

The Role of Asset Impairment in the Formation of Profit and Loss Statement and their Improvement

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Abstract

The article examines the issues of reflecting losses from asset impairment in financial statements. As a result of the research, proposals were developed for reflecting the losses from impairment in the financial results report.

Keywords: *impairment loss, period expenses, international financial reporting standards, cost of sales, other operating expenses, profit and loss statement.*

INTRODUCTION

In the process of transforming financial statements into international financial statements, business entities face a number of urgent problems that need to be solved. One of these problems is the problem of determining the fair value of assets, their correct reflection in financial statements, and writing off losses from impairment. International standards of financial reporting serve to increase the transparency and accuracy of information related to assets and their impairment, calculated from the main objects of accounting.

LITERATURE REVIEW

There are regulations and many views on period costs in the regulatory and legal documents and economic literature.

In particular, in the regulation «On the structure of production and sales costs of products (works, services) and the procedure for forming financial results» approved by the decision of the Government of the Republic of Uzbekistan No. 54 of February 5, 1999, the structure of costs and the order in which they are reflected in the report on financial results is indicated.

According to the IFRS No.36 «If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IAS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard» [1].

In the accounting rules No. 18, which regulates the processes related to the impairment of assets in the countries of the European Union, the impairment of assets is as follows, i.e «If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. That reduction is an

impairment loss. An impairment loss shall be recognised immediately in the statement of financial performance» [2].

According to the Australian Accounting Standards Board Standard No. 36 on the recognition of impairment losses on assets states that:

«If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. 60 An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard» [3].

Also, in accordance with ASC 360 US GAAP, an asset impairment loss is recognized as follows:

«If the carrying amount of an asset exceeds the fair value, then the fair value of the asset is recorded as the carrying amount of the asset in the financial statements, and the difference between the carrying amount and the fair value is recorded in the statement of profit and loss as an impairment loss of assets. An impairment loss should be recognized as a going concern loss before income tax is paid.[4].

Hong Kong Accounting Standards No. 36 discusses the recognition of asset impairment losses as follows:

«If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in HKAS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard»[5].

RESEARCH METHODOLOGY

Organizing of asset's accounting in business entities of the Republic of Uzbekistan on the basis of international standards is great importance in improving the scientific and methodological of accounting.

In our research, the methods of analysis and synthesis, as well as double-sided recording and documentation methods of accounting are widely used.

ANALYSIS AND RESULTS

In the process of integration into the global market, keeping accounting records based on the requirements of the International Financial Reporting Standards encourages businessmen to introduce modern requirements in the preparation and disclosure of responsibilities and financial statements, which creates a number of complications and requires them to be adapted or fully mastered.

After the pandemic, in the economy of the countries, the requirements for accounting of assets based on international standards, evaluation and in-depth study and analysis of indicators and full reflection in financial reports are becoming the main issue.

One of the most important issues in this case is the issue of impairment of assets and write-off of losses.

The regulation «On the structure of production and sales costs of products (works, services) and the procedure for forming financial results» approved by the decision of the Government of the Republic of Uzbekistan No. 54 of February 5, 1999 specifies the structure of costs and how to reflect them in the report on financial results. passed.

Based on this regulation, expenses are divided into 2 types, i.e. expenses directly related to the cost of products (work, services) and period expenses.

«The production cost of the product (works, services) includes the costs directly related to the production of the product (works, services), conditioned by the production technology and its organization. The following applies to them: direct and indirect material costs, direct and indirect labor costs, other direct and indirect costs, including production overheads.

The costs that make up the cost of production of the product (works, services) are divided into groups according to their economic content with the following elements:

- production material costs (excluding the cost of recoverable waste). This cost includes the costs of all types of raw materials and materials used to create products (work, services).
- labor costs of a production nature. This type of expenses includes workers employed in the creation of products (work, services) and their related wages and other expenses.
- social security contributions related to production. These costs include social tax costs related to the creation of products (work, services).
- depreciation of fixed assets and intangible assets of production significance. These costs include depreciation costs of fixed assets involved in the creation of products (work, services) and costs of amortization of intangible assets.
- other costs of production significance.

