

## Issues of improving the accounting of the authorized capital

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**Abstract:** The article describes the procedure for reflecting in accounting and in financial statements the formation and change of the authorized capital, which is an component of equity, as well as the existing problems in the evaluation of property included as a share capital contribution. Based on the results of the research, recommendations have been developed to improve the accounting of the share capital on the basis of international standards.

**Key words:** equity, share capital, share, fair value, unpaid capital, acquired equity, net assets..



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### INTRODUCTION

As a result of the reforms carried out in our country in recent years in the field of accounting and auditing, urgent issues are emerging that need to be resolved by business entities. In particular, certain types of business entities are required to prepare their financial statements in accordance with the requirements of international standards and undergo an audit in accordance with international auditing standards in the established manner. Also, the preparation of financial statements in accordance with the requirements of international standards allows them to attract foreign investments and obtain credit funds at low interest rates. Therefore, ensuring the reliability of financial statements by organizations and the transparency of the information contained in them is one of the urgent issues of the present day.

Authorized capital is the basis of the financial stability of a joint-stock company, its amount and growth rate reflect the effectiveness of financial and economic activities. The provision of information on authorized capital is of great importance in making management decisions. Such information is obtained from reliable accounts and reports formed within the framework of the accounting system of a joint-stock company.

### LITERATURE REVIEW

It is worth noting that a number of scientists have considered research on the account of private equity in their work.

In particular, in the scientific work of O. Ermatov, it was argued that "the composition of authorized capital should consist of funds invested by the founders, funds earned and accumulated during the enterprise's activities, and funds that will be transferred to the enterprise's profit in the future, and it was proposed to reflect them in accounting records"[3].

In his research, K. Orishev "gave improved proposals for accounting for authorized capital, added capital, and reserve capital, based on the specific characteristics of oil and gas industry enterprises"[4].

K. Berdiev also developed in his scientific work "proposals on taking into account exchange rate differences, retrospective adjustments of the equity accounting based on international financial reporting standards, and transformation of equity capital into its sub-categories in order to accurately reflect the amount of authorized capital in business entities" [5]. I. Bakholdina emphasized that "the adoption of strategic and tactical management decisions on equity capital undoubtedly depends on the information formed by the accounting system of society" [6].

T. Dudich concluded that "authorized capital is a means of expressing the level of shareholder participation, which leads to a better assessment of the value of shares. As a result of the introduction of international financial reporting standards, fair value began to be widely promoted as a generally accepted accounting paradigm. However, fair value is a weak measure due to large fluctuations in market prices" [7].

However, the studies conducted did not cover in detail the issues of improving authorized capital accounting based on the requirements of international standards.

### ANALYSIS AND RESULTS

Contributions to the authorized capital of a participating company in the form of money, securities, other items valued at money or property rights or other rights transferred to another person are reflected in the balance sheet of the company in the order of an increase in assets, as well as an increase in authorized capital in the passive part.

It should be noted that the Civil Code of the Republic of Uzbekistan defines “commercial organizations that have an authorized capital (authorized capital) divided into shares (contributed shares) or shares of founders (participants) are considered business partnerships and societies” [1].

According to the Law of the Republic of Uzbekistan “On Accounting”, “The authorized capital (authorized capital) reflects the sum of the contributions (expressed in money) established in the constituent documents. Tangible and intangible assets contributed to the authorized fund (authorized capital) in the form of contributions shall be valued in accordance with the agreement between the founders (participants), and in cases provided for by law, they shall be valued by an appraisal organization. [2]

The legislation stipulates that when contributions to the authorized capital as a share are included in the form of assets other than cash, they are reflected in the accounting records at the price agreed upon between the founders. In our opinion, there is an aspect that should be paid special attention to in this case. Given that the components of authorized capital are indicators that affect the financial independence and financial stability of the organization, the value of non-cash assets included in the authorized capital as a share is of great importance. International Financial Reporting Standards require that the value of assets not in cash be reflected in the accounting records, in most cases, at fair value. In particular, International Financial Reporting Standard No. 13, “Fair Value Measurement,” provides a procedure for determining fair value. According to it, “fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” [8]. By definition, the market is the primary factor in determining fair value. Thus, fair value is not the result of the valuation of specific objects, but a market indicator. That is, the company should rely on how assets and liabilities are valued by market participants and not take into account private valuation approaches in this case. Also, this standard divides the sources of information used in determining fair value into 3 levels (Table 1).

