

## **IMPROVING ACCOUNTING OF ADDITIONAL PAID-IN CAPITAL**

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**Abstracts:** This article is devoted to consideration of the theoretical, methodological, as well as regulatory foundations of creating additional paid-in capital at economic entities, in particular, at oil-fat. Moreover, proposals and practical recommendations on creating additional paid-in capital and its accounting have been developed with the account of the research results.

**Key words:** equity, founders, foreign capital, additional paid-in capital, issuance income, exchange rate differences at creating charter capital, difference of positive exchange rates, difference of negative exchange rates.

**Introduction.** Economic reforms implemented in our country, first of all, are aimed at developing activities of economic entities, in particular, attracting additional funds in their performance to make it more sustainable. Funds attracted by the economic entities can cause the sources of equity, as well as the composition of the charter capital.

For instance, according to the opinion of American scientists, capital - is the economic resources at the disposal of the owner of the company, which reflect the aggregate of monetary values (cash and debt obligations of customers); tangible assets (inventories, land plots, buildings and equipment) and assets expressed in the form of intangible rights (patents, copyrights and trademarks (Needles et al., 1994).

As far as we know, the capital of economic entities is generated from two sources, i.e. sources of the equity capital and borrowed funds (liabilities).

The equity capital is crucially important in the composition of these funds, that is for the performance of the economic entities. In compliance with the current legislation and statutory acts regulating accounting, the equity capital can be formed from the charter fund (charter capital), additional paid-in capital, distributed (accumulated) profit, targeted receipts, as well as deferred expenses and payment reserves. In our opinion, it is advisable to accurately identify the structure of equity capital in economic entities and to precisely classify the grouping of

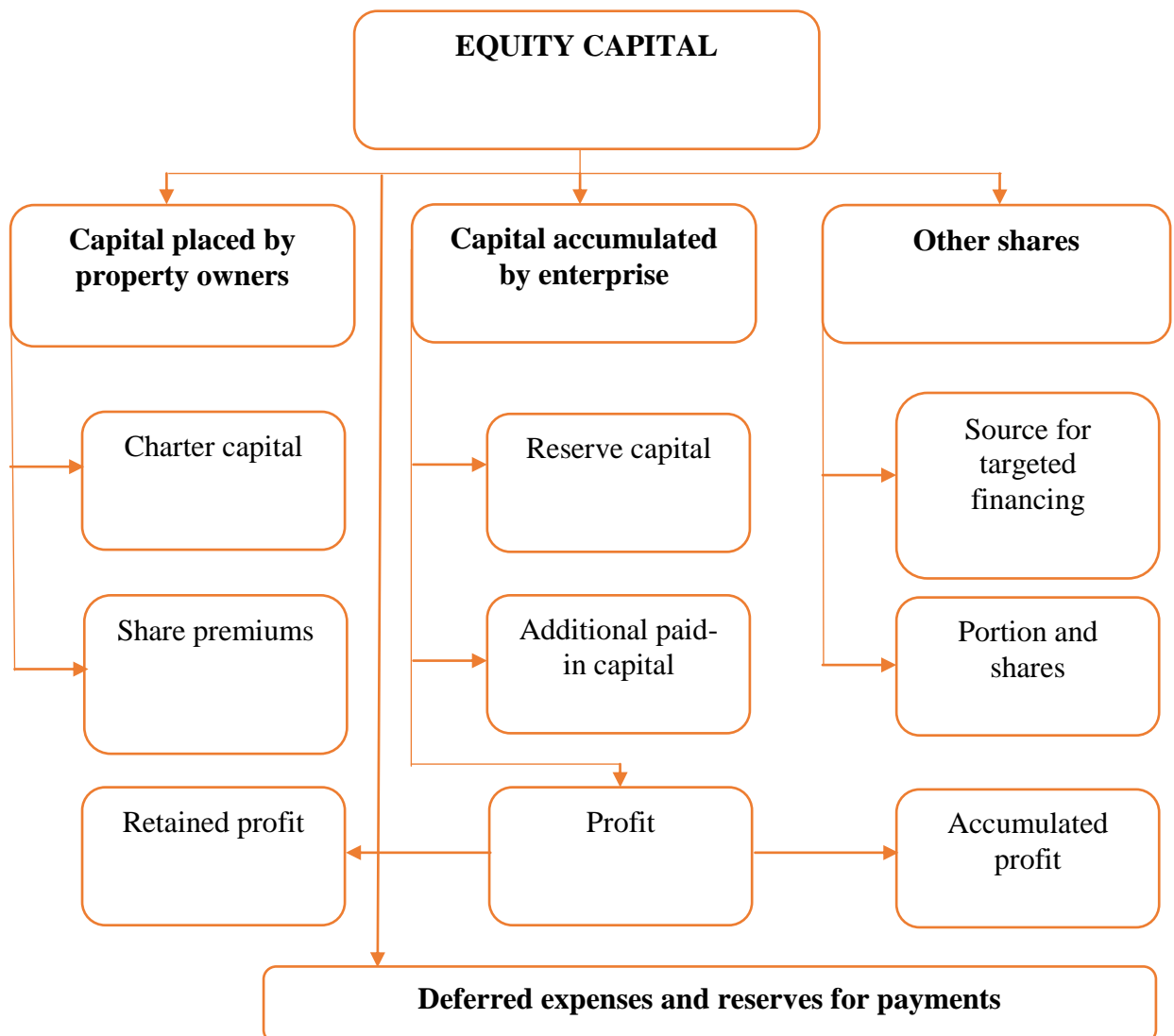
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sources of formation of the equity capital when taking into consideration relevant information.

