GLOBAL RESEARCH NETWORK
ONLINE RESEARCH HUB

AMERICAN JOURNAL OF ECONOMICS AND BUSINESS MANAGEMENT

ISSN: 2576-5973
Vol. 6, No. 7, 2023

Requirements and accounting procedure of the International Standard of Financial Reporting No. 36 "Impairment of Assets"

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Abstract: The primary objective of an International Standard is to establish the procedures that an entity uses to account for its assets at a value not greater than their recoverable amount. If the carrying amount of an asset exceeds the amount that would be recovered from its use or sale, the asset is characterized as impaired and the standard requires the entity to recognize an impairment loss.

Keywords: External sources, internal sources, recoverable amount, value of use, fair value, impairment of assets.

INTRODUCTION.

Impairment of assets is to ensure reliable reflection of assets in the reports and true information about the value of intangible assets with indefinite service life arising from a business combination. At the same time, financial instruments include regulatory standards that determine the norms and requirements that ensure that current assets are reflected in reports at accurate values.

LITERATURE REVIEW

Many opinions have been expressed by economists regarding impairment of assets.

Avlokulov A.Z. says that "fixed assets are an important part of assets. Depending on their amount and condition, the activity of subjects is evaluated. The more efficiently fixed assets are used, the better the return on assets" [1].

According to the conclusions of a number of foreign scientists "the procedure for testing assets for impairment is one of the most common accounting issues. The latter require judgments and estimates from preparers, which inevitably leads to a certain degree of variability in the information in the financial statements" [2].

According to the conclusion of Saltanat Baydibekova, Candidate of Economic Sciences The need to solve organizational, methodological and methodological problems requires the mandatory successful implementation of the asset depreciation practice in the accounting system at enterprises. The proposed measures will improve the theoretical basis for the subsequent valuation of assets in order to improve the quality of reporting information [3].

A number of foreign scientists stated "the value of assets is subject to change annually. Thus, for fixed assets at each reporting date, a new book value is determined, which follows from the initial cost, adjusted for the amount of depreciation and possible impairment losses. The difficulty in determining the new carrying amount of property, plant and equipment arises from determining whether there is a possible impairment of an asset" [4].

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
under Volume: 6 Issue: 7 in July-2023 https://www.globalresearchnetwork.us/index.php/AJEBM

ANALYSIS AND RESULTS

Entities must assess at each reporting date whether there is any indication that an asset may be impaired.

If there is an indication of impairment, an entity must estimate the asset's recoverable amount. If, and only if, the asset's recoverable amount is less than its carrying amount, the asset's carrying amount is reduced to its recoverable amount. Such a decrease is an impairment loss.

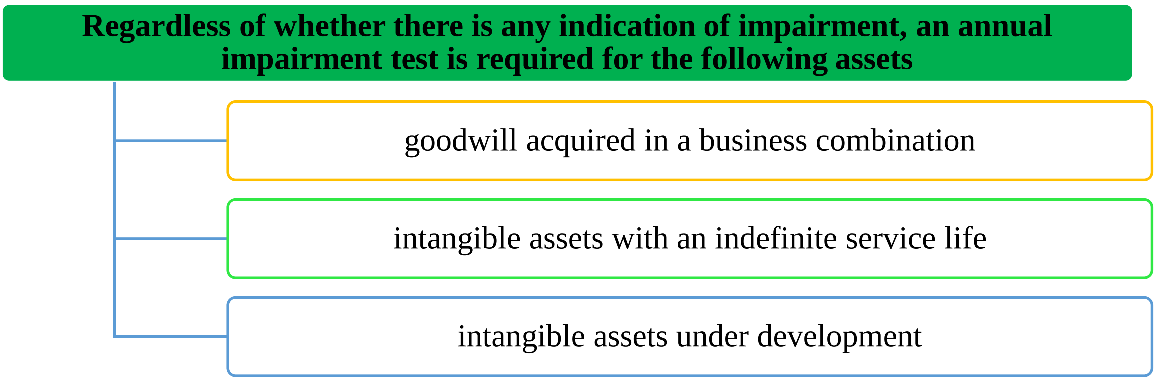

Figure 1. Assets subject to mandatory impairment testing in each reporting period[1]

Such an impairment test may be performed at any time during the annual period, provided that it is repeated at the same time each year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current annual period, it is subject to impairment testing before the end of the current annual period.

