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Successful Together

Financial accounting and reporting guide of the Republic of Uzbekistan | 2023

Germany has been consistently among the largest foreign trade partners of Uzbekistan for many years. Exactly 29 years ago, on March 6, 1992, diplomatic relations were established between the two countries.

Germany was among the first 20 countries in the world to recognize the independence of Uzbekistan.

Germany is considered by Uzbekistan as one of the most reliable and trusted partners. Nevertheless, the Uzbek market, due to its volume and need for modernization, remains interesting for foreign enterprises.

The products and equipment of German manufacturers, as before, continue to be in great demand.

Over the last 3 years, the trade turnover between Uzbekistan and Germany has grown by almost 60 %, and in terms of the growth rate of mutual trade, this is one of the highest indicators in the foreign trade statistics of Germany with the countries of Eastern Europe and the CIS.

Appreciating the intensive reform course launched by Uzbekistan in 2017 to liberalize the economy, Eduard Kinsbruner, Regional Director of the Eastern Committee of the German Economy in Central Asia, emphasized that from the point of view of German companies, doing business in Uzbekistan is becoming more and more attractive. According to him, Uzbekistan at the present stage is a successful example of how the opening of the economy led to its growth.

Raising the position of Uzbekistan in the Doing Business index, doubling economic growth, increasing FDI from 2 % to 4 % of GDP over the period of reform implementation are indicators demonstrating the correctness of the chosen path. At the same time, the expert pointed out, the rapid development of the private sector in Uzbekistan is today recognized as a positive development by countries such as the United States, Great Britain and, of course, Germany.

Uzbekistan remains one of the most attractive markets in Central Asia. With a population of 33 million, it is the most populous country in the region. The country is distinguished by its wealth of natural

resources and its good location on the historical Great Silk Road. Thanks to its liberal economy and improved investment climate, Uzbekistan continues to attract special attention for investors.

Rödl assists you on a range of matters in Uzbekistan from our office in Tashkent, the capital of Uzbekistan. Our team provides comprehensive consulting services on all legal, tax, accounting and auditing issues.

This interdisciplinary collaboration and knowledge of relevant local realities provides our clients with optimal service in the Uzbek market. We operate according to a single quality standard. Thanks to our team.

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Introduction

The most important task in the conditions of market relations in the Republic of Uzbekistan is to create conditions for foreign investors and intensify foreign economic activity. At the same time, the correct organization of accounting for foreign investments and audit of financial statements based on international accounting standards are of great importance.

In the Republic of Uzbekistan, the basic rules of accounting at enterprises are established by the Law „About financial accounting“, the Regulation on the composition of costs for the production and sale of products (works, services) and on the procedure for generating financial results, the Chart of accounts and other standards. The fundamentals of auditing activities are determined by the Law „ On Auditing Activity“ (2021), Resolutions of the Cabinet of Ministers „On Strengthening Financial Control“ and „On Approval of the Regulation on State Registration of Auditors and Auditing Firms“ (1993), and others. Accounting and auditing in the republic is carried out in accordance with national requirements for accounting and reporting.

The system of national accounting standards (NAS) consists of 22 standards:

- NAS No. 1 „Accounting policies and financial reporting“ – paragraphs 55-56 are mainly applied when approving and changing the accounting policies of an organization;
- NAS No. 2 „Revenue from the main economic activity“;
- NAS No. 3 „Report on financial results“ – the form and content of the report is regulated by the Order of the Ministry of Finance of the Republic of Uzbekistan „On approval of financial reporting forms and rules for filling them out“ (MJ No. 1203 dated 24.1.2003);
- NAS No. 4 „Inventories“;
- NAS No. 5 „ Fixed assets“;
- NAS No. 6 „Lease accounting“;
- NAS No. 7 „Intangible Assets“;
- NAS No. 8 „Consolidated financial statements and accounting of investments in subsidiaries“;
- NAS No. 9 „Cash flow statement“ – the form and content of the report is regulated by the Order of the Ministry of Finance of the Republic of Uzbekistan „On approval of financial reporting forms and rules for filling them out“ (MJ No. 1203 dated 24.01.2003);
- NAS No. 11 „Costs of research and development“;
- NAS No. 12 „Accounting for financial investments“;
- NAS No. 14 „Statement of equity“ – the form and content of the report is regulated by the Order of the Ministry of Finance of the Republic of Uzbekistan „On approval of financial reporting forms and rules for filling them out“ (MJ No. 1203 of 24.1.2003);
- NAS No. 15 „Balance sheet“ – the form and content of the report is regulated by the Order of the Ministry of Finance of the Republic of Uzbekistan „On approval of financial reporting forms and rules for filling them out“ (MJ No. 1203 dated 24.1.2003);
- NAS No. 16 „Unforeseen circumstances and events occurring in economic activity after the date of the balance sheet“;
- NAS No. 17 „Contracts for capital construction“;
- NAS No. 19 „Organization and conduct of Inventory“;
- NAS No. 20 „Simplified accounting procedure for small businesses“;
- NAS No. 21 „Chart of accounts of accounting of financial and economic activities of business entities and Instructions for its application“;
- NAS No. 22 „Accounting for assets and liabilities denominated in foreign currency“;
- NAS No. 23 „Generation of financial statements when performing reorganization“;
- NAS No. 24 „Accounting for borrowing costs“.

