

Methodical foundations of accounting of obligations to employees

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Abstract. This article is devoted to consideration of theoretical, methodical, and legal aspects of the accounting of obligations to employees. Furthermore, it is proposed to improve the calculation of the obligation to the employees in reliance upon the research results.

Keywords: obligations to employees, long-term obligations to employees, short-term obligations to employees.

Introduction. Although accounting for settlements with employees is considered a specific issue, there is no separate act on accounting in the Republic of Uzbekistan that regulates this issue. That is, only if the Labor Code of the Republic of Uzbekistan, the Civil Code or other statutory acts cover relations regarding organization of labor, payment for labor or other issues for the employee, the Tax Code contains tax relations in settlements with the employee.

Therefore, in the matter of keeping records of settlements with employees, national legislation does not serve as a sufficient methodical basis. However, in international financial reporting standards the issue of settlements with employees is reflected in two standards. One of them is dedicated to the income of employees, and settlements with employees are aimed at recognizing expenses and obligations, while the second one is dedicated to the results of employees' labor, that is, pension relations.

The aim of International Accounting Standard №19, "Income of Employees" is to establish the procedure for accounting for and disclosing the income of employees*. This standard determines the procedure for recognizing obligations and expenses for enterprises applying international accounting standards. According to the standard, an obligation is recognized when an employee provides services for a certain remuneration. An expense is recognized when the economic benefit is spent by the enterprise on the employee at the same time.

Analysis and discussion of results. Based on the data of the "Regional Electric Networks" Joint-Stock Company, which data has been analyzed in this research paper, we can see that the obligation to employees is included in the structure of short-term liabilities, and the composition of receivables also includes advance payments paid to employees (Table 1).

*International Accounting Standard №19 "Income of Employees", Appendix 9 to the Order of the Minister of Finance of the Republic of Uzbekistan №61 dated November 10, 2022.

Table 1**Short-term obligations to employees of the “Regional Electric Networks” Joint-Stock Company[†] (thousands UZS)**

Indicators	2019	2020	2021	2022	2023
Advance payments paid to employees	8 676	5 675	19 751	56 032	316 083
Debt by salary	955 506	1 255 682	2 467 186	4 086 853	893 300
Relation of the advance payments to salary, %	0,91	0,45	0,80	1,37	35,38

From the data in this table it is obvious that the short-term obligations to employees of the “Regional Electric Networks” Joint-Stock Company have different indicators in 2019-2023. This fact is definitely directly related to the payroll fund and the number of employees.

While the debt for payment of salary increased from 955 million UZS to 4 billion UZS in 2019-2022, for some reason it amounted to 893 million UZS in 2023. Advance payments paid to employees, while lower in 2020 than in 2019, increased sharply in 2023 compared to 2021-2022 and previous years, reaching 316 million UZS. In general, it is obvious that in 2019-2022, the company’s employees were mainly paid once a month based on their monthly salary. Moreover, advance payments of about 35 percent of the monthly salary were paid only in 2023. However, these advance payments may also have been paid based on the salaries or business trips.

In general, in the national accounting standard, the advance payment given to the employee for the business trip and the advance payment given for the salary are reflected in one account, in one line in the balance sheet, it is incorrect in terms of expressing the economic content of the indicator. That is, according to the national accounting standard № 21, the structure of the account 4200 is universal, not only the payment of labor. Perhaps the advance payments given to the employee for any other purpose are included in this account. That is, the data on the company’s current accounts for the employees’ salary, accountability for operational and administrative expenses, as well as business travel allowances will be summarized[‡].

As can be seen from the above, it is impossible to know the purpose of the advance payments provided by the “Regional Electric Networks” Joint-Stock Company. Only based on internal research, it is possible to find out whether this advance payment has been related to salaries or has been provided for another purpose on the order of the institution or entity.

Because according to the standard, the account 4210 “Advance payments by salary” accounts for all types of advance payments given to employees of the entity. Payment of advance payments to the future salary account is implemented in reliance upon the employee’s application specifying the reason. In addition, this account records monthly salary payments, which are debited at the end of the month from the credit of account 4210 “Advance payments by salary” to the debit of account 6710 “Settlements with employees by salary”.

Advance payments given to employees of the company for business trips are taken into account in the account 4220 “Advance payments given for business trips”.

Advance payments for business trips are issued on the basis of the calculation of the amount of the advance payment specifying the order of the business trip, the cost of tickets, daily living expenses, etc. Foreign exchange issued and spent for business trips is accounted

[†] Developed by the author based on data received from the “Regional Electric Networks” joint-stock company.