As the researches demonstrate, accurate grouping of the composition of the equity capital at the economic entities, in particular, at the joint-stock companies, is considered to be a significant factor in implementing appropriate settlements and ensuring their efficient use. In this regard below we propose the chart illustrating grouping of the composition of the equity capital at the economic entities, in particular, at the joint-stock companies (Figure 1).



**Figure 1. Grouping of the equity capital composition by the sources at economic entities**

*Source: Developed by the author in the process of the research.*

The grouping of the composition of the equity capital at the economic entities by the source for their formation will enable to carry out accurate accounting of these sources, as well as obtaining the information on the sources due to which this capital has been generated.

In addition, the loans received from the banks, investments, in particular, foreign direct investments (FDI), borrowed funds, funds of individuals and legal entities, as well as other cash resources can be used as the sources for attracting additional funds in the performance of economic entities. Meanwhile, it is also advisable to attract additional funding sources in the activities of enterprises. These additional funding sources can be created due to rent or sale of the unoccupied free facilities, determining unutilized production capacities, as well as re-direction of other funding sources in the activity of the enterprise.

Currently attracted additional funds are allocated to the modernization of the performance of economic entities, diversification of the production. However, there is one more source of capital at economic entities which can appear as the capital source only at the moment of establishing the activity of the economic entity and then is handled at the entities as the additional paid-in capital.

**Literature review.** Nowadays we can witness a variety of opinions of different statutory acts and scientists-economists on the creation of additional paid-in capital and its accounting.

In compliance with clause 3, article 19 of the Law of the Republic of Uzbekistan “On accounting”, “The additional paid-in capital reflects the share premium received from the initial sale of shares at prices higher than the nominal value, as well as the exchange rate difference arising in the process of formation of the charter fund (charter capital) which equivalent is expressed in foreign currency” (Law, 2016).

In addition, from the point of view of the scientist-economist A.A.Karimov, the additional paid-in capital is created due to the following sources: “The additional paid-in capital of the enterprise can be generated as a result of the following transactions:

- at the primary sale of shares at par value exceeding the nominal value of the issuance income;
- while creating the charter capital of enterprises with foreign investments which cause a difference in the exchange rate” (Karimov et al., 2004).

In this regard, professor A.K.Ibragimov supposes that “the additional paid-in capital is the amount of the sum received from the sale of ordinary and preference shares in excess of the nominal value, plus the value of the property received on non-refundable basis.