The transformation of accounting reporting in accordance with the requirements of international standards has recently become more and more relevant. This is due to the development of the world economy, which requires an adequate language of communication between companies operating in international markets.

According to the decree of the President of the Republic of Uzbekistan dated February 24, 2020 No. PP-4611 „On additional measures for the transition to international financial reporting standards“ from 2021, the transition to international financial reporting standards (IFRS) becomes mandatory for certain business entities. In particular, joint stock companies, commercial banks, insurance organizations and legal entities classified as large taxpayers were included in the list of persons who should be the first to organize accounting based on IFRS.

According to Article 10 of the Law of the Republic of Uzbekistan „About financial accounting“, all organizations have the right to apply international financial reporting standards when conducting accounting in the manner prescribed by law.

Organizational matters

The head of the organization is personally responsible for the organization of accounting, as well as for compliance with the law. At the same time, the chief accountant plays a special role in the organization. According to the law, he reports directly to the head, bears personal responsibility and is responsible for the formation of accounting policies, bookkeeping, preparation of complete and reliable financial statements, as well as for compliance with all established deadlines for submission of documents.

Since 2016, with the entry into force of the new edition of the Law „About financial accounting“, all employees of the entity are obliged to comply with the requirements of the head of the accounting service for documenting business operations and submitting them to the accounting department. The law also provides that in the event of disagreements between the head of the entity and the head of the accounting service on any business operations, documents on them can be accepted for execution with a written order from the head of the entity, who is solely responsible for the consequences of such operations.

The requirements for the head of the accounting service are also determined: he can be a chief accountant or another official who carries out accounting and financial management. The head of the accounting service cannot be a person duly recognized as legally incapacitated or partially incapacitated, as well as having an outstanding or unexpunged conviction for an intentional crime.

Special requirements are imposed on the head of the accounting service of the entity subject to mandatory audit (except for banks and other credit organizations). These requirements are:

- availability of higher education;
- work experience related to accounting or financial reporting or auditing: with a higher economic education – at least 3 years out of the last 5 calendar years, and with a higher non-economic education – at least 7 years out of the last 10 calendar years.

The same requirements apply to an employee of a specialized organization (audit, tax consultants and others, the charter of which stipulates the provision of accounting services), to which the head of the above entities has delegated accounting on a contractual basis.

The managers of these entities are now required to provide the head of their accounting department with an annual refresher course.

The law also reflects the privilege of small businesses on simplified methods of accounting and the generation of financial statements (to submit only annual financial statements, consisting of a balance sheet and a statement of financial results).

Accounting can be performed within the organization itself by a full-time accountant or accounting department, or by a specialized accounting company or a freelance accountant.

Most of the enterprises use financial accounting software 1C, which is the leading one in Uzbekistan. At the same time, more and more companies, primarily large ones with foreign investments, are striving to introduce accounting systems of their parent companies. To do this, it is necessary to bring these systems in line with the legislation of the Republic of Uzbekistan, which is a labor-intensive process and does not always allow us to completely converge both accounting methods.

Accounting in Uzbekistan is characterized by a high degree of regulation. This is reflected both in the relatively large number of accounting entries for a single business transaction, and in the amount of documentation required to confirm the business transaction. Primary documents used in accounting can be conditionally divided into approved and not approved by the regulatory legal acts of the Republic of Uzbekistan. Approved – are mandatory. You cannot make changes to them or reduce the details. For example, a company that does not pay excise tax is not entitled to exclude two columns with information about its rate and amount from the approved invoice form. The approved forms must be used without any exceptions or additions. Also, business entities in the absence of approved forms for them can use:

- standard primary documents valid until 1991;
- forms and registers for budgetary organizations.

If they do not take into account the specifics of the enterprise, it is allowed to make changes to them or create your own primary documents on their basis. Forms of standard primary documents (with or without changes), as well as independently developed forms must be approved by order of the head. You can also reflect them in the accounting policy or in the regulation on document flow in the enterprise.

The basis of accounting is the National Accounting Standard (NAS) No. 21 “Chart of accounts for accounting of financial and economic activities of business entities and instructions for its application”, which establishes a chart of accounts approved by the Ministry of Finance of the Republic of Uzbekistan and implementing the principle of double entry. For organizations, this Chart of Accounts is mandatory. In addition, separate standards have been developed for certain sectors of the economy, for example, banks and insurance companies. The chart of accounts of accounting for financial and economic activities is a set of accounts grouped according to the elements of financial statements: assets, liabilities, capital, revenue and expenses. Business entities on the basis of NAS No. 21 compose a working chart of accounts, which should be reflected in the accounting policy of the organization. Synthetic accounts should remain unchanged, and the organization can enter, group, exclude and change sub-accounts independently, based on the requirements of the analysis.

