

IMPROVING THE ACCOUNTING FOR DOUBTFUL DEBTS**Abduvakhidov Farhad Tuychievich**

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ARTICLE INFO.

Keywords: loss reserve, loss estimate, accounts receivable, accounts receivable, assets, balance sheet, profit or loss, and other summary statements.

Abstract

The article presents an opinion on the correct formation of a reserve account in case of possible losses on the assets of business entities. Proposals and recommendations have also been developed that have theoretical, scientific and practical significance for improving their calculation.

<http://www.gospodarkainnowacje.pl/> © 2024 LWAB.**Introductions.**

In the conditions of digital economy in the process of economic reforms in Uzbekistan, much attention is paid to the process of reforming accounting (financial) reporting. In particular, a new version of the Law on Accounting (2016) was adopted and National Financial Reporting Standards (1998-2016) were developed on the basis of International Accounting Standards (IAS).

Also, in order to support and legally strengthen the activities of business entities in recent years, Presidential Decrees No. PF-4720 (2015), Presidential Decrees No. PF-4947 (2017), Presidential Decree No. PF-5544 (2018), Presidential Decree No. PF-60 (2022), Presidential Resolutions No. PQ - 4611 (2020) were adopted.

Over the last 20 years since the beginning of accounting reform in Uzbekistan, as a result of the fact that the world economy has experienced at least two financial and economic crises, fundamental changes have occurred in international accounting standards. However, these changes show that there are controversial issues in harmonizing national accounting standards with international standards.

This, in turn, requires improvement of the accounting and reporting system of business entities on the basis of international financial reporting standards (IAS, IFRS).

In particular, one of the current and debatable issues today is the formation of reserves for compensation of possible losses on assets of business entities and their correct reflection in the accounting system.

Literature review on the topic.

In the research and educational literature of foreign and domestic economists one can see different approaches to the organization of accounting of assets of business entities. Specifically:

According to A. D. Alikina, "Accounts receivable is the amount owed to the enterprise by individuals or legal entities in favor of the enterprise, arising in their relations with each other. Usually these debts are incurred when selling on credit. The increase in the amount of accounts receivable over the amount of accounts payable is one of the important conditions for ensuring the financial stability of

organizations. Enterprises recognize doubtful accounts receivable in their accounting records until they are repaid by the counterparty or until they are written off as doubtful accounts."

F.P. Azimov (2023) provided information on receivables and payables incurred in the reporting period or in previous periods and their repayment, decrease in economic value, i.e. decrease in available assets. He suggested that the risk of bad debts should be assessed on a probability basis and suggested that they should be maintained in separate accounts.

Khakimov B.J., Kadyrov R.H. (2018) thinking on the name of accounts receivable and the order of its reflection in the balance sheet, pointed out the existing shortcomings. Они внесли важные предложения относительно представления дебиторской задолженности в форме финансовой отчетности. They made important suggestions regarding the presentation of accounts receivable in the financial statement form.

M.A.Nabiev, N.Nosirov (2023) authors proposed on accounting with customers in the automotive industry several effective and scientifically sound methods of characterizing accounts receivable as a financial asset and solving current problems in the industry.

According to B.A.Khasanov et al. (2021) accounts receivable of an enterprise not covered by the specified period and not secured by appropriate guarantees (pledge, surety, bank guarantee) are recognized as doubtful debts. If accounting policy provides for the creation of a reserve for doubtful debts, organizations may create a reserve and record that amount in financial results.

K.B.Urazov, M.E.Pulatov (2020) "Doubtful receivables usually refers to companies that are in crisis, suspended or closed, have large amounts of accounts payable, are insolvent, subject to court and prosecutor's office. Debts to the company of legal and natural nature refers to the persons responsible to the authorities.

Doubtful debts are collected through the judicial authorities, and in the absence of the possibility of collection are taken to the detriment of the company.

Research Methodology.

The article conducted research to properly form and improve the loss reserve that can be seen on the assets of business entities, and identified specific objectives. The scientific article uses the methods of grouping, comparison, comparative analysis, scientific observation, systematic approach.

Analysis and Results.

In business entities it is important to organize the accounting of provisions for assets on the basis of international financial reporting standards. Because there are cases when the funds that should have been received as a result of the processes carried out in them do not arrive on time or are delayed for various reasons. In such cases, these accounts receivables are considered as doubtful debts in the reporting month, and in accordance with NAS No. 21, a provision is made in account 4910 - "Allowance for Doubtful Debts (contra asset)".

