



Improving real estate accounting

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Abstract This article is devoted to the consideration of some aspects of property tax, including real estate taxation, with a focus on real estate taxation and its accounting. In addition, the article analyzes real estate accounting on the basis of international financial reporting standards. In reliance upon the analysis made, the author has developed relevant conclusions.

Key words: Real estate, real estate accounting, real estate accounting in international financial reporting standards.

Introduction. Currently the only way to adjust financial accounting and reporting in Uzbekistan in compliance with the the level of the world standards is to study international financial reporting standards and most advanced international practices, world literary sources and documents in this field and introduce them with the account of the specifics of our economy. The Republic of Uzbekistan is gradually transitioning to IFRS as well. In the section “Priorities of economic development and liberalization” of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021, the priority “Introduction of contemporary standards and methods of corporate governance, strengthening the role of shareholders in strategic management of enterprises” requires widespread implementation of the International Financial and Reporting Standards.

At present, the issue of improving the accounting of real estate in our country and abroad is of priority importance. The Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021, adopted by President Shavkat Mirziyoyev (2017), determines strengthening of guarantees for the exercise of citizens’ the rights for private property as one of the most essential objectives. Property taxation is based on the Law of the Republic of Uzbekistan

№-589 “On the State Budget of the Republic of Uzbekistan for 2020” dated December 9, 2019, №-599 “On amendments and additions to the Tax Code of the Republic of Uzbekistan” dated December 30, 2019 and the Resolution of the President of the Republic of Uzbekistan PR-4555 “On measures to ensure the implementation of the Law of the

Republic of Uzbekistan “On the state budget of the Republic of Uzbekistan” dated December 30, 2019.

The Resolution of the President of the Republic of Uzbekistan № PR-4611 “On additional measures for the transition to International Financial Reporting Standards” dated February 24, 2020 is of particular significance in our country in terms of the transition to International Financial Reporting Standards.

According to this Resolution (2020), in order to accelerate the transition to International Financial Reporting Standards (hereinafter - IFRS) to provide foreign investors with the required information environment and access to international financial markets, as well as to improve the training of accounting and auditing specialists in compliance with the international standards: societies, commercial banks, insurance companies and legal entities included in the category of major taxpayers:

Since January 1, 2021, it is scheduled to arrange accounting in reliance upon the basis of IFRS, and since the end of 2021 it is planned to compile financial statements in reliance upon the IFRS.

Literature review. In order to consider real estate as an object of accounting, it is required to determine its composition. In the process of this problem research problem, we have witnessed availability of various views on the issues of real estate, its composition, the object of accounting in the statutory acts and scientific literature analyzed.

According to Article 130 of the Civil Code of the Russian Federation (2019), real estate includes land plots, subsoil plots and all things firmly connected with the land, including buildings, structures, unfinished construction objects. In addition, the real estate includes air and sea vessels, inland waterway vessels, which are subject to the state registration. Moreover, real estate includes residential and non-residential buildings, as well as buildings for the placement of vehicles.

According to Article 411 of the Tax Code of the Republic of Uzbekistan (2020), real estate includes:

1) buildings and structures registered by the competent authorities for the state registration of rights for real estate facilities;

2) incomplete objects. Incomplete construction includes facilities that have not been completed within the normative period specified in the design and estimate documentation for the construction project, and unfinished facilities within twenty-four months upon the date of obtaining a permit from the body authorized to build the facility, if the normative construction period is not specified;

3) railways, main pipelines, communication and power transmission lines, as well as structures that constitute an integral technological part of these facilities;

4) residential real estate objects specified in the balance sheet of construction companies or constructors of buildings upon six months after the commissioning of real estate.

From the point of view of Ye. Ye. Golova (2014), in Russian accounting practice, real estate is classified as fixed assets and is reflected in the account 01 “Fixed assets”. In addition, real estate objects can also be classified as follows:

as an income contribution to tangible assets and are accounted for in account 03;

as an investment in non-circulating assets and are accounted in account 08;

as a commodity and are accounted in account 41.

S.N. Tashnazarov (2019) expressed the following opinion regarding the issue of the real estate: “Real estate at the disposal of the owner is real property intended for production or shipment of goods, services or administrative purposes at the disposal of the owner or the lessee under a financial lease”.

The issue of real estate in IFRSs is obviously more reflected in International Accounting Standard (IAS) 40 (Investment Real Estate). IAS 40 “Investment Real Estate” applies to the recognition, valuation and disclosure of investment property.

This standard determines investment real estate as follows: “Investment real estate is the property (land or building - or part of a building – or both of them) held for the purpose of earning income from rent or to increase the value of capital or both (by the owner or the lessee under a financial lease), which does not include the following properties:

(a) used in production or supply of goods or services or for administrative purposes;

or

(b) property for sale in conventional economic activity”.