Another feature is the fiscal focus of Uzbekistan‘s reporting. National standards provide more information for tax reporting. This is mainly to simplify the accounting for deferred taxes. Thus, many organizations in the Accounting Policy provide for such accounting methods that allow for the approximation of accounting data and income tax returns. Reporting is presented primarily to the tax authorities, so this practice, at least, is not condemned by them. At the same time, the reporting does not give investors, owners and international financial institutions a real idea of the company‘s financial position.

In recent years, there has been a clear focus of legislation on strengthening control over taxpayers and suppressing the possibility of obtaining unjustified tax benefits, including through illegal capital outflow from Uzbekistan. In particular, the Tax Code establishes the following regulations:

- The performing by a taxpayer of transactions, the purpose of which is to obtain an unjustified tax benefit in the form of non-payment or reduction of the amount of taxes paid, is considered an abuse of the right (Art.14);
- The tax authorities have the right to adjust the tax base if the transaction price is lower or higher than the market value of goods (services) and is aimed at tax evasion (Art. 248);
- Any revenue that could have been received by one of the parties of the transaction, but was not received by it as a result of transfer pricing, for tax purposes is accounted for with this party to the transaction. This does not take into account whether the participants in such transactions are related or independent parties. (Art. 176);
- If, as a result of tax control during transfer pricing, an understatement of taxes or an overstatement of the amount of loss is revealed, the State Tax Committee of the Republic of Uzbekistan has the right to adjust the corresponding tax base and (or) the amount of tax (Art. 176).
- Tax residents of Uzbekistan are required to pay income tax on retained earnings of controlled foreign companies. Legal entities include the specified retained earnings in the tax base of corporate income tax, and individuals – in the tax base of personal income tax (Art.203).

Fundamental accounting principles

The accounting principles of the Republic of Uzbekistan are largely consistent with the assumptions underlying the Concept for the preparation and presentation of financial statements in accordance with IFRS, as well as IFRS 1 “Presentation of financial statements”. These are, among other things, the assumption of property isolation, business continuity, consistency in the application of accounting policy, the requirement of timeliness, prudence, consistency, rationality, materiality, the principle of reliability and completeness, information neutrality and comparability.

The facts of the economic activity of the organization refer to the reporting period in which they took place, regardless of the actual time of receipt or payment of funds associated with these facts.

According to IFRS, this assumption implies the obligation to form a number of reserves, in particular for expenses recognized in accounting upon receipt of invoices from the supplier (for example, for utilities, telephone services, etc.), as well as for payment of audit services. In Uzbekistan, on the other hand, such expenses are not recognized in general if they do not yet have accounting records. The corresponding expenses are taken into account in accounting only when there is all the documentation for the work performed (service provided) or delivery: an agreement, an act of work performed / services rendered or a consignment note, bill and invoice (VAT invoice).

Annual and interim financial statements

The reporting period of the financial statements is the calendar year from January 1 to December 31.

The reporting period for periodic financial statements generated within a calendar year is the period from January 1 to the reporting date of the period for which the periodic financial statements are prepared, inclusive.

The first reporting year for newly created legal entities is the period from the date of acquisition of the right of a legal entity to December 31 of the same year, and for non-legal entities – from the date of their registration with state bodies.

If a legal entity (other than budgetary organizations) is registered after October 1, the first reporting year ends on December 31 of the following year. Data on business transactions carried out prior to the registration or acquisition of the rights of a legal entity are included in the financial statements of the first reporting year. Financial statements are prepared on the basis of accounting data and include:

- balance sheet (form No. 1);
- profit and loss statement (form No. 2);
- cash flow statement (form No. 4);
- statement of equity (form No. 5);
- notes, calculations and explanations.

Financial statements of small and private businesses are prepared in a simplified form. Financial statements of budgetary organizations are prepared and submitted in accordance with budgetary legislation.

The structure and content of financial statements are determined by the Ministry of Finance of the Republic of Uzbekistan. Financial statements are provided to:

- tax authorities;
- owners in accordance with the constituent documents;
- bodies of state statistics;
- other authorities in accordance with the legislation.

Financial statements are submitted on a quarterly basis with a cumulative total from the beginning of the reporting year, and for small businesses and microfirms, it is sufficient to provide only annual financial statements.

An explanatory note is attached to the annual financial statements, setting out the main factors that influenced the final results of the enterprise in the reporting year.

If the balance at the beginning of the year has been changed, then the explanatory note explains the reasons for the changes.

Corrections of the reporting data of both the current and the last year (after their approval) are made in the statements compiled for the reporting period, in which distortions of its data were found, and corrections are made to the data for the reporting period (quarter, from the beginning of the year).

