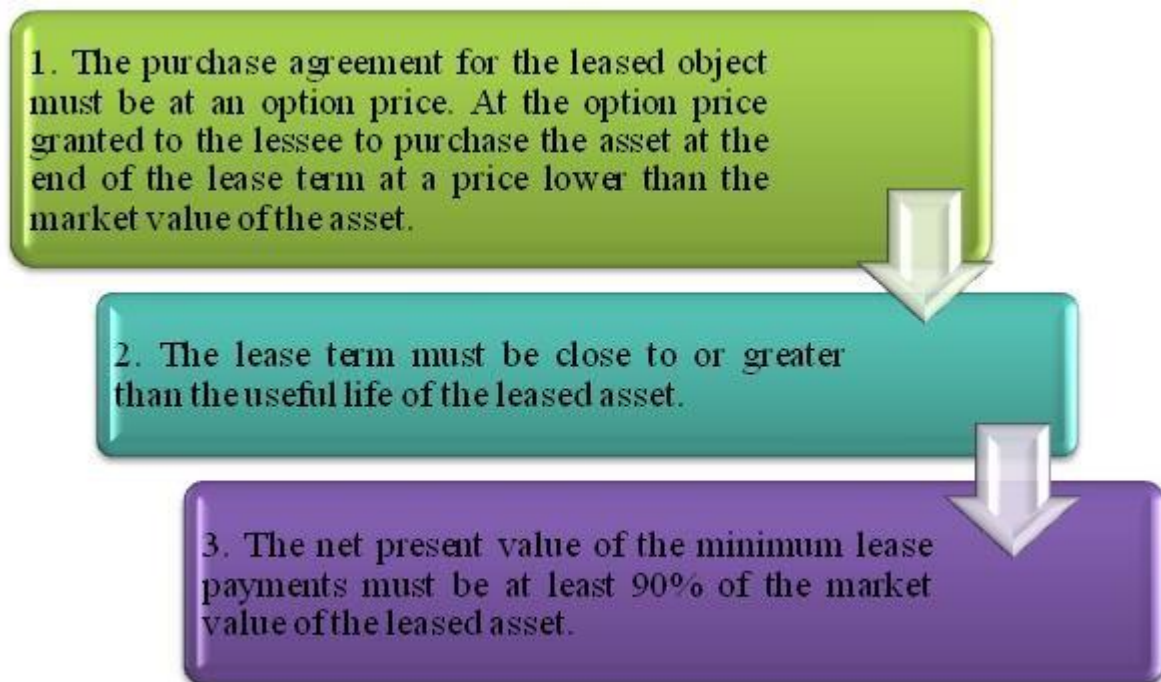


Figure 1. Criteria for financial lease.

Interest on a finance lease obligation expressed as the amount by which the periodic interest rate, which does not change during the lease term, multiplied by the lease balance in each period. The periodic interest rate should be set as the discount rate or the interest rate specified in the lease for the remaining lease term. If there is a problem in setting the interest rate specified in the lease agreement, it is calculated based on the discount rate revised by the lessee as the rate of additional borrowing at the date of revaluation.

Capitalization of interest expense on financial leases accounted for in accordance with IFRS No.16 Leases and International Accounting Standards number 23 (IFRS). Capitalization is the recognition of certain types of expenses in an accounting as an asset, and the resulting expenses incurred as an expense over the useful life of the recognized asset, rather than at the time, it is initially insure. Paragraph of IFRS number 23, “Expenses on Debts”, specifies, “Interest on lease obligations recognized in accordance with IFRS number 16 “Leases” [6] is included in the cost of borrowings. Hence, we can capitalize on the cost of interest associated with financial lease obligations in the accounting of business entities.

Consider the issue for financial leasing. On January 10, 2021, Uzdonmahsulot JSC purchased a crane under a financial lease agreement for the construction of a new elevator for a period of 10 years, subject to payment of \$ 8,000 at the end of the year (interest rate provided for in the lease agreement is 10% per annum). Payments under the contract are shown in the table below.

Table 1. Monthly payment schedule for crane purchased by Uzdonmahsulot JSC on financial lease, USD

Payment time	The present value of the financial liability for the period	Interest expense on financial lease	Monthly payment for financial rent	The residual value of a financial liability at the end of the period
	1	2	3	4=1+2-3
31.12.2021	49157	4916	8000	46073
31.12.2022	46073	4607	8000	42680
31.12.2023	42680	4268	8000	38948
31.12.2024	38948	3895	8000	34843
31.12.2025	34843	3484	8000	30327
31.12.2026	30327	3033	8000	25360
31.12.2027	25360	2536	8000	19896
31.12.2028	19896	1990	8000	13885
31.12.2029	13885	1389	8000	7273
31.12.2030	7273	727	8000	0
Жами		30 844	80 000	

The amount of \$ 49,157 in this table is determined by the discount rate of the current value of the 10-year value of the \$ 8,000 per annum on the financial lease. According to the table, the cost of the financial lease for 2021 amounted to \$ 30,844 in interest. During 2021, the construction crane was involved in the construction of the elevator. Hence, this crane is directly linked to the creation of a qualified asset. Therefore, we can capitalize the costs in the form of interest on financial leasing. Interest expense on financial leasing is reflected in the following two entries:

Dt Elevator construction (active);

Kt Financial Leasing Liability

CONCLUSIONS AND SUGGESTIONS

In this article, we have considered the specifics of capitalization of interest expenses related to financial leases. We have reviewed the requirements for

accounting for rent and interest based on IFRS number 23 and IFRS number 16. We have considered the specifics of capitalization of borrowing costs. We believe that business entities will achieve the following because of capitalizing the costs of financial leasing:

- ✓ Recognition of costs as an asset increases the liquidity ratio of the enterprise;
- ✓ as a result of recognizing the expense as an asset, an increase in the net profit for the current year is achieved;
- ✓ Expenditures for the current year, in return for the use of the asset over its useful life, lead to a uniform cost dynamics of the enterprise;

Financial leasing and capitalization of expenses result in financial statements being prepared in a quality and reliable manner so that consumers of financial information make accurate, useful and timely decisions.

REFERENCES

1. Resolution of the President of the Republic of Uzbekistan on February 24, 2020 “On additional measures for the transition to international financial reporting standards” No. PQ-4611.
2. Ғозибеков Д.Ғ. Лизинг муносабатлари назарияси ва амалиёти . Тошкент, 2014. -50 б.
3. Маликов Т.С. Солиққа тортишнинг долзарб масалалари. – Тошкент. : “Академия”. 2002. 153-б.
4. И.Бернер., Ж.Колли.; Толковый экономический и финансовый словарь русская, немецкая, испанская терминология: В 2-х тт. – Т1: Пер с фр. – М.: Международные отношения, 1994- 507с.
5. International Financial Reporting Standards 2019. URL: <http://www.ifrs.org/IFRSs/Official+Unaccompanied+IFRS+Translations.Htm>
6. IAS-23 (International Accounting Standards.) / “Borrowing costs”//2019y.
7. ACCA. (2019). Companion Guide for to the International Financial Reporting Standard Entities (IFRS).
8. Crawford, L., Morgan, G., Cordery, C., Breen, O. (2017). International financial reporting for the business sector. CCAB Study Report.
9. Grant Thornton / / Capitalisation of the borrowing costs: from theory to practice.2009.URL:http://www.grantthornton.com.au/files/capitalisation_of_borrowing_costs_from_theory_to_practice.Pdf
10. www.lex.uz - National Database of Legislation of the Republic of Uzbekistan.