The additional paid-in capital reflects the proceeds from the initial sale at an excess of the par value of the shares. In addition, the amount of differences in the exchange rates occurred at payouts of deposits placed in the charter capital in the structure of the additional paid-in capital is taken into account as well. (Ibragimov et al., 2008).

From the literary source specified above it is obvious, that according to the opinion of the scientist-economist A.K. Ibragimov, the sources for creating additional paid-in capital are divided into three groups: income in the form of issuance, differences in exchange rates occurred when generating the charter capital, as well as the value of property acquired for free on the non-refundable

basis. It should be noted that in the sources of generating additional paid-in capital, the value of property acquired for free is included in the reserve capital.

In the opinion of K.B. Urazov, “the additional paid-in capital is considered to be a structural unit of the equity capital and can occur in the two following cases:

- when the company sells its shares at a higher price than their nominal value.

In this case the difference between the sale and nominal values is called the issuance income;

- the difference between exchange rates frequently appears during the period of generating the equity capital. Such an additional paid-in capital is basically typical for joint ventures with foreign investments” (Urazov, 2004).

Thus we can make a conclusion that according to the majority of the statutory acts and opinions of scientists-economists, the basic sources for generating the additional paid-in capital are the differences between the nominal value and sale value of shares, which constitutes the issuance income, as well as the share of foreign founders in the charter capital.

If we research scientific papers of foreign economists on the sources for generating the additional paid-in capital at the economic entities we can find the following opinions on this issue.

From the point of view of N.P. Kondrakov, “unlike the charter capital, the additional paid-in capital is not divided to the shares by certain participants, however, it demonstrates the total ownership right of all participants.

The additional paid-in capital consists of the following:

- sale of shares at a price exceeding their nominal value and additional issue of shares;

- raising the property value when carrying out re-evaluation;

- foreign exchange differences generated by the agencies which have made contributions to the charter capital of the agency” (Kondrakov, 2008).

Additional paid-in capital is the amount of the revaluation of non-current assets, budget appropriations aimed at replenishing current assets, as well as other receipts in the equity of the enterprise (for example, donated fixed assets). It consists of the following elements: share premium - the difference between the sale and nominal value of shares at the enterprise; exchange rate differences - differences when paying a share of the charter capital in foreign exchange; the difference when revaluing fixed assets - the difference when changing the value of fixed assets (Posherstnik, 2010).

In this regard, another Russian scientists-economist V.F. Paliy in his scientific paper has specified that “Additional paid-in capital is the capital that is created as a result of the revaluation of non-current assets. At joint-stock companies, the amount received in excess of the nominal value of the placed shares is credited to additional paid-in capital. The additional paid-in capital of the enterprise is a part of its own capital which is allocated as an object of accounting and an independent indicator of reporting. The purpose of additional paid-in capital is represented in the fact that it accumulates changes in equity due to events that do not affect the financial result of the agency” (Paliy, 2001).

Additional paid-in capital is capital that is contributed to a corporation by investors by purchase of stock from the corporation, the primary market, not by purchase of stock in the open market from other stockholders (the secondary market). It includes share capital (capital stock) as well as additional paid-in capital. The additional paid-in capital account does not reflect the amount of capital contributed by any specific investor. Instead, it shows the aggregate amount of capital contributed by all investors. In addition, it should be noted that the additional paid-in capital represents the peculiarity of the additional sources for the agricultural entities and it can occur as a result of the constant re-evaluation of fixed assets.

Additional paid-in capital is distributed for raising the charter capital, covering the balance during the reporting period, as well as for other purposes.

**Discussion and analysis.** In compliance with National Accounting Standard № 21, the following accounts are designated for accounting of the additional paid-in capital: account № 8400 – “Account for additional paid-in capital accounting” which implies that summarizing information on the availability and flow of additional paid-in capital in excess of the nominal value of the amounts received for ordinary and preference shares, that is, share premium earned on the initial sale of shares at prices higher than the nominal value, as well as the amount of exchange differences arising in the formation of the charter capital carried out in the following accounts:

8410-“Issuance income” account;

8420-“Exchange difference in the formation of the charter capital” account.