If during the audit of the annual financial statements it is established that income was hidden or financial results were understated as a result of allocating unrelated costs to production costs (or distribution costs), corrections are not made to the accounting data and financial statements for the previous year, but are reflected in the current year as profit of previous years, identified in the reporting period.

In addition to financial statements, as well as tax returns, organizations are required to submit statistical reports to the State Statistics Committee, the type of reporting depends on the economic activities of the organization.

Accounting and evaluation of individual balance sheet items

Next, we will focus on the main items of the balance sheet of the Republic of Uzbekistan.

Intangible Assets (NAS No. 7)

When accepting assets for accounting as intangible assets, one-time fulfillment of the following conditions is required:

- lack of material (physical) content (form);
- the use of an asset in the production of products, in the performance of work or in the provision of services, or for the administrative and other functions of the enterprise over a long period, that is, the useful life of more than 12 months or a normal operating cycle if it exceeds 12 months. In this case, the cost of an asset is at least fifty times the minimum wage established in the Republic of Uzbekistan (at the time of purchase), per unit (set). The head of the enterprise has the right to establish a lower limit for the value of assets for the reporting year for their accounting as part of intangible assets;
- the company does not expect the subsequent resale of this asset;
- reliability, that is, the presence of properly executed documents confirming the existence of the asset itself and the exclusive right of the enterprise (patents, certificates, other documents of protection, the agreement of assignment (acquisition) of a patent, trademark, etc.);
- possibility of identification.

If the above conditions are met, the following items can be classified as intangible assets:

- the exclusive right of the patent holder to an invention, industrial design, utility model;
- the exclusive right of the author or other copyright holder to computer programs, databases;
- the exclusive right of the author or other copyright holder to the topology of integrated circuits;
- the exclusive right of the copyright holder to a trademark and service mark, as well as the right to use an appellation of origin;
- the exclusive right of the patent holder to selection achievements;
- goodwill;
- the right to use natural resources, that is, the right to use subsoil, other resources of the natural environment, geological and other information about the natural environment, etc.;
- the right to use the land plot;
- other intangible assets (the right to manufacture products, perform work and provide services, use economic and other privileges, etc.).

Intangible assets do not include the intellectual and business qualities of the personnel of the enterprise, their qualifications and ability to work, since they are inseparable from their carriers and cannot be used without them.

The cost of the intangible assets received is subject to inclusion in the balance sheet of the enterprise. The initial assessment of all types of intangible assets should be the historical cost and they are accepted for accounting at this cost.

The expenses for the acquisition or creation of an intangible asset include all expenses directly related to its acquisition and provision of conditions for its use for the planned purposes. Expenses associated with the payment of acquired intangible assets (expenses for opening a letter of credit, bank commission for transfers, currency conversion commission for the acquisition of intangible assets for foreign currency and other banking services), with the preparation, registration and closing of purchase contracts, other expenses, not directly related to the acquisition of assets are not included in the initial cost of intangible assets, but should be recognized as an expense in the reporting period in which they arise.

Revaluations are performed with sufficient regularity so that the carrying (replacement) value does not differ from the market value at the balance sheet date. Upon revaluation of an intangible asset, the entire group of similar intangible assets to which the revalued asset belongs shall also be revalued, unless there is no active market for such assets. Intangible assets as a result of revaluation are reflected in accounting and financial statements at their current (replacement) cost.

The cost of intangible assets is repaid through depreciation. Amortized cost is systematically allocated in the form of amortization charges to the expenses of the organization over the useful life. Depreciation is calculated using the following methods:

- straight line depreciation.

The straight line method of amortization is that amortization is calculated on a straight-line basis, in equal shares based on the amortized cost of intangible assets over their useful lives. Under this method, the amortized cost of an intangible asset is expensed (allocated) on a straight-line basis over its useful life. The method is based on the fact that the depreciation rate depends on the length of the useful life.

The annual amount of depreciation charges under the straight-line depreciation method is determined based on the amortized cost and useful life of this intangible asset:

- accrual of depreciation in proportion to the volume of work performed (the unit of production method).

The unit of production depreciation method is based on the recognition of production using an intangible asset in each specific year. To calculate the annual depreciation using this method, it is necessary to determine the total estimated production over the entire useful life and the production in that particular year. The output can be the number of units produced, the number of hours worked, etc.

The annual amount of depreciation deductions for the production method of depreciation is determined based on the natural indicator of the volume of products (works, services) in the reporting period and the ratio of the amortized cost and the estimated volume of products (works, services) for the entire useful life of the intangible asset. The useful life of intangible assets is determined by the company when the intangible asset is accepted for accounting.

The useful life of intangible assets is determined based on:

- the term of validity of the patent, certificate and other restrictions on the terms of use of intangible assets in accordance with the legislation of the Republic of Uzbekistan;
- the expected life of this object, during which the enterprise can receive economic benefits (revenue).

For certain groups of intangible assets, the useful life is determined based on the quantity of production or other natural indicator of the volume of work expected to be received as a result of using this intangible asset.

