International Journal of Research in Social Sciences
Vol. 14 Issue 01, January 2024,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

VALUATION OF FIXED ASSETS: FOR TAXATION AND ACCOUNTING PURPOSES

Khabiba Arifkhanova

Researcher of Fiscal Institute Under the Tax Committee
khabiba.arifkhanova@gmail.com

Abstract: *This article highlights the differences between fixed asset accounting and tax accounting under international and national law, as well as the differences between national accounting standards for fixed assets and international financial reporting standards. Moreover, the article provides recommendations on unifying the accounting of fixed assets and reducing the differences between their accounting. In addition, the author has developed proposals and recommendations on improving fixed asset accounting in reliance upon foreign experience.*

Keywords: *fixed asset accounting, national accounting standards, international financial reporting standards, tax accounting, initial value, fair value, depreciation of fixed assets.*

Introduction. Recently within the framework of the reforms implemented in the economic and financial spheres of our country, particular focus is made on attracting funds of foreign investors and aligning the activities of enterprises and entities operating in our country with international standards, including the transition of accounting to international financial reporting standards (IFRS). Furthermore, the information prepared on the basis of truthful, reliable and universally recognized standards is essential for an investor entering the economy with his own funds in making financial decisions.

It is known that, regardless of the business type, fixed assets constitute a solid basis for the operation of any enterprise and organization and important information representing financial stability. Therefore, in order to analyze the real financial situation of the enterprise, it is necessary to maintain an accurate accounting of fixed assets.

Therefore, it is crucially important to keep the accounting of fixed assets correctly, to fully and timely reflect the processes related to its input, activity account and output in the account, and to provide external and internal users with the reliable information about the value of fixed assets. Currently the acceleration of the process of shifting to the international financial reporting standards, the implemented systemic reforms have served to ensure that the accounting of fixed assets is performed in accordance with international standards. However, in the same process, the issue of keeping the fixed assets accounting in reliance upon the national accounting standards and international financial reporting standards for the purpose of taxation has become one of the most essential issues.

The studies have demonstrated that in practice there are differences between the value of fixed assets when accounting for fixed assets for taxation purposes and transferring financial accounting from national standards to international financial reporting standards. This creates a number of problems and difficulties for the interested parties using this information, including investors and tax authorities.

Therefore, for the purpose of accounting, business entities must recognize the fixed assets, capitalize it as the income, keep the records of the business, calculate depreciation, and keep an expense accounting, as well as keep an accounting of the aspects specified above from the point of view of tax accounting.

Literature review. There are several research papers aimed at improving the accounting of fixed assets, and such issues as its capitalization, depreciation, evaluation, and output have been studied by domestic and foreign scholars. In particular, Adam Hayes and Margaret James in their research paper state that revaluation of fixed assets is the process of accounting for an increase or decrease in the book value of a company's fixed assets or a group of fixed assets to account for any significant changes in their fair market value (Adam Hayes and Margaret James, 2021). The authors emphasize the significance of constant evaluation of fixed assets, which is more important than ever. Because the value of fixed assets is not reflected in the accounting at a value close to the market price, the true value, it affects the management of the financial side of the enterprise, the formation of costs and many other situations.

Moreover, according to another source, that the main purpose of the revaluation is to create economic conditions for the implementation of investment processes in the country, however, data on the dynamics of the main indicators of investment activity demonstrate that investment activity has not been observed during the revaluation period. The fact that investments are directed not to new construction, but to technical re-equipment and reconstruction of operating enterprises, admits that the result of revaluation has mainly been influenced by the increase in the value of fixed assets (Kulikova, 2016).

In turn, this fact implies that company managers should not be complacent due to the increase in the value of fixed assets. It should be noted that this is simply at the expense of bringing the value of the underlying asset closer to the market price.

According to Marin, revaluation of fixed assets, i.e. determination of their fair value, is required to provide a fair and reliable picture of its financial condition and efficiency. For taxation purposes, only those related to the depreciation of reserves are considered deductible expenses in the calculation of income tax, provided that they are treated as taxable income. Calculation of income tax, assessment of taxes on buildings, revaluation of tangible assets and especially revaluation of buildings should be approached with great care and professionalism as they involve fiscal implications (Marin, 2012).

This author definitely emphasizes that it is necessary not to forget the tax relationship when revaluation of the main asset and mentions that this should also be taken into account.

As a continuation of this idea, from the point of view of Telegina, fixed asset revaluation event will make a significant impact on the company's business. Telegina admits that after revaluation, depreciation allowances included in the prime-cost of goods may increase and thereby reduce the taxable income tax base (Telegina, 2018).

From the point of view of K. Khomitov, one of the domestic scholars, due to the uniqueness of machine and equipment evaluation it is required to develop a generally accepted method of evaluating the value of the machine and equipment. (Khomitov, 2018).

Z. Mamatov and S. Salokhiddinov recommend the permanent organization of revaluation of the property's property value, the revaluation should be made in reliance upon the fixed assets recognized as an asset, and the revaluation of the objects of fixed assets should be performed in reliance upon the actual value on the day of the revaluation (Z. Mamatov and S. Salokhiddinov, 2017).

