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# ADJUSTING NATIONAL ACCOUNTING STANDARDS IN COMPLIANCE WITH INTERNATIONAL STANDARDS IN UZBEKISTAN
## *(as exemplified by intangible assets)*

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**Abstract:** *The article is devoted to the consideration of the problems arising in the process of globalization and experienced in adjusting the National Accounting Standards (NAS) in Uzbekistan, including the standard related to intangible assets, in compliance with the International Financial Reporting Standards (IFRS), as well as the solutions proposed thereof. Herewith the author proposes the recommendations worked out for recognition of intangible assets, assessment of book value, the method of calculating amortization, revaluation model, the order of disclosure of information on intangible assets in the financial statements in accordance with international standards (IFRS 38). Moreover, there some considerations on the revaluation model of intangible assets to assess their impact on initial value, amortization, long-term and total assets.*

**Key words:** *asset, book value, intangible asset, research, development, amortization, financial reporting, revaluation, useful economic life, fair value, correlation, regression, analysis*.

**Аннотация:** *Статья посвящена рассмотрению проблем, возникающих в процессе глобализации, и опыта приведения Национальных стандартов бухгалтерского учета (НСБУ) в Узбекистане, в том числе стандарта, касающегося нематериальных активов, в соответствие с Международными стандартами финансовой отчетности (МСФО). а также предлагаемые решения. При этом автор предлагает разработанные рекомендации по признанию нематериальных активов, оценке балансовой стоимости, методу расчета амортизации, модели переоценки, порядку раскрытия информации о нематериальных активах в финансовой отчетности в соответствии с международными стандартами (МСФО 38) . Кроме того, существуют некоторые соображения по модели переоценки*

*нематериальных активов для оценки их влияния на первоначальную стоимость, амортизацию, долгосрочные и общие активы.*

**Ключевые слова**: *актив, балансовая стоимость, нематериальный актив, исследование, разработка, амортизация, финансовая отчетность, переоценка, срок полезного использования, справедливая стоимость, корреляция, регрессия, анализ.*

Currently ongoing the process of globalization requires particular attention to the creation of intangible assets based on new knowledge and technologies, their targeted and efficient use. Nowadays the growth rates of the intangible asset market account for over 10 percent per year (in China – 23 percent, in the USA and Russia – 5 percent and in France – 2 percent). For example, as a result of the issuance of more than 1 billion patented objects, which constitute the basis of intangible assets, digital platforms and services for the efficient management of intangible assets have been introduced. According to statistics, the total assets of companies in developed economies amounted to more than 90.0 trillion USD and out of this amount 47.8 trillion USD (52.6 percent) are represented by tangible assets and 42.2 trillion USD (47.4 percent) of intellectual property falls on the share of intellectual property rights. Therefore, it is crucially important to make effective use of the experience of international accounting practices in the national economy in the assessment of intangible assets created in all countries, organization of their accounting, calculation of their depreciation and the disclosure of information in financial statements.

According to the Resolution of the President of the Republic of Uzbekistan №PR-4611 “On additional measures for transition to international financial reporting standards”dated February 24, 2020, starting from January 1, 2021, joint stock companies, commercial banks, insurance companies and enterprises included in the category of large taxpayers, must handle accounting and preparation of financial statements for 2021 on the IFRS basis. According to this resolution, a special “Roadmap” has been worked out on the gradual introduction of the international standards with the account of advanced foreign experience. Thus, there is the need to improve national accounting standards by adjusting them in compliance with the IFRS. To achieve this aim, the following primary objectives have been set:

*first,* preparing comprehensive information on essential differences between national accounting standards and the IFRS with the involvement of international experts;

*second,* developing new national accounting standards and making amandments to existing national standards.

Some considerations of economists, scholars and experts on the concept of intangible assets and their accounting, as well as disclosure of information in the financial statements are discussed.

Tomac P. Carlin describes intangible assets as the most obscure and qualitatively insignificant item of the balance sheet. He emphasizes significance of valuing intangible assets[3]. In our view, if intangible assets were to be used more efficiently, it would be possible for the balance sheet assets to become the most profitable item, even the whole activity of the enterprise may depend on a single patent or trademark that seems to be neglected.