For intangible assets for which it is impossible to determine the useful life, the rates of depreciation are established on a five-year basis. The useful life of intangible assets cannot exceed the period of activity of the enterprise from the date the intangible asset is ready for use, unless otherwise provided by the legislation of the Republic of Uzbekistan.

The depreciation expenses for goodwill are recognized in accounting by decreasing its original cost over its useful life.

The period in which goodwill is written off should reflect the best estimate of the period over which future economic benefits are expected to flow to the organization. The useful life of goodwill must not exceed twenty years (but not more than the life of the organization) from the date of initial recognition. The amount of negative goodwill is recognized in the company‘s financial results as other operating income on a systematic basis over the weighted average useful life of the identifiable acquired depreciable assets.

Fixed Assets (NAS No. 5)

Fixed assets include tangible assets that simultaneously meet the following criteria:

- useful life is more than one year;
- items worth more than fifty times the minimum wage established in the Republic of Uzbekistan (at the time of purchase), per unit (set).

The head of the organization has the right to establish for the reporting year a lower limit for the value of items for their accounting as part of fixed assets.

Regardless of the service life and cost, fixed assets do not include:

- special tools and fixtures (special purpose tools and fixtures designed for the serial and mass production of certain products or for the manufacture of an individual order);
- special and sanitary clothes, special footwear;
- bedding;
- office supplies (calculators, desk instruments, etc.);
- kitchen and table utensils, as well as table linen;
- temporary (non-title structures), fixtures and fittings, the construction costs of which are included in the cost of construction and installation work;
- replaceable equipment with a service life of less than one year;
- fishing gear (trawls, seines, nets, tackle, etc.).

The structure of fixed assets also includes land plots transferred to the ownership of the enterprise in accordance with the legislation.

Capital investments in perennial plantings, radical land improvement, leased fixed assets are included in fixed assets annually in the amount of costs related to those taken into operation in the reporting year, regardless of the date of completion of the entire scope of works.

Fixed assets are subject to inclusion in the balance sheet of the enterprise at historical cost, which includes the acquisition cost (amounts paid to the supplier) and all costs associated with the acquisition of fixed assets. Interest expenses for using a loan are not included in the historical cost of fixed assets acquired in whole or in part from borrowed capital. Banking services related to the payment of acquired fixed assets, including the costs of opening a letter of credit, payment of the bank‘s commission for transfers and conversion of foreign currency, as well as costs of preparing and registering contracts, are not included in the initial cost of fixed assets, but are recognized as expenses in that reporting the period in which they arose. If the terms of the agreement provide for a deferral or installment plan of payment for the acquired fixed assets, then these fixed assets are accepted for accounting at the cost of the acquisition, excluding the deferral or installment plan. In this case, the resulting difference between the acquisition cost and the total amount of payments is charged to finance costs (interest costs) depending on the share of the current payment in the total amount of payments on a deferral or installment plan, during the period of the deferral or installment plan.

Fixed assets as a result of revaluation are reflected in the accounting and reporting at their current cost. In the event of a revaluation of the initial (replacement) value of fixed assets, their accumulated depreciation as of the date of the revaluation is adjusted for the corresponding indices of changes in the initial (replacement) value of fixed assets, and the subsequent accrual of depreciation is made from the revalued cost.

The cost of property, plant and equipment is recovered through depreciation. Amortized cost is systematically allocated in the form of amortization charges to the expenses of the organization over the entire useful life.

Depreciation is calculated using the following methods:

- straight-line depreciation.

The straight-line depreciation method is that depreciation is allocated on a straight-line basis, in equal shares based on the amortized cost of fixed assets over their useful life.

According to this method, the amortized cost of property, plant and equipment is written off (distributed) to the related costs on a straight-line basis over its useful life. The method is based on the fact that the depreciation rate depends on the length of the useful life. The amount of depreciation for each period is calculated by dividing the depreciable cost by the number of reporting periods of operation.

The annual amount of depreciation deductions under the straight-line depreciation method is determined based on the amortized cost of fixed assets and the useful life of this object:

- accrual of depreciation in proportion to the volume of work performed (unit in production method).

The unit in production method of depreciation is based on the accounting for the production of property, plant and equipment in each specific year.

To calculate the annual depreciation using this method, it is necessary to determine the total estimated total production for the entire useful life and production in this particular year. The output can be the number of units produced, the number of hours worked, the number of tonne-kilometers traveled, etc.

The annual amount of depreciation deductions for the production method of depreciation is determined based on the natural indicator of the volume of products (works, services) in the reporting period and the ratio of the depreciated cost of fixed assets and the estimated volume of products (works, services) for the entire useful life of the item of fixed assets.