The additional paid-in capital reflects the issuance income received from the primary sale of the shares with the price higher than a nominal value. Moreover, the additional paid-in capital also includes the amount of the exchange rate difference on the payment of contributions to the charter capital.

The receipt of the amounts is accounted on the credit of account 8410 “Issuance income” and the use of funds to cover the difference between the nominal and purchase value when canceling the repurchased own shares is debited to this account.

In practice, the received amounts are accounted by the credit on account 8410 - “Issuance income”. It should be noted that these problem are accounted by debit on this account to cover the difference between the exchange rates when purchasing private shares and eliminating purchased private shares. Accounting the issuance income is carried out according to the following procedure:

accounting of the shares issued by the nominal value at determination of the charter capital amount:

Debit – 4610- “Debt by the shares of the charter capital founders” account

Credit – 8310-“Ordinary shares” account

Credit – 8320-“Preference shares” account

Later if shares are sold at the price higher than their nominal value, positive difference between the nominal and selling value is accounted as the issuance income, that is

Debit – Accounts used for accounting of monetary funds

Credit - 4610 - “Debt by the shares of the charter capital founders” account

Credit - 8410 – “Issuance income” account.

Account 8420 “Exchange differences in the formation of the charter capital” is designated for accounting of exchange differences arising in the process of formation of the charter capital. When creating the charter capital, the currency and currency values are assessed at the rate of the Central Bank of the Republic of Uzbekistan at the time of making a contribution to the charter capital.

Assessment of currency and currency values and other property may differ from their valuation in the constituent documents at the time of registration. A positive exchange rate difference in the formation of the charter capital of an economic entity arising between the Central Bank rates on the date of registration of the constituent documents and the date of the actual contribution of funds to the charter capital is reflected in accounting as additional paid-in capital in account 8420 “Exchange rate difference in the formation of the charter capital”.

A negative exchange rate difference in the formation of the charter capital of an economic entity arising between the Central Bank rates on the date of registration of the constituent documents and the date of the actual contribution of funds to the charter capital is reflected in the debit of account 8420 “Exchange rate difference in the formation of charter capital” within the amount of the previous positive exchange rate difference occurred during the formation of the charter capital.

When creating the charter capital analytical accounting of the differences of exchange rates arisen during the formation of the charter capital is conducted by each founder.

Unlike the charter capital which must remain unchanged before the re-registration of the business entity, the additional paid-in capital can be replenished as a result of the following transactions:

- in the process of formation of the charter capital of economic entities with foreign investment due to the difference in the exchange rate;
- as we have mentioned above, issuance income is reflected only as the difference between the selling price and the nominal value of shares and only at the initial issue. (Ibragimov et al, 2008).

It should be noted that according to 8410 “Issuance income” account, only the amount which exceeds the nominal value of shares at their initial issue is taken into account. However, this amount isn’t considered to be the object for profit tax.

In the statutory acts specified above, as well as based on the opinions of the economists-scientists it is obvious, that additional paid-in capital at economic entities, in particular, joint-stock companies and companies with participation of foreign capital is basically generated due to the positive difference between exchange rates arisen as a result of difference of exchange rates. For instance, according to current National Accounting Standard № 21, account 8420 “Exchange differences in the formation of the charter capital” is designated for accounting of exchange differences arising in the process of formation of the charter capital.

When creating the charter capital, the currency and currency values are evaluated at the rate of the Central Bank of the Republic of Uzbekistan at the moment of making a contribution to the charter capital.

Evaluation of currency itself and currency values and other property may vary from their estimation in the constituent documents at the time of registration. A positive exchange rate difference in the formation of the charter capital of an economic entity occurring between the Central Bank rates on the date of registration of the constituent documents and the date of the actual contribution of funds to the charter capital is reflected in accounting as additional paid-in capital in account 8420 “Exchange rate difference in the formation of the charter capital”.