From the point of view of K.Sveiby, in its model the company divides intangible assets into three groups: external structure (trademark, corporate image and product recognition), employee competency (knowledge, intellectual knowledge, work experience and skills), internal structure (patent, copyright, management) systems, databases and scientific developments) [4]. B.Leontyev includes intangible assets in intellectual capital and, in addition, shows that the value of all assets available in the enterprise consists of a database of intellectual news, knowledge, skills, aggregate knowledge [5]. L.Dontsova evaluates intangible assets in terms of economic analysis as depreciable assets of the enterprise and considers that they consist of exclusive rights to various scientific developments, computer programs, patents, copyrights, films, trademarks and service marks [6].

R. Dusmuratov believes that intangible assets, by their nature, are referred to the income-bearing funds, which do not possess any physical nature, but included in the other assets used in the performance of the enterprise. In addition, R. Dusmuratov particularly notes that the concept of intangible assets is a complex and diverse at the international level, and that there are no uniform standards for their accounting resulting [10]. I. Ochilov: Intangible assets are the assets of non-tangible nature intended for long-term use in economic activities [7].

IAS 38 “Intangible Assets” sets out the criteria for recognizing and measuring intangible assets and requires disclosures about them. An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when it is separable, or when it arises from contractual or other legal rights. Separable assets can be sold, transferred, licensed, etc. Examples of intangible assets include computer software, licenses, trademarks, patents, films, copyrights and import quotas [8].

According to NAS 7 “Intangible assets”: “Intangible assets - identifiable objects of property that do not have a material content, which the enterprise contains in order to use them in the process of manufacturing products, performing work, providing services or selling goods, or for performing administrative and other functions for a long period”[9].

In this paper, based on the revaluation model of the value of intangible assets, in order to assess the impact of their increase on the initial, depreciation and residual values,correlation - statistical relationship (variable) of two or more random variables has been widely used. Two main random variables have been selected: the revaluation value of intangible assets and their initial or depreciable or long-term or total asset value. The ten largest joint-stock companies with intangible assets in the balance sheet have been selected to perform these analyses.

The correlation coefficients for revaluation of intangible assets in the taken objects are expressed at different levels, which resulted in the development of positive and negative conclusions. The implied forecasts whether intangible assets depreciated to their initial value or depreciable cost.

In our research, the revaluation of intangible assets had a correlation coefficient relative to their initial value: r = 0.996. This has demonstrated that there is a very strong and correct relationship between the factor and the outcome, and that the factor’s effect on the outcome is that the coefficient of determination is r2 = 0.992 (positive correlation). In the second case, when the value of intangible assets after revaluation relative to the value of total assets is estimated, the correlation coefficient is r = 0.22, and the relationship between factor and outcome is very weak, which can be considered insignificant. The reason is that the effect of the factor on the result on the revaluation indicator accounted for 4.8% (negative correlation).

In reliance upon the financial statements, the share of intangible assets in long-term assets and total assets of enterprises is considered on the basis of the following analytical data. Large tax-paying joint-stock companies with intangible assets have been selected to analyze the status of intangible assets. “Uztransgaz” (the share of intangible assets accounted for 64375 million UZS at the beginning of the year and 64375 million UZS at the end of the year) and “Navoiazot” (the share of intangible assets amounted to 133220 million UZS at the beginning of the year and 143478 million UZS at the end of the year) can be referred to enterprises with a small share of intangible assets.

**Table 1. Estimation of the share of intangible assets in relation to long-term assets and total assets** [10]

| № | Joint-stock companies | Intangible assets at the beginning of the period | | Intangible assets at the end of the period | | Difference of share in relation to long-term assets | Difference of share in relation to total assets |
|---|---|---|---|---|---|---|---|
| | | in relation to long-term assets, % | in relation to total, % | in relation to long-term assets, % | in relation to total, % | | |
| | “Maxam – Chirchik” | 0,03 | 0,01 | 0,008 | 0,003 | -0,022 | -0,011 |
| 2. | “Uzbekistan Metallurgical Combine” | 0,12 | 0,04 | 0,10 | 0,03 | -0,02 | -0,01 |
| 3. | “Uzbekistan railways” | 0,009 | 0,006 | 0,009 | 0,006 | 0 | 0 |
| 4. | “Navoiyazot” | 0,001 | 0,001 | 0,001 | 0,01 | 0 | 0,009 |
| 5. | “Uzhimprom” | 0,004 | 0,004 | 0,004 | 0,004 | 0 | 0 |
| 6. | “Almalyk Mining and Metallurgical Combine” | 0,22 | 0,14 | 0,16 | 0,12 | -0,06 | -0,02 |
| 7. | “Uzdonmahsulot” | 0,08 | 0,01 | 0,08 | 0,01 | 0 | 0 |
| 8. | “UzAuto Motors” | 4,32 | 0,95 | 2,15 | 0,46 | -2,17 | -0,49 |
| 9. | “Uztransgaz” | 0,019 | 0,0002 | 0,001 | 0,002 | -0,018 | 0 |
| 10 | “Kvarts” | 0,046 | 0,019 | 0,04 | 0,009 | -0,006 | -0,01 |