With the intensive use of fixed assets, as well as with a large influence of scientific and technological progress, the depreciation of fixed assets is expressed through accelerated depreciation, which is calculated by the following methods:

- double declining balance method with double depreciation rate
  According to this method, the doubled depreciation rate from the straight-line accrual method is multiplied by the residual value of the fixed asset corresponding in this reporting period. With the declining balance method with a doubled depreciation rate, the estimated residual value is not deducted from the initial (replacement) value when depreciating, and depreciation charges on fixed assets are discontinued from the moment the book (residual) value of these items is equal to the residual value.

- sum of years method (cumulative method)
  According to the sum of years method (cumulative method), the depreciation rate in each year is determined as the share of the amortized cost that remains until the end of the amortization period. The share is determined by dividing the number of full years remaining until the end of the depreciation charge by the sum of the ordinal numbers of years that make up the depreciation period.

For tax purposes, the Tax Code of the Republic of Uzbekistan establishes an annual depreciation rate as a percentage of the original (replacement) cost of fixed assets, which is evenly written off to expenses. During the reporting year, depreciation charges on fixed assets are calculated on a monthly basis, regardless of the accrual method used (except for the unit of production depreciation method), in the amount of 1/12 of the annual amount.

In accordance with Art. 306 of the Tax Code of the Republic of Uzbekistan, depreciation on all depreciable assets (except for intangible assets) are made by the linear method using the following depreciation limits for each group (subgroup) of assets:

Group No.	Subgroup No.	Name of depreciation group (subgroup)	Depreciation limit (in %)
I		Buildings and facilities	
	1	Buildings	5
	2	Facilities	10
II		Pipelines, power lines and telecommunications	15
III		Machinery and equipment (except transport equipment)	20
IV		Transport equipment	
	1	Aircraft and related equipment, vessels and boats, locomotives and rolling stock (railway)	10
	2	Aircraft and related equipment, vessels and boats, locomotives and rolling stock (railway)	20
V		Computer and peripheral devices	40
VI		Depreciated assets not included in other groups	15

The taxpayer has the right to accrue depreciation for tax purposes for each subgroup of fixed assets at rates lower, but not exceeding the limit.

The applied method of depreciation must be reflected in the accounting policy of the enterprise. Enterprises should not change their accounting policies during the calendar year, except for the cases provided in paragraph 56 of the National Accounting Standard of the Republic of Uzbekistan (NAS No. 1) „Accounting policies and financial reporting“, approved by the Ministry of Finance of the Republic of Uzbekistan on July 26, 1998.

Financial Investments (NAS No. 12)

Financial investments include:

- State and municipal securities;
- Securities of other organizations, including debt securities, in which the date and value of redemption is determined (bonds, promissory notes);
- Contributions to the authorized capital of other organizations, including subsidiaries and affiliates;
- Loans granted to other organizations (at interest);
- Deposits in banks;
- Accounts receivable acquired on the basis of the assignment of the right of claim, etc.

To accept assets as financial investments for accounting, the following conditions must be met:

- Availability of duly filed documents confirming the existence of the right to financial investments and to receive funds or other assets arising from this right;
- Transition to the organization of financial risks associated with financial investments (risk of price changes, risk of insolvency of the debtor, liquidity risk, etc.);
- Ability to bring economic benefits to the organization in the future in the form of interest, dividends, or an increase in their value.

The historical cost of financial investments acquired for a fee is the sum of all costs directly related to the acquisition of assets as financial investments.

Financial investments are divided into financial investments, which can be used to determine the current market value and financial investments, for which their current market value is not determined. Financial investments circulating on the market are revalued at market price. Revaluation is carried out monthly or quarterly, depending on the accounting policy of the organization. The resulting differences are included in financial results as other income or expenses. Financial investments, for which the current market value is not determined, are subject to reflection in accounting and reporting at their original cost.

Upon disposal of financial investments, it is required to consider whether their current market value is determined or not. When disposing financial investments that are in circulation on the market, their value, as well as their valuation at the end of the reporting year, is determined by the organization based on the last revaluation. Upon disposal of financial investments for which the current market value is not determined, their value, as well as the valuation at the end of the reporting year, is determined by the original cost of each accounting unit of financial investments, either by method of the average original cost, or by the FIFO method. At the same time, such financial investments as contributions to the authorized (share) capital of other organizations (with the exception of shares of joint-stock companies), loans granted to other organizations, deposits in banks, as well as receivables acquired on the basis of an assignment of the right to claim, can only be assessed at its original value.

Financial investments for which the current market value is not determined and in respect of which there is a decrease in value below the value of economic benefits are recognized as subject to impairment. These include contributions to the authorized capital of other organizations (except for shares of jointstock companies), loans granted to other organizations, deposits in banks, as well as receivables acquired by way of assignment of the right to claim, etc.

In the event that an impairment test confirms a steady significant decrease in the value of financial investments, it is necessary to create a provision for their impairment.

Inventories (NAS No. 4)

Inventories include raw materials, materials used in the production of products (performance of work, provision of services) or for management needs, finished products and goods intended for sale.