In much of the economic literature, the amount of the allowance for the amount of business entity debt to be collected on assets is transferred to account 9430-"Other Operating Expenses". These debts of the entity that are not repaid within the specified period and are not secured by guarantees are recognized as doubtful debts. The amount of the reserve is determined based on the assessment of the financial position (solvency) of each debtor and the probability of full or partial payment of the amount of debt for each doubtful debt.

If a certain part of this reserve is not utilized by the end of the year following the year in which the allowance for doubtful debts was created, the unused amount is added to the profit of the relevant year and is not included in the tax base when calculating profits tax. When repaying debts recognized at the enterprise as doubtful, write-off from the reserve account for doubtful debts is reflected by an

accounting entry:

Dt 4910 "Allowance for doubtful debts (counter active)",

Ct Relevant accounts receivable.

When the remaining unused amount of the allowance for doubtful debts is transferred to the profit account, it is recorded in the debit account Dt 4910 "Allowance for doubtful debts (counter active)" and Ct 9390 "Other operating income".

It is evident from the above cases that the provision made has been transferred only to account 9430- "Other Operating Expenses". This account is included in the expenses of the period and at the end of the accounting period is debited to account 9910- "Final financial result". It does not represent an estimate of probable losses in terms of underlying operations and financial performance.

For this reason, financial reporting provides for the development of a methodology or internal regulatory document for the formation of reserves of assets of economic entities in accordance with national standards.

In our opinion, the procedure for the formation of reserves and their use to cover possible losses on assets should be reflected in the accounting policy or internal regulatory documents of business entities.

In accordance with these documents in relation to the value of the total assets of the economic entity:

- 0 percent when classified as "standard";
- 10 percent when classified as "substandard";
- 25 percent when classified as "unsatisfactory";
- 50 percent when classified as "doubtful";
- when categorized as "hopeless" it would be appropriate to make a provision against 100 percent of assets.

The formation of such provisions should be regulated in accordance with IAS 36 Impairment of Assets and IFRS 13 - Fair Value Measurement. According to IAS 36 Impairment of Assets (2013), "...only and only if the recoverable amount of an asset is less than its carrying amount should the carrying amount of the asset be reduced to its recoverable amount. Such decrease is an impairment loss. An impairment loss on an unappreciated asset is recognized in profit or loss. However, an impairment loss on a revalued asset is recognized in other comprehensive income to the extent that it does not exceed the revaluation increase. An impairment loss on such a revalued asset reduces the revaluation surplus on that asset. If the carrying amount of an impairment loss exceeds the carrying amount of the related asset, an entity shall recognize a liability if and only if required by another standard. If an impairment loss is recognized, any related deferred tax assets or liabilities are determined by comparing the adjusted carrying amount of the asset with its tax base in accordance with IAS 12."

Therefore, it would be advisable to reflect it in the balance sheet when creating a reserve for the assets of business entities. In this case, we recommend that the following accounts be established in accordance with NBAS No. 21, taking into account the characteristics of the assets in establishing the asset allowance.

Table 1. Recommended system of accounts for maintaining reserve accounts for unexpected potential losses on assets¹

In accordance with the current NAS No. 21		Recommended accounts	
account no.	Name of account	account no.	Name of account
0310	Accounts for property, plant and equipment received under finance lease agreement	0399	Provision for possible losses - Accounts for property, plant and equipment under finance leases (contra-asset)
0400	Intangible asset accounts	0499	Provision for possible losses - intangible asset accounts (contra-asset)
0600	Accounts for long-term investments	0699	Provision for possible losses - long-term investment accounts (contra-asset)
0700	Accounts for equipment to be installed	0799	Provision for possible losses - equipment to be installed accounts (contra-asset)
0800	Capital expenditure accounts	0899	Provision for possible losses - capital expenditure accounts (contra-asset)
0900	Accounts for long-term receivables and deferred expenses	0999	Provision for probable losses - accounts for long-term receivables and deferred expenses (contra-asset)
1500	Accounts for accounting for the procurement and purchase of materials	1599	Provision for possible losses - procurement and purchase accounts (contra-asset)
2800	Finished goods accounts	2899	Provision for possible losses - finished goods accounts (contra-asset)
2900	Commodity accounts	2999	Provision for possible losses - commodity accounts (contra-asset)
4000	Accounts receivable	4099	Provision for possible losses - Accounts receivable (contra-asset)
4100	Accounts receivable from separate subdivisions, subsidiaries and affiliated companies	4199	Provision for possible losses - accounts receivable from separate subdivisions, subsidiaries and associates (contra-asset)
4200	Accounts for advances to staff	4299	Provision for possible losses - accounts for advances to staff (contra-asset)
4300	Accounts for advances to suppliers and contractors	4399	Provision for possible losses - accounts for advances to suppliers and (contra-asset)
4700	Staff accounts receivable for other transactions	4799	Provision for possible losses - accounts receivable from staff on other operations (contra-asset)
4800	Accounts receivable from various debtors	4899	Provision for possible losses - accounts receivable from various debtors (contra-asset)
5800	Short-term investment accounts	5899	Provision for possible losses - short-term investment accounts (contra-asset)