According to paragraph 2 of the regulation, the composition of period expenses includes the following items:

- sales costs;
- administrative costs;
- other operating expenses.

The order of the Minister of Finance of the Republic of Uzbekistan No. 46 dated April 28, 2009 on amendments and additions to the «plan of accounting accounts of financial and economic activities of economic entities and instructions for its application» to the approved National Accounting Standard of the Republic of Uzbekistan (No. 21 NSA) The composition of expenses for the corresponding period is reflected in the following accounts:

9400	PERIOD COSTS ACCOUNTS RECEIVABLE	T
9410	Selling expenses	
9420	Administrative costs	
9430	Other operating expenses	

These accounts are considered transit accounts and there is no balance in these accounts at the end of the reporting year.

One of the most important innovations of the article is including of losses from the impairment of assets into the accounts that take into account the costs of the period and we propose to create synthetic accounts No. 9440 «Loss from the impairment of fixed assets» and No. 9450 «Loss from the impairment of intangible assets». We recommend adding analytical accounts to our synthetic accounts No. 9440 «Loss from impairment of fixed assets» and No. 9450 «Loss from impairment of intangible assets» in order to more fully reflect losses from their impairment for each type of asset based on the types of assets:

9400	PERIOD COSTS ACCOUNTS RECEIVABLE	T
9410	Selling expenses	
9420	Administrative costs	
9430	Other operating expenses	
9440	Losses from depreciation of fixed assets	
9450	Impairment losses on intangible assets	

This issue will be explained in detail on the example of the company ABC, which was taken as a conditional example in the article.

In particular, the «ABC» entity purchased an inkjet printer device for 10,000,000 sums for its daily activities.

The useful life of this printer is 8 years and the cost of coverage is 2,000,000 sums. After two years, laser printer devices started to be produced, and the demand for inkjet printers decreased sharply, and the market price of this type of printer was 3,000,000 sums.

Based on the above, it is necessary to first calculate the amount of depreciation of inkjet printers.

$$10,000,000 - (10,000,000 - 2,000,000) / 8 * 2 = 8,000,000$$

$$8,000,000 - 3,000,000 = 5,000,000$$

The amount of depreciation was 5,000,000 sums and the following accounting statement is issued

DT impairment loss -5,000,000 sums

KT Accumulated impairment account - 5,000,000 sums

The amount of the impairment loss, in turn, is taken as an expense to the company's statement of financial results, that is, to the profit and loss statement, and the accumulated amount of impairment is calculated on the balance sheet and the new balance value of this asset is formed.

The new balance sheet value of the asset is 3,000,000 sums.

However, taking into account the fact that the useful life of this asset has not ended, its suitability for use and the need to sell these assets for the entity, it will be necessary for the entity to form the balance sheet value of this asset according to the new market price, and revise its residual value and useful life.

The company set the new balance sheet value at 3,000,000 sums, the term of use is 2 years, and the compensation value is 500,000 sums.

CONCLUSION

Based on the above definitions, it is proposed to give a definition of period costs and their composition as follows: «Period costs are costs incurred in a certain period that are not directly related to the production process and volume of products (work, services).» Period costs are different from product (work, service) production costs. Period expenses can be made even when the entity does not operate or is temporarily suspended. For example, the monthly salary expenses paid to the management staff of the entity belong to this category of expenses.

Also, we will be able to include losses related to impairment of assets in this category of expenses. Impairment of assets is not directly related to the production of products (work, services) in the entity, but occurs as a result of internal and external factors, as a result of which the asset's recoverable or use value is lower than its balance value.

The practice of asset impairment ensures that assets are carried on the balance sheet at their fair market value. The practice better reflects the financial picture of the company's assets for users of financial statements.

In the case of impairment losses are reflected as an expense in the report on the profit and loss statement of the entity and are written off.

Recognizing losses from impairment of assets as expenses of the period in the «Profit and loss statement» (Form 2) of the entity, as part of the expenses of this period, items 9440 «Loss from impairment of fixed assets» and No. 9450 «Loss from impairment of intangible assets» are included in the expenses of this period» it was proposed to create synthetic accounts.

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