**Table #1**

<b>Hierarchy of fair value determination <sup>1</sup></b>	
Level 1	Market quotation of shares traded on a stock exchange
Level 2	Quote for similar assets in an active market
	Quote for the same or similar assets in an inactive market
	Other observable primary data
	Market-validated primary data
Level 3	Financial forecasts
	Historical price volatility statistics
	Estimation of the average market value

The International Standard recognizes as a primary source of input a quoted (unadjusted) price in an active market for identical assets or liabilities that the entity can use at the measurement date. It is worth noting that the main emphasis here is on an active market. That is, for assets and liabilities to be valued, there must be an active market in which these items are traded.

Level 2 sources are sources of information that are directly or indirectly observable for the asset or liability, other than quoted prices included in Level 1. When there is no active market in the country, assets or

<sup>1</sup> Made by author

liabilities are valued based on observable prices from these sources of information. Thus, in this case, the market is the one that maximizes the profit from selling the asset or minimizes the amount that would be paid to settle the liability.

Measurement based on unobservable source data for an asset or liability is performed using Level 3 source data.

In our opinion, it is advisable to value non-monetary assets contributed to the authorized capital at fair value. This situation ensures a reliable reflection of the value of assets in the financial statements. If the value of the assets contributed as a contribution exceeds its fair value determined in the company's charter, in accordance with the procedure established by law, based on the agreement of the founders, the difference should be reflected in the credit of account 8410- "Emission income". In this case, it is advisable to have a separate structural unit in the company that deals with these issues to determine the fair value.

If it is not possible to determine the real value of the non-monetary property included as a share in the authorized capital on the basis of the 1st and 2nd level information sources, the report of the appraising organization can be used as the 3rd level information source.

If a real estate object is included as a contribution to the authorized capital, the property rights to it must be registered in accordance with the law. In accordance with our national legislation, from the date of transfer of property rights to a real estate object, the society begins to own it and reflects it in accounting. If we look at the international practice, it is reflected in the accounting from the day when the control over the real estate object and the economic benefits from it belong to the society. Therefore, in accordance with the international standard, priority is given to the priority of content over form, rather than the legal aspect of the transaction.

## CONCLUSION

1. The introduction of international financial reporting standards obliges business entities to prepare financial statements in accordance with the requirements of international standards, bringing the current accounting system into line with the requirements of international standards. As we know, financial reporting serves as a source of information for analyzing the effectiveness of the entity's activities, as well as the risks of financial and economic activities. The classification of information in financial reporting ensures financial stability, efficiency, and objectivity in assessing risks. The composition and structure of financial reporting must not only comply with the rules of international standards, but also meet the requirements of financial and management analysis. Therefore, reliable and appropriate reflection of information on equity in accounting and financial reporting is of great importance in assessing financial stability and investment attractiveness.

2. In accordance with international standards, financial reporting should disclose information about authorized capital from the perspective of users' interests. Based on this requirement, it is important to align the organization of the current account of authorized capital with the requirements of international standards. In particular, in international practice, information on authorized capital is reflected in financial statements on a net basis.

3. In the legislative documents, it is determined that the property included in the charter capital as a share is valued at the value agreed by the participants. However, according to the international standards of financial reporting, the shares included in the authorized capital are required to be valued at fair value. This provision complies with accounting principles and prevents distortion of financial reporting information.

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