These data show that the share of intangible assets in the selected objects is long and varies in terms of total assets. The best performance indicator belongs to “UzAuto Motors”, which accounts for 4.32% (!) compared to the beginning of the reporting period. This can be assessed as a record level among enterprises in sectors of the economy. This is due to the fact that the share of intangible assets is not only higher than we expected in our country, but also in developed countries.

Below is one reason why intangible assets have a lower share than enterprise assets.

There are interrelationships and differences between the International Financial Reporting Standard (IFRS 38) and the National Accounting Standard (NAS 7) used in the accounting for intangible assets:

| **Aim of IFRS 38:** | **Aim of NAS 7:** |
|---|---|
| *focuses on defining an accounting approach for intangible assets* | *determining the methodology of accounting and financial reporting of intangible assets belonging to enterprises* |

Moreover, international standard requires an entity to recognize an intangible asset only when it meets certain criteria and determines how the book value of the intangible asset is evaluated and discloses specific information about the intangible asset.

The aim of both standards is almost identical, focusing on the formation of complete information about intangible assets based on the definition of the approach or methodology in accounting. The main difference of NAS 7 from IFRS 38 is that it fully covers the processes from the recognition of intangible assets to their write-off the balance. One of the important aspects of standards is in which cases the rules of this standard apply, i.e. which standards are covered by the scope or activity.

It should be noted that the definitions and terms given in the national standard (NAS 7) do not use terms such as fair value, non-monetary asset, research, experimental design (for these terms, separate rules of IFRS 11 apply). In our opinion, it is expedient to unify NAS 7 and NAS 11.This will improve the standard for intangible assets, which is unique, and adjust it in compliance with the rules of the international standard. The following table illustrates acomparison of the rules of the international standard for recognizing and revealing intangible assets.

**Table 2 Interrelationships and differences between international and national standards in the recognition of intangible assets [11].**

| **Intangible assets (NAS 7)** | **Intangible assets (NAS 38)** |
|---|---|
| The patent owner’s exclusive right to inventions, industrialsamples and utility models | Patents |
| Absolute right to computer software and databases | Software |
| Absolute right to topologies of integrated circuits | |

| | |
|---|---|
| The exclusive right to a trademark and service mark, as well as the right to use the name of the place of origin of the goods | Trade brands, marketing rights, import quotas |
| Absolute right to selection achievements | Right of authorship (copyright) |
| The right to use natural recources | Licenses and franchises |
| The right to use property | |
| Other intangible assets (products, works, services, other rights) | |

IFRS 38 requires the following aspects when recognizing an asset as an intangible asset:

*first, the definition of an intangible asset;*

*second, recognition criteria.*

These requirements apply to the cost of purchasing or creating an intangible asset and the cost of adding, replacing or servicing the part. In addition, herewith application of recognition criteria for separately acquired intangible assets, initial valuation of intangible assets acquired through government grants, conversion of intangible assets, accounting for internally generated goodwill and initial recognition of internally created intangible assets are covered and evaluated.

The peculiarity of an intangible asset in compliance with an international standard is that, in most cases, there is no asset or replacement part to be added. Consequently, most of the deferred costs may retain the expected future economic benefits embodied in the current intangible asset instead of meeting the definition and recognition criterion of the intangible asset in this standard.

However, it is usually more difficult to determine whether deferred costs are directly attributable to a particular intangible asset relative to the entire business. Regardless of whether the purchase is internally created, subsequent costs on bends, title titles, publication names, customer lists, and essentially similar items are always recognized in profit or loss. The reason is that such costs are no different from the costs directed to the development of the whole business.