The accounting unit of inventories is established by the organization independently in such a way as to ensure the formation of complete and reliable information about stocks, as well as proper control over their presence and movement. Depending on the nature of inventories, the procedure for their acquisition and use, a unit of inventory may be an item number, batch, homogeneous group, etc.

Inventories, for which the right of ownership does not belong to the organization, but which are at its disposal in accordance with the terms of the contract, are reflected in off-balance accounts according to the assessment provided for in the contract.

Inventories are subject to inclusion in the balance sheet of the organization as a result of:

- purchases under a supply (purchase and sale) agreement;
- receipts from the founders as a contribution to the charter capital of the organization;
- receipts from the return of the founder‘s contribution of the organization, previously contributed to the charter capital of another organization, upon withdrawal from the founders, or upon distribution of the property of the liquidated organization among its participants;
- gratuitous receipt (under a donation agreement);
- exchange;
- transfer from long-term assets;
- identifying excess (unrecorded) inventories;
- return of a previously issued commodity loan or receipt of a commodity loan;
- manufacturing within the organization;
- performance of work and provision of services not completed at the end of the reporting period and accounted for as work in progress; other transactions and events leading to the acquisition of ownership of inventory. Inventories are measured at the lower of two costs: cost (acquisition cost or cost of production) or net realizable value at the end of the reporting period.
- The cost of inventories, recognized accordingly in accounting, is not subject to change.
- Determination of the cost of balances and disposal inventory (including those released into production) is carried out by one of the following methods:
  - at the identified cost of the respective unit;
  - by weighted average cost (AVECO);
  - at the cost of the first-in-time purchase of inventories (FIFO).

For each group (type) of inventory during the reporting year, only one method of determining the cost is used. The application of one of the methods for determining the cost by group (type) of inventories is based on the assumption of consistency in the application of accounting policy.

Determination of the cost of inventory at the end of the reporting period is made depending on the accepted method for determining the cost of inventory at their disposal. The applied method of determining the cost of inventory at their disposal should be reflected in the accounting policy of the organization.

Accounts Receivable and Accounts Payable

Accounts receivable and payable are recorded in the amounts arising from accounting entries. The correctness of accounting entries is confirmed by acts of reconciliation and inventory.

The creation of a reserve for doubtful debts is not stipulated by the Tax Code, but it can be formed so that information on receivables in the financial statements is reliable. Doubtful debt is defined as debt to the company, which with a high probability will not be repaid due to:

- bankruptcy;
- liquidation;
- death of the debtor;
- expiration of the statute of limitation.

The reserve for doubtful debts is created on the basis of the results of the inventory of accounts receivable. The amount of the reserve is determined separately for each doubtful debt, depending on the financial condition of the debtor and the assessment of the probability of full or partial repayment of the debt. Thus, it is possible to create reserves only for certain doubtful debts.

If the reserve is not used by the end of the reporting year following the year in which the reserve for doubtful debts was created, then the unused amounts are added to the financial results at the end of the reporting year. The next year, if necessary, the reserves are formed anew.

Accounts receivable for which the limitation period has expired, and other debts that are uncollectible (bad debts) are written off on the basis of a written order of the head of the organization. The general statute of limitations is three years. The limitation period may be interrupted (by the obligated person performing actions indicating recognition of the debt, for example, partial payment or signing of the Reconciliation Act). In this case, after the break, the limitation period begins anew, and the time that has elapsed before the break is not included in the new period.

The Tax Code of the Republic of Uzbekistan refers debts to bad debts, the impossibility of collecting which is confirmed by a decision of a court usher at the end of enforcement proceedings (insolvent debtors).

Accounts receivable after write-off are reflected in a separate off-balance sheet account within five years from the date of write-off. During this period, monitoring of the possibility of collecting debts in the event of a change in the property status of the debtor is carried out.

Accounts payable for which the limitation period has expired are also written off separately for each obligation. The write-off is included in financial results as part of other income. Amounts of accounts payable are subject to write-off on the basis of inventory data, written justification, as well as an order of the head of the organization.

Equity Capital (NAS No. 14)

Equity capital includes authorized, additional and reserve capital, as well as retained earnings. The authorized capital is reflected within the registered value. The value of the authorized capital cannot exceed the amount registered in the constituent documents. An increase or decrease in the authorized capital of an enterprise can be carried out only by the decision of the founders after making appropriate changes to the constituent documents of the enterprise.

Joint Stock Companies

The minimum size of the authorized capital of a joint stock company must be at least the amount equivalent to four hundred thousand US dollars at the rate of the Central Bank of the Republic of Uzbekistan on the date of state registration of the company.

A joint stock company may increase its charter capital by issuing new shares or increasing their nominal value. Additional shares may be placed by the company only within the limits of the number of authorized shares established by the charter of the company.

The size of the authorized capital of a joint-stock company may be reduced by reducing the nominal value of shares or reducing their total number, including by acquiring a part of the shares by the company with their subsequent redemption.