[‡] National Accounting Standard №21. <https://lex.uz/acts/7282737>

for separately, the currency is converted into UZS at the rate of the Central Bank of the Republic of Uzbekistan on the day the money is issued and is recorded in UZS.

Account 4230 “Advance payments given for economic household expenses” reflects the amounts of advances for the purchase of various small inventory and equipment for general household needs in cash, as well as using corporate bank cards. Valuation and receipt of inventory is performed in reliance upon relevant auxiliary documents.

So, book-keeping maintained in account 4230 actually has no connection to the employee because the asset in this account is actually a stock or other asset and has no connection to the employee at all.

Account 4290 “Other advance payments given to the employee” includes other advance payments given to employees of the company, which are not reflected in accounts 4210 - 4230.

Therefore, in our opinion, it is advisable to leave only book-keeping of the salary advance in account 4200, and to record out-of-work advance payments in another account.

If we look at the accounts of settlements with employees in the report of another joint-stock company, namely “Galla-Alteg” Joint-Stock Company, we see that almost no advance payments have been given to employees in this company, or the employees have been paid their full salaries before the report has been completed, because the report data illustrates that there is no amount in the line of advances given to employees (Table 2).

Table 2

**Short-term obligations to employees of “Galla-Alteg” Joint Stock Company[§]
(thousand UZS)**

Indicators	2019	2020	2021	2022	2023
Advance payments given to employees	0	76944	0	0	0
Debt on salary	781 820	2 052 176	3 644 329	4 369 899	910 625
Relation of the advance payment to salary, %	0,00	3,75	0,00	0,00	0,00

In our opinion, this company did not provide information on the advance payments given to employees at the end of the reporting period. Otherwise, there should have been at least a figure, even if it was a small amount for salary or business trips.

According to the international accounting standard №19, the company should recognize expected expenses for short-term obligations to employees in the form of indemnity for time not worked in the following cases^{**}:

- in the case of accrued time off, when employees perform services that increase their entitlement to future time off indemnity;
- in the case of non-cumulative time off pay when paid time off occurs.

The company pays employees for time not worked for various reasons, including vacations, sick and short-term disability leave, maternity leave, court-appointed advisors, or military service leave.

Long-term obligations to employees may include payments for long-term leave, such as additional long-service leave or creative leave, anniversary bonuses or other long-service payments, and long-term disability benefits.

In addition, there are other obligations to employees, which can be included in one of the above two groups according to their duration and period of occurrence and redemption.

[§]Developed by the author based on data received from “Galla-Alteg” joint-stock company.

^{**}International Accounting Standard № 19 “Income of Employees”, Appendix 9 to the Order of the Minister of Finance of the Republic of Uzbekistan № 61 dated November 10, 2022.

For example, these can include pension benefits, retirement lump sums, post-employment life insurance and post-employment medical allowances.

Obligations to employees include those obligations to employees that are provided to employees or their dependents or beneficiaries and that can be settled through payments (or the provision of contingent goods or services) made directly to employees, their spouses, children or other dependents, or to others, such as insurance companies.

Our research has demonstrated that, although it is focused on accounting for employee settlements, the naming of International Accounting Standard №19 and the definitions given to some concepts in it do not correspond to the essence of the standard and accounting, because, according to the standard, the company should not keep records of employee income, but rather recognize, evaluate and account for obligations to employees.