Although the views of these authors are also significant in that they represent the process of revaluation of fixed assets, the phrase used by them is controversial. That is, the authors emphasize that the fund is transferred according to the statement that "fixed assets recognized as an asset". In fact, an asset that is not recognized as an asset will not exist. As long as an object is included in the fixed asset, it must meet the criteria of an asset.

It is obvious from the considerations specified above that the value of fixed assets and its evaluation is important not only from the point of view of accounting, but also from the point of view of taxation and requires a separate, comparative investigation.

Analysis and results. In general, according to our studies, the main differences in the accounting of fixed assets can be divided into 3 different types:

- differences in determining the initial value of fixed assets;
- differences in determining the revaluation value;
- differences in depreciation calculation.

The main differences between fixed asset accounting for financial accounting and tax accounting are presented in the table below.

Table 1

Information on the differences between financial accounting and tax accounting of fixed assets according to the National Accounting Standards and International Financial Reporting Standards*

Differences	Financial accounting		Tax accounting
	based on the NAS	**based on the IFRS**	
Formation of initial value	The amount of costs associated with an item of fixed assets before it is recognized in accounting.	The possibility of accrual of the interest on an investment asset.	The initial cost of an asset is the sum of the costs incurred to acquire, construct, manufacture, deliver, and bring it to a condition suitable for use. It is determined as its initial value with the account of previous revaluations for taxation purposes.
Restrictions	There is a minimum amount limit.	There is no minimum amount limit.	There is a limit of fifty times the value of the basic calculation amount on the date recognized as a fixed asset.
Liquidation and recovery costs	Is not taken into account.	Liquidation and recovery costs are added to the recovery costs.	Not applicable.
Revaluation	It is reflected in the report according to the current value (at the balance sheet value)	It is reflected at fair value	It is accounted at the balance value

As it is obvious from the table specified above, there are significant differences in the method of determining the initial value of fixed assets, revaluation, and calculating the depreciation.

* Developed by the author

However, in addition to significant differences, international and national standards have similar criteria for accounting for fixed assets, in particular for determining the useful life of an object.

Particular attention should be paid to the inconsistency of the methods of valuation of fixed assets, because with their help the amount of fixed capital is determined and depreciation payments are calculated. In addition, the efficiency of the use of fixed assets is analyzed.

Furthermore, the objective valuation of fixed assets makes an impact on the decision of investors about the attractiveness of the investment and their level of risk.

Moreover, it is crucially important to analyze the national and international standards of accounting and the norms established by the Tax Code of the Republic of Uzbekistan regarding the assessment of the value of fixed assets.

According to the Law of the Republic of Uzbekistan “On Accounting” (Law, 2016) and the national accounting standard NAS №5 (NAS, 2004) (registration number №1299 dated January 20, 2004), fixed assets are accounted for at initial (recovery) value.

initial cost is the cost of the costs incurred for the creation or purchase of fixed assets;

current value - the value of fixed assets at current market prices on a given date;

residual (balance) value — the initial (restoration) value of fixed assets after deducting the sum of accumulated depreciation;

liquidation value - the expected amount of assets that will be received upon liquidation of the fixed assets at the end of the expected useful life, less the expected costs of disposal of the fixed assets.

NAS №16 envisages the following types of valuation of fixed assets:

initial value - the fair value of the cash or cash equivalents or other real cost paid to purchase or create the asset;

book value is the recognized amount of an asset after deducting any accumulated depreciation and any accumulated impairment losses;

depreciation cost is the cost of an asset less its liquidation cost or other value that is represented instead of cost;

fair value is the price that would be received to sell the asset or paid to transfer the liability in an ordinary transaction between market participants at the valuation date;

refunded amount is the greater of the following two values of the asset - its fair value less costs of sale and its value in use;

disposal value of an asset - the estimated amount that can be received by the entity at the present time, after deducting the estimated costs of writing off the asset, if it is assumed that the asset will be in the age and condition expected at the end of its useful life;

liquidation value of an asset - the appraised amount that can be received by the entity at the present time, after deducting the estimated costs of writing off the asset, if it is assumed that the asset will be in the age and condition expected at the end of its useful life.

According to the international financial reporting standards, after recognizing the fixed assets, it is necessary to choose one of the recognition models in the accounting policy. These models are based on the initial value accounting model (actual costs) and the fair value accounting model.

Conclusions and proposals. In the first model after initial recognition fixed assets are accounted at the value minus accumulated depreciation and impairment losses.

According to the second model, fixed assets should be considered at their revalued value, that is, the difference between the fair value of the fixed asset on the date of revaluation and the amount of accumulated depreciation - impairment losses - is taken into account.

Companies that choose the second model usually incur revaluation costs, and in many cases, businesses abandon this model. However, in our opinion, if the second model is used in the revaluation of fixed assets, the financial analysis of the value of the company’s assets would reflect the fair indicators.

In reliance upon the above-mentioned differences, it is possible to make a conclusion that the value of the indicators of fixed assets in the reports prepared on the basis of national standards and the value of the indicators in the reports prepared on the IFRS basis may differ somewhat, and this may impact establishing cooperation-based relations with investors.

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