¹ Author's research-based developments.

9100	Cost of sales (goods, works, services) accounts	9199	Estimation of possible losses - accounts of cost of sales (goods, works, services) (contra-asset)
9400	Period expense accounts	9499	Estimation of probable losses - period expense accounts (contra-asset)
9600	Expenditure accounts for financing activities	9699	Estimation of probable losses - financing activities expense accounts (contra-asset)
007	Debt of insolvent debtors written off to loss	017	Estimation of possible losses - asset types

Now consider how these proposed accounts should be reflected in accounting.

1. When forming in business entities reserve for compensation of losses that may be received from assets, it is necessary to take into account the assessment of possible losses (by type of activity), to the appropriate accounts opened as part of the accounts of accounting for financial results. A record made is,

Dt 9199, 9499, 9699 ;

Ct 0399, 0499, 0699, 0799, 0899, 0999, 1599, 2899, 2999, 4099, 4199, 4299, 4399, 4499, 4599, 4799, 4899, 5899.

For each type of activity (main activity, general economic activity and financial activity) such transfer leads to the creation of a reserve of assets and simplicity of their location in the system of accounts, creating the convenience of maintaining the accounting system. Also, the contractual nature of accounts 9199, 9499, 9699 should be considered when preparing income statements and other consolidated statements and should be deducted from cost of sales, period expenses, and financing activities expenses.

2. In this case, in accordance with the accounting policy (internal regulatory documents) of the enterprise it is necessary to open off-balance sheet account 017-"Assessment of possible losses - by type of assets" and account in its debit. Account Dr 017. This account allows to control the value of the reserve created on assets, and its duration can be determined by the enterprise independently.
3. In accordance with International Financial Reporting Standards, if in the next reporting period when doubtful debts on assets of business entities will be covered, it is advisable to make the following accounting entries in the relevant accounts taking into account the assessment above of possible losses:

Dt 0399, 0499, 0699, 0799, 0899, 0999, 1599, 2899, 2999, 4099, 4199, 4299, 4399, 4499, 4599, 4799, 4899, 5899;

Ct 9199, 9499, 9699.

Reserves established in prior accounting periods under this accounting entry are equated to "zero" based on its reverse posting, not under account 9390-"Other Operating Income."

4. At the same time it is necessary to write off control insured assets from off-balance sheet account 017-"Estimation of possible losses - by type of assets". K-it 017 account. As a result, it is removed from accounting control.

Conclusions and recommendations.

For this reason, the following recommendations were developed for the formation of the reserve of assets of economic entities and improvement of their accounting in accordance with international financial reporting standards:

1. It is advisable to develop an internal regulative document on the formation of reserves for compensation for losses that can be seen on the assets of business entities and classify assets as "standard", "substandard", "unsatisfactory", "doubtful" and "hopeless" in relation to it;
2. In accounting for these classified assets, it was recommended that a counter active account, "Provision for Possible Losses," should be established as part of NAS 21;
3. At the same time, in order to control the account of the funds created under this contingency reserve, it is advisable to open an off-balance sheet account 017- "Estimation of Possible Losses - by Type of Asset" in NAS 21.
4. In accordance with International Financial Reporting Standards, we believe it is appropriate to deduct the allowance for possible losses (contra-asset) by activities when preparing the income statement and other consolidated statements.

The above recommendations serve to form a reserve for compensation of possible losses arising on the assets of business entities and the correct organization of their accounting.

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