In determining whether an asset may be impaired, an entity should consider, at a minimum, the following factors that may indicate that an asset may be impaired.

External sources:

- During the period, the decline in the market value of the asset was substantially greater than would be expected as a result of the passage of time or normal use of the asset;
- Significant changes in technological, market, economic or legal conditions have occurred or will occur in the near future that adversely affect the position of the company or the market to which the asset is intended;
- Market interest rates or other market returns on investments have increased during the period and these increases are likely to affect the discount rate used to calculate the asset's value in use and, as a result, result in a significant decrease in the asset's recoverable amount;
- The carrying amount of the net assets of the reporting entity is greater than its market capitalization.

Internal sources:

- There is evidence of obsolescence or physical damage to the asset;
- Significant changes have occurred during the period or are expected to occur in the near future that adversely affect the current or future use of the asset;
- There is evidence from internal reporting that indicates that the current or future economic performance of the asset is worse than expected;
- Cash flows for the acquisition of the asset, or subsequent cash requirements for its operation and maintenance, are significantly higher than originally budgeted;
- The actual net cash flows or operating profit or loss of the asset is significantly worse than budgeted;

[1] Made by author.

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
under Volume: 6 Issue: 7 in July-2023 https://www.globalresearchnetwork.us/index.php/AJEBM

- A significant decrease in the budgeted net cash flows or operating income, or a significant increase in the budgeted loss associated with the asset;
- Operating loss or net cash outflow from an asset that arises when current period figures are combined with budgetary figures for future periods.

The list of indicators that an asset may be impaired is not exhaustive. The Company may identify other indications that an asset may be impaired, which will also require determining the asset's recoverable amount or, in the case of goodwill, performing an impairment test.

If there is an indication that an entity's asset may be impaired, it may be necessary to review the asset's remaining useful life, the depreciation method used, or the residual value of the asset, even if no impairment loss is recognized for that asset.

The recoverable amount is determined as the higher of:

- value of use;
- fair value less costs to sell.

Not in all cases it is necessary to determine both the fair value of an asset less costs to sell and its value in use. If any of these amounts exceed the carrying amount of the asset, then this means that the value of the asset has not decreased and there is no need to estimate another amount.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those generated by other assets or groups of assets. In this case, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

Recognition and measurement of impairment loss:

If the recoverable amount of an asset is less than its carrying amount, then the latter must be reduced to its recoverable amount. An impairment loss should be recognized immediately as an expense in the income statement. However, if an asset is carried at a revalued amount, then the impairment loss is taken into account as a reduction of the previously accrued revaluation reserve, and in case of its insufficiency, it is recognized in the income statement of the current period.

If the impairment loss exceeds the carrying amount of the asset, the entity must recognize a liability if that is a requirement of another standard.

Following the recognition of an impairment loss, the new carrying amount of the asset, less its residual value (if any), will be depreciated on a systematic basis over the asset's remaining useful life.

CONCLUSION

1. To prevent the outflow of funds from the country by increasing the number of accountants who conduct annual financial analysis in large enterprises on the depreciation of assets, because in our republic, national evaluation organizations cannot provide this professional service.
2. To include the expenses incurred by the enterprises that have switched to accounting in accordance with the requirements of international standards of financial reporting to the expense of checking assets for impairment, to the list of expenses deductible in the payment of profit tax and to determine its rate, because currently in practice the amount of this expense is very large, but there is no possibility to deduct it, which means that financial statements in enterprises creating financial difficulties for its structure based on international standards.
3. To establish a multi-disciplinary information center that accurately determines the market value of existing assets in enterprises based on their fields of activity and forms their single database, through which enterprises will have the opportunity to save a large amount of expenses for checking their assets for impairment at the expense of their own funds.

ISSN 2576-5973 (online), Published by "Global Research Network LLC"
under Volume: 6 Issue: 7 in July-2023 https://www.globalresearchnetwork.us/index.php/AJEBM

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