The company creates a reserve fund in the amount provided for by the charter of the company, but not less than fifteen percent of its charter fund. The company‘s reserve fund is formed by mandatory annual deductions from net profit until it reaches the amount established by the company‘s charter. The amount of annual deductions is provided for by the charter of the company, but cannot be less than five percent of the net profit until the amount established by the charter of the company is reached. The reserve fund of the company is intended to cover its losses, redeem the company‘s bonds, pay dividends on preferred shares and repurchase shares at the request of shareholders.

The value of the net assets of the Company must not be less than its authorized capital (principle of capital preservation) at the end of the second reporting year from the date of establishment. If this does not happen before the end of the third or any next year after revealing the insufficiency of the value of net assets, the Company is obliged to make a decision to reduce the authorized capital to an amount not exceeding the value of net assets, or to liquidate it.

If the value of the Company‘s net assets turns out to be less than the value of the minimum authorized capital, the Company must decide on liquidation, the Joint Stock Company may be liquidated forcibly (the relevant authorities have the right to file a claim with the court for its liquidation).

Limited Liability Companies

For limited liability companies, the minimum size of the authorized capital may be determined in the licensing requirements.

An increase in the charter capital of an LLC can be carried out at the expense of the company‘s property and (or) at the expense of additional contributions from the company‘s participants, and (or), if this is not prohibited by the company‘s charter, at the expense of contributions from third parties accepted by the company. The amount by which the company‘s authorized capital is increased at the expense of the company‘s property must not exceed the difference between the value of the company‘s net assets and the amount of the company‘s authorized capital and reserve fund.

The company has the right to reduce its authorized capital by reducing the nominal value of the shares of the company‘s participants in the authorized capital of the company‘s authorized capital and (or) the redemption of shares owned by the company.

Companies may create a reserve fund in the amount provided for by the charter of the company, but not less than 15 percent of its authorized fund (authorized capital). The company‘s reserve fund is formed by annual deductions from net profit until it reaches the amount established by the company‘s charter. The amount of annual deductions is provided for by the charter of the company, but cannot be less than 5 percent of the net profit until the amount established by the charter of the company is reached.

If at the end of the second and each subsequent financial year the value of the company‘s net assets turns out to be less than its authorized capital, the company is obliged to announce the reduction of its authorized fund (authorized capital) to an amount not exceeding the value of its net assets, and register such a decrease in the prescribed manner.

Reserves

Banks and legal entities that carry out certain types of banking operations on the basis of a license to conduct banking operations, as well as insurance companies, have the right to create reserve funds in accordance with the requirements of the law. Contributions to these reserve funds are expensed within the limits established by law. The actual expenses in respect of which the reserve fund is formed are written off at the expense of the amount of the created reserve.

Organizations engaged in the sale of goods (services) have the right to create a reserve for future expenses for warranty repair and warranty service. Expenses include the amount of deductions to the reserve on the date of sale of the specified goods (services). The maximum amount of deductions must be determined in the accounting policy for tax purposes. If the taxpayer has decided to create a reserve.

the write-off of the actual expenses for warranty repairs is carried out at the expense of the created reserve. After the expiration of the tax period, the taxpayer must adjust the amount of the created reserve based on the share of actually incurred expenses for warranty repairs and maintenance in the amount of revenue from the sale of these goods (services) for the past period. The amount of the reserve, not fully used by the taxpayer in the tax period for the implementation of warranty repairs and maintenance of goods (services) sold under the condition of providing a guarantee, may be carried over to the next tax period. In this case, the amount of the reserve newly created in the next tax period must be adjusted by the amount of the balance of the reserve of the previous tax period. If the amount of the newly created one turns out to be less than the amount of the balance of the reserve created in the previous tax period, the difference between them is subject to inclusion in the income of the taxpayer of the current tax period.

Professional participants in the securities market have the right to form reserves as of the end of the reporting (tax) period in the amount of the excess of the acquisition prices of equity securities circulating on the organized securities market over their market quotation (estimated value of the reserve). For tax purposes, deductions to the reserves for depreciation of securities may be expensed. In this case, the amounts of restored reserves for depreciation of securities, deductions for the creation (adjustment) of which were previously taken into account when determining the tax base, are recognized as income.

Contributions to reserves, reserve funds and other funds, the formation of which is not required by law, except for the above-mentioned expenses within the limits are not deductible in determining the tax base.

Summary

From the above, we can conclude that, in accordance with the law of the Republic of Uzbekistan, it is possible to create an effective and informative system of accounting and reporting in an organization. This implies, first of all, a change in the views of employees, but also should be accompanied by a deeper understanding of the features of accounting in Uzbekistan by foreign users. These features are often formal, time consuming, but at the same time mandatory.

This guide provides examples of the fundamental principles of accounting. When organizing accounting for each individual type of activity and form of ownership of enterprises, it is necessary to provide for the individual needs of enterprises in the accounting policy, taking into account all the rules and regulations established by the National Accounting Standards and the Tax Code.

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