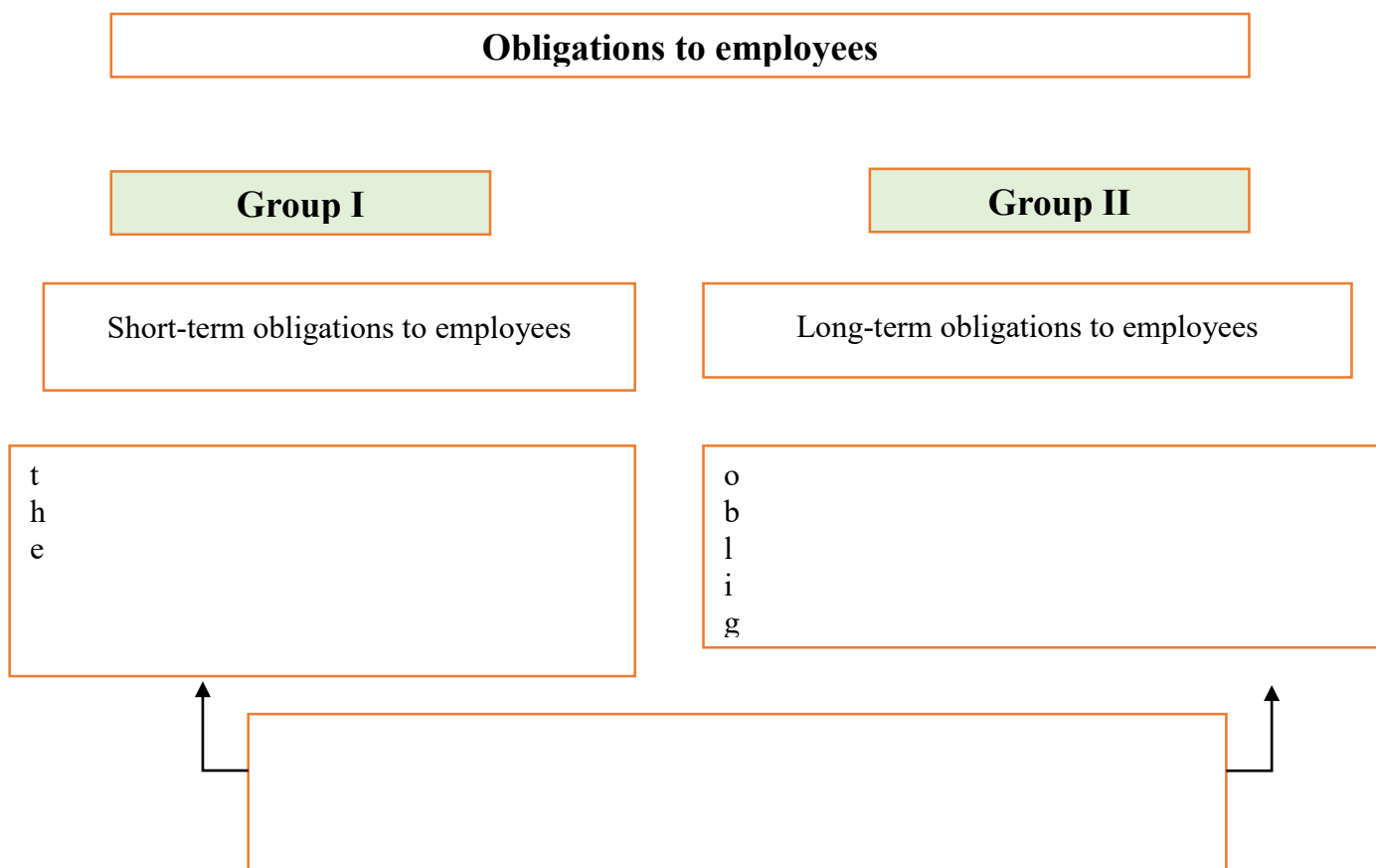
Therefore, in our opinion, it is appropriate to define “obligations to employees as all forms of compensation provided by the company in return for the services rendered by employees or for other reasons”.

At the same time, short-term obligations to employees are not short-term income of employees, but rather obligations to employees that are expected to be settled in full within twelve months after the end of the annual reporting period.

Long-term obligations to employees are liabilities to employees that are expected to be settled in full twelve months after the end of the annual reporting period.

Post-employment obligations are the liabilities that are paid to employees after their employment ends.

Post-employment obligations to employees can be long-term or short-term, depending on their duration (Figure 1).



Conclusion and proposals. In our opinion, it is appropriate to define **obligations to employees** as “all forms of compensation provided by a company in return for the services rendered by employees or for other reasons”. It is appropriate to keep accounts of obligations

to employees according to their term, dividing them into “short-term obligations to employees” and “long-term obligations to employees”.

The account of items issued to employees reflects items issued for the purchase of various small inventory and equipment for salary and general household needs in cash, as well as using corporate bank cards.

Account of the advance payments given for employees reflects the amounts of advances for the purchase of various small inventory and equipment for general household needs in cash, as well as using corporate bank cards. Valuation and entry of inventories are performed on the basis of relevant supporting documents. In our opinion, it is advisable to leave only the salary advance account in account 4200, as well as to record advance payments other than work in another account.

The implementation of the proposals made by us will serve to ensure that documents on settlements with employees are complete and comprehensive, and ensure that accounting information on settlements with employees is accurate and reliable.

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