An intangible asset is recognized in accordance with IFRS 38 in the following cases:

- *there is a possibility that the entity will receive future economic benefits associated with the intangible asset;*

- *the cost of the asset can be measured in the reliable manner.*

The entity should estimate the probability of future economic benefits expected using reasonable and well-thought assumptions that reflect management's best estimate of the set of economic conditions that will operate during the useful economic life of the intangible asset. The entity uses competent consideration in

assessing the degree of accuracy of future economic benefits obtained from the use of the intangible asset, based on the evidence available at the time of initial recognition, rather than external evidence. The initial evaluation of an intangible asset is disclosed in an international standard separately. IFRS 7 states that the original cost of all types of intangible assets should be the initial cost and that they are accounted for at that cost.

**Table 3**

**Differences between IFRS and NAS in the recognition and evaluation of intangible assets**

| **Recognition and evaluation of intangible assets** | |
|---|---|
| ***IFRS 38*** | ***NAS 7*** |
| - separate purchase;<br>- purchase as part of a business unit;<br>- current costs for the purchased research and development projects on progress;<br>- purchase of assets with the help of a state grant;<br>- exchange of assets;<br>- internally created goodwill;<br>- internally developed intangible assets. | - delivery and acceptance of the created object after completion of development;<br>- purchase of the object under the contract of sale;<br>- receipt in the charter capital in the form of the founders' contribution;<br>- accounting for government subsidies;<br>- exchange;<br>- identification of surplus intangible assets. |

As it is obvious from the table, our republic requires to adjust the concepts and terms used in the statutory acts, namely in the field of accounting, in compliance with the international financial reporting standards.The revaluation model of intangible assets is based on the following table data in assessing their impact on initial, depreciable and residual values and long-term assets and total assets of the balance sheet.

The second part of the article is devoted to the correlation analysis, which has been made to assess the impact of the revaluation of intangible assets on their initial, depreciable and residual value.In turn, the impact of revaluation of intangible assets on long-term assets and total assets of enterprises has been analyzed as well. For this purpose, the following two tables are used as a source of data based on the balance sheets of a total of 10 objects selected for the research.

**Table-4**

**State of intangible assets in the balance sheet of joint stock companies**

*(first source)*

| № | Joint-stock companies | Intangible assets (thousand UZS) | | |
|---|---|---|---|---|
| | | Initial value | Amortization value | Residual value |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Beginning of theperiod | End of the period | Beginning of the period | End of the period | Beginning of the period | End of the period |
| . | “Maxam – Chirchik” | 129203.00 | 34553.00 | 97701.00 | 6911.00 | 31502.00 | 27642.00 |
| 2. | “Uzbekistan Metallurgical Combine” | 1718669.00 | 1718669.2 | 1068042.00 | 1294014.58 | 650627.00 | 424654.74 |
| 3. | “Uzbekistan railways” | 2197836.00 | 217570.0 | 1756261.00 | 2017414.00 | 441575.00 | 170156.00 |
| 4. | “Navoiyazot” | 133220.00 | 143478.00 | 56650.00 | 62212.00 | 76570.00 | 81266.00 |
| 5. | “Uzhimprom” | 84000.00 | 84000.00 | 16800.00 | 33600.00 | 67200.00 | 50400.00 |
| 6. | “Almalyk Mining and Metallurgical Combine” | 27274021.00 | 27274021.00 | 7954923.00 | 10682325.00 | 19319098.00 | 16591696.00 |
| 7. | “Uzdonmahsulot” | 551776.00 | 551776.00 | 379690.00 | 490045.00 | 172086.00 | 61731.00 |
| 8 | “UzAuto Motors” | 111719829.33 | 111309001.72 | 54857393.40 | 59920170.01 | 56862435.93 | 51388831.71 |
| 9. | “Uztransgaz” | 64375.00 | 64375.00 | 42380.00 | 52037.00 | 21995.00 | 12338.00 |
| 10. | “Kvarts” | 82305.00 | 82305.00 | 45562.00 | 57091.00 | 36743.00 | 25214.00 |

*1. Assessing the impact of revaluation of intangible assets on initial their cost*

*(at the beginning of the reporting period).*

A factor analysis has been performed to assess the effect of the revaluation model on intangible assets on their initial and residual values when applying the revaluation model in compliance with the requirements of international financial reporting standards. As a result, the following scientific conclusions can be drawn from the data at the beginning and end of the reporting period, i.e., the analytical data show that the correlation coefficient accounts for: r = 0.996.This means that there is a very strong and correct relationship between the factor and the outcome,

and that the factor's effect on the outcome is that the coefficient of determination is r2 = 0.992.