A negative exchange rate difference in the formation of the charter capital of an economic entity occurring between the Central Bank rates on the date of registration of the constituent documents and the date of the actual contribution of funds to the charter capital is reflected in the debit of account 8420 “Exchange rate difference in the formation of charter capital” within the amount of the previous positive exchange rate difference occurred during the formation of the charter capital. Writing-off of exchange rate differences according to this procedure is determined in the constituent documents and enables not to change the share of founders of the charter capital.

The economic reforms which have been recently implemented in our country, and the laws adopted by our government to liberalize the foreign exchange policy, are aimed at improving the currency transactions in the country.

According to the Decree of the President of the Republic of Uzbekistan PD-5177 “On primary measures to liberalize foreign exchange policy” as of September 2, 2017, “Meanwhile excessive administrative regulation in the sphere of foreign exchange circulation unjustifiably created an inefficient system of privileges and preferences for certain industries and economic entities which resulted in unequal business conditions and violations of market principles of competition, and became a braking factor for attracting foreign investment and raising the export of goods and services, overall economic development of the country” (Decree, 2017).

In this regard, the Resolution of the President of the Republic of Uzbekistan PR-4233 “On additional measures to introduce market mechanisms for regulating foreign exchange transactions” as of March 7, 2019 is aimed at further improvement of the regulation of accounting of transactions associated with foreign exchange.

Adoption of this Decree and Resolution has caused the following consequences: in our country, there have been difficulties in making payments in foreign exchange and taking into account the exchange rate differences associated thereof, as well as in the formation of the charter capital, and in calculating the share of foreign founders. As far as we know, in practice when considering the share of foreign founders in the charter capital in the formation of the charter capital by economic entities, foreign exchange is established by the Central Bank of the Republic of Uzbekistan at the value of the UZS. Subsequently, when foreign founders make relevant contributions, they are accounted at the current Central

Bank rate. In this case, in compliance with account 8420 “Exchange rate difference in the formation of the charter capital” of National Accounting Standard № 21, typically positive exchange rate differences are taken into account.

As researches illustrate, in recent years, when the value of foreign currencies to UZS declined according to the policy conducted by the Central Bank of the Republic of Uzbekistan, no accounting records have been provided and no comments or explanations have been made in the current accounting regulations.

In this regard, in the formation of charter capital at enterprises with foreign capital, it is important to take into account the negative exchange rate differences and reflect them in the relevant reports.

**Conclusion.** As a result of the carried out research with the aim of accounting additional paid-in capital at economic entities we propose the following accounts:

8400 – “Account for additional paid-in capital accounting”

8410 – “Issuance income” account

8420 - “Exchange rate difference in the formation of the charter capital - positive” account

8430 - “Exchange rate difference in the formation of the charter capital – negative” account

These proposed accounts shall be maintained according to the following procedure:

1. for accounting the share of foreign founders in the charter capital:

Debit 8340 - “Placement attracted from foreign founders” account

Credit 4620 - “Debts of foreign founders by the shares of charter capital” account.

2. When the share of foreign founders is contributed to the charter capital, in particular and the exchange rate is positive:

Debit “Accounts for property accounting”

Credit 4620 - “Debts of foreign founders by the shares of charter capital” account

Credit 8420 - “Exchange rate difference in the formation of the charter capital - positive” account.

3. When the share of foreign founders is contributed to the charter capital, in particular and the exchange rate is negative:

Debit “Accounts for property accounting”

Debit 8430 - “Exchange rate difference in the formation of the charter capital – negative” account

Credit 4620 - “Debts of foreign founders by the shares of charter capital” account.

Later as a result when re-evaluating the foreign exchange funds of foreign founders positive differences of exchange rates are reflected in 9540 - “Income from the differences of the foreign exchange rates” account, and negative differences of exchange rates are reflected in 9620 - “Loss from the differences of the foreign exchange rates” account.



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