In international practice, when real estate is accounted as an object of accounting, several IFRSs are used, including IFRS (IAS) 16 “Property (land), buildings, machinery and equipment”, IFRS (IAS) “Inventories”, IFRS (IAS) 40 “Investment Real Estate”. In this regard, S.N. Tashnazarov acknowledged the following: “In the process of application of IAS 16, requirements of standards such as IAS 1, IAS 23, IAS 36, IAS 37, IAS 40, IAS 41, IFRS 3, IFRS 5, IFRS 6 are taken into account as well”.

Table 1.**IFRS (IAS) used in accounting for real estate as an object of accounting**

International Financial Reporting Standards
IAS-2 Inventories
IAS-16 Property, Plant and Equipment
IAS-40 Investment Property
IAS-36 Impairment of Assets
IAS-12 Income Taxes
IAS-17 Leases
IAS-19 Employee Benefits

Analysis and results. In the information below let us now consider the essence of some IFRSs. The purpose of IAS 16 (Property, Land, Buildings, Machinery and Equipment) is to clarify key issues in its accounting, including recognition of assets, determination of book value and calculation of depreciation. Under this standard, an item of property, plant and equipment that can be recognized as an asset is measured in reliance upon the prime-cost.

The cost of an item of property, plant and equipment is recognized as an asset only if the following conditions are met:

if there is a possibility of future economic benefits associated with the fixed asset by the economic entity;

and the prime-cost of the asset can be measured on the reliable basis.

In compliance with IAS 16 “Property, Plant, Machinery and Equipment”, the initial cost of an item of property, plant and equipment consists of:

(a) its purchase price, including import duties and non-refundable taxes related to the purchase deducting sales discounts and rebates.

(b) direct costs associated with bringing the asset to the place and condition required for its use by the management of the economic entity.

(c) initial cost of expenses on dismantling and removing the object of fixed assets and restoring the natural resources at its location. The economic entity assumes the liability for these costs at the time of purchase of the fixed asset or as a result of its use for non-production purposes for a certain period of time.

The following are examples of direct costs:

- (a) payroll costs directly attributable to the creation (construction) or purchase of a fixed assets object, plant and equipment (as set out in IAS 19 “Employees’ Income”);
- (b) site preparation costs;
- (c) initial costs associated with delivery and loading and unloading;
- (d) installation and assembly costs;
- (e) the difference between the cost of testing the smooth operation of the asset and the net proceeds from the sale of the product manufactured (as in case of equipment testing) at the time and place of the asset; and
- (f) fees for high-qualification services.

According to IAS 5 of the Accounting of the Republic of Uzbekistan (2004), the initial cost of fixed assets is as follows: Fixed assets should be included in the balance sheet of the enterprise at the prime-cost and include the purchase price (amount paid to the supplier) and all costs associated with the purchase of fixed assets.

Costs associated with the purchase of property, plant and equipment include:

- registration fees, state duties and other similar payments for the purchase (acquisition) of rights for fixed assets;
- customs duties and taxes;
- amounts of taxes and fees incurred in connection with the purchase (construction) of fixed assets (if they are not covered);
- amounts paid for information and consulting services related to the purchase (construction) of fixed assets;
- expenses related to insurance of the risk of delivery (construction) of fixed assets;
- rewards paid to intermediaries when the object of fixed assets is received through these intermediaries;
- costs related to fixed assets installation, assembly, adjustment and launch;
- other costs directly related to adjusting the asset in compliance with the working condition for its targeted use.

From the statements specified above it is obvious that in terms of composition of expenses of the fixed asset almost IAS 16 “Property (land), buildings, machinery and equipment” corresponds to IAS 5.

Form 1 “Balance” compiled by the enterprises of our country demonstrates general description of fixed assets. According to it, it is not possible to determine the value of real estate, which constitutes the object of property tax.

The composition of real estate reflected in the balance sheet must comply with the composition of the object of taxation of property of legal entities specified in Article 411 of the Tax Code of the Republic of Uzbekistan (2020).

It should be noted that in the section “Long-term assets” of the “Statement of financial position” compiled on the basis of IFRS, “Property: land, buildings, machinery and equipment” is reflected in separate lines. In reliance upon this fact it is possible to determine the amount of real estate of the company.

Table 2.

Balance sheet of property, land, buildings, machinery and equipment in the Statement of financial position of the JSC “GAZPROM” of the Russian Federation*

Indicator	Code of line	December 31, 2019	December 31, 2018
1	2	3	4
I. Long-term assets			
Long-term tangible assets, total	010	12 492 266 539	11 916 821 521
Real estate, including the total initial value of the property (land), building, machinery and equipment:	020	7 998 232 551	7 864 189 945
Land and its improvement	021	3 484 372	3 484 372
Buildings, structures, machines, equipment	022	6 585 106 135	6 242 783 407

Therefore, we propose to demonstrate the types of fixed assets in Form 1 of the “Balance sheet” in separate lines as in the “Statement of financial position”, which is compiled on the IFRS basis. This will simplify the procedure for accountants to calculate the property tax on real estate accurately and for tax authorities to control the property tax.

