

## **Reflection of Recognition of Provisions in Accounting and Improvement of their Assessment**

**Ochilov Farkhodjon Shavkatjonovich <sup>1</sup>**

### ***Abstract***

*In this article examines the opinions on the reflection and formalization of provisions in accounting and the research conducted by the world's leading foreign scientists on the reflection of the recognition of provisions in accounting and the improvement of their assessment has been analyzed. Also, recognition of estimated liabilities and its types are also explained and opinions are expressed on the issues of correct classification of obligations, their evaluation, recognition and determination of the reliability of accounting.*

**Keywords:** *Obligations, liabilities, provisions, legal responsibility, reliability, IFRS, constructive responsibility, onerous contracts, restructuring.*

<sup>1</sup> Ph.D' Audit Department of the Tashkent Institute of Finance

## **A MAIN PART**

### **INTRODUCTION**

The growing obligations of economic entities during the pandemic in the world cause urgent problems for the development of their activities and improving the efficiency of their work. Since the closure of international borders has led to a sharp decline in global economic activity, the management and liquidation of debt obligations of enterprises of various forms of ownership is becoming increasingly important. We are witnessing that a sharp increase in commitments has a negative impact on the recovery and development of the global economy.

The amount of liabilities of economic entities in economically developing countries grew almost twice as fast as their GDP from 2008 to 2021, increasing from 56% to 96% of GDP. In developed countries, we see that the amount of these liabilities grew at the same rate as GDP. These cases indicate the need to reduce the amount of liabilities in the countries of the world by establishing proper accounting and auditing. [1]

The implementation of economic processes and, as a consequence, the emergence of relations between the enterprise and outside it, in other words, each enterprise has accounts, it may have debts and certain obligations to counterparties. The state of payments, timely payment of debts, completeness and high-quality fulfillment of obligations characterize the business reputation of the enterprise, its high level and creditworthiness, as well as its overall financial stability. Therefore, the question arises whether the company has a liability or not, what is its share in the capital used and how to implement effective management? Taking into account the importance of the management system, the correct classification of liabilities, their assessment, recognition and determination of the reliability of accounting is relevant.

### **EXPERIMENTAL METHODS**

Economic analysis and statistical methods, such as analysis of research conducted by the world's leading foreign and domestic scientists, grouping by subject, monographic observation, are used to reflect the recognition of provisions in accounting and to improve their assessment.

### **RESULTS AND DISCUSSION**

The recognition of liabilities means the reflection of fixed-value obligations existing in our company in accounting statements or accounting forms through various transfers. Before we consider the recognition of provisions, we need to know the difference between provisions and other liabilities.

For the recognition of provisions, the following 3 criteria must be met:

1. In case of legal or constructive liability arising as a result of various previously concluded contracts with suppliers or buyers of goods;
2. When there is a 50% probability that resources of economic value will be required to fulfill the obligation;
3. With a reliable assessment of the amount of the obligation [2];

We can also use the discounted value method for the correct and accurate assessment of the provisions of enterprises. As we said above, the provisions must be paid in the future at some cost. This period can be very long (5 years, 10 years, 15 years, etc.). In such cases, if we have to recognize liabilities in the balance sheet, that is, in our financial statements, they must be at their true value. Here, of course, it is necessary to take into account the time value of money.

A liability event is an event that creates legal or constructive liability, leading to the absence of alternative practical measures other than the termination of the company's activities [3].

**Table 1 Types of liability under international Financial Reporting standards**