It is also important to note that the structured model is statistically significant: F = 6, 66428E-10.

| *Regression statistics* | |
|---|---|
| Several R | 0,996046162 |
| R- squared | 0,992107956 |
| Normalized R-squared | 0,880996845 |
| Standard error | 3406497,832 |
| Observation | 10 |

| *F significance* |
|---|
| 6,66428E-10 |

It is possible to make a general conclusion, that an increase in the value of an intangible asset as a result of a revaluation raises its effect on its initial value and can be considered a positive situation.

*2. Assessing the impact of revaluation of intangible assets on their cost*

*3. (at the end of the reporting period).*

The rate of revaluation of intangible assets relative to the initial value at the end of the reporting period, i.e. the correlation coefficient accounted for r = 0.997. This means that there is a very strong direct correlation between factor and outcome. In addition, it ispossible to observe that the resulting effect of the revaluation factor is statistically significant for a structured model with 99.4%.

| *Regression statistics* | |
|---|---|
| Several R | 0,99725 |
| R- squared | 0,994508 |
| Normalized R-squared | 0,883397 |
| Standard error | 2831746 |
| Observation | 10 |

| *F significance* |
|---|
| 1,55942E-10 |

Significance level in this analytical data amounts to: F = 1,55942E-10, the model is statistically significant.

*3. Assessing the impact of revaluation of intangible assets on their depreciable amount (at the beginning of the reporting period)*

When assessing its impact on the amortization value of the intangible asset revaluation model, the correlation coefficient at the beginning of the period constituted r = 0.78.This shows the average and correct relationship between the cost of revaluation of intangible assets and the depreciable amount.

| *Regression statistics* | |
|---|---|
| Several R | 0,786681301 |
| R- squared | 0,618867469 |
| Normalized R-squared | 0,507756358 |
| Standard error | 2034689,659 |
| Observation | 10 |

| *F significance* |
|---|
| 0,005069476 |

The impact of the factor on the result accounts for 61.88%. We can see that this model is statistically significant.The coefficient, achieved as a result, shows that it is smaller than the norm: significance: F = 0,005069476 or<0.005.

*4. Assessing the impact of revaluation of intangible assets on their depreciable amount (at the end of the reporting period).*

If we assess the value of intangible assets after revaluation, we see that there is a strong correlation between the factor and the result, with a correlation coefficient r = 0.99.

| *Regression statistics* | |
|---|---|
| Several R | 0,990227357 |
| R- squared | 0,980550219 |
| Normalized R-squared | 0,869439108 |
| Standard error | 2831746,276 |
| Observation | 10 |

| *F significance* |
|---|

| 2,4814E-08 |
|---|

This constitutes the basis for our conclusion that proves a direct connection. This is because the effect of the factor on the outcome amounts to 98%. Hence, the model is statistically significant.

The following conclusions can be made in reliance upon the results of research made on the basis of the model of adjustment and revaluation of intangible assets accounting, in particular, adjusting national accounting standard in compliance with with the requirements of International Financial Reporting Standards:

*first,* the aim of National Accounting Standard 7 “Intangible Assets” and its composition should be adjusted in compliance with the requirements of international standards, namely, IFRS 38;

*second,* it is recommended to consolidate (join) NAS “Intangible Assets” and NAS 11 “Expenditures on research and development”, currently acting in our country, and bring them into a single standard in accordance with international standards;

*third,* in order to obtain accurate information on intangible assets, annual revaluation indices should be published (for facilities which useful economic life is expected to increase);

*forth*, according to the revaluation model, the results of revaluation of intangible assets should be reflected directly in the capital of enterprises, i.e. in the account “Retained earnings”;

*fith*, correlation and regression analysis of the results of revaluating intangible assets enables to assess their initial value, amortization, long-term assets and the degree of dependence on total assets.

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