According to the IAS 40 “Investment real estate”, the following aspects are considered as investment real estate:

land owned for the purpose of raising the value of capital in the long run, rather than for short-term sale within regular economic activity;

land owned for future use without any definite purpose. (If the economic entity does not determine whether the land will be used as owner-occupied property or for short-term use in the ordinary process of business, the land is considered to be retained in order to raise the value of capital);

a building owned by an economic entity (or owned by a business entity under a financial lease) and leased under one or more leasing contracts;

* “Statement of financial position” of JSC “Gazprom” of the Russian Federation is provided in the shortened form.

a building that is not occupied, but designated for rent on one or more operational leases;

property being constructed or improved for future use as investment property.

In accordance with IAS 40 “Investment real estate”, investment property is recognized as an asset in the following cases:

if there is a possibility of future economic benefits associated with the investment real estate by the business entity;

if the prime-cost of investment real estate can be reliably assessed.

Investment property must first be assessed in terms of prime-cost. The expenses associated with the contract should be included in the initial assessment.

The prime-cost of an investment property acquired includes its purchase price and any directly related costs. Directly related costs may include, for example, costs of professional legal services, property transfer taxes and other transaction costs.

The company may choose a fair value accounting model or a cost accounting model when estimating the initial cost of investment real estate (Figure 1).

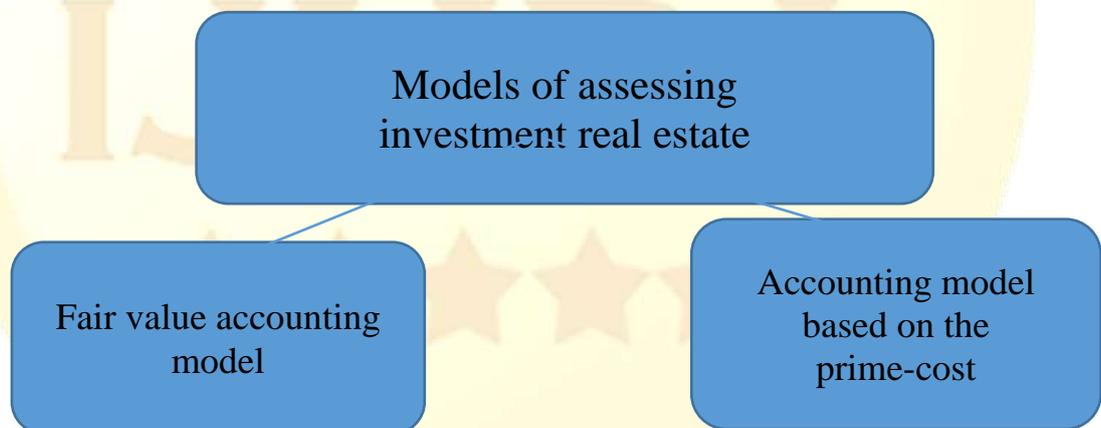


Figure 1. Models of assessing investment real estate

In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, an economic entity must choose a fair value accounting model or a prime-cost accounting model as its accounting policy and apply this policy to all its investment real estate property.[†]

IFRS 13 “Fair Valuation Measurement” defines fair value as follows: *Fair value* is the price at which an asset could be purchased or sold in a normal transaction between

[†] IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

market participants at the valuation date[‡]. Fair value measurement is always based on market factors.

Conclusion. With the aim of joining the global integration, we consider it relevant to introduce International Financial Reporting Standards in the practice of our economy.

In order to accurately determine the object of property tax in the statutory acts, we propose to clearly indicate the composition of real estate. Moreover, it would be efficient to provide the structure of real estate in the Tax Code of the Republic of Uzbekistan.

Furthermore, we suggest that the “Balance Sheet” in Form 1 should indicate the types of fixed assets in separate lines, as in the “Statement of Financial Position” compiled on the IFRS basis. This will simplify the procedure for accountants to accurately calculate property taxes on real estate and for tax authorities to control property taxes.

In international practice in the accounting of real estate as an object of accounting, when taking into consideration such certain IFRS as IFRS (IAS) 16 “Property (Land), Buildings, Machinery and Equipment”, IFRS (IAS) “Inventories”, IFRS (IAS) 40 “Investment Real Estate”, with the aim of reflecting them in the taxation and accounting, we propose to work out an appropriate Procedure in cooperation with the Ministry of Finance and State Tax Committee of the Republic of Uzbekistan.

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11. IAS (IFRS) 13 “Fair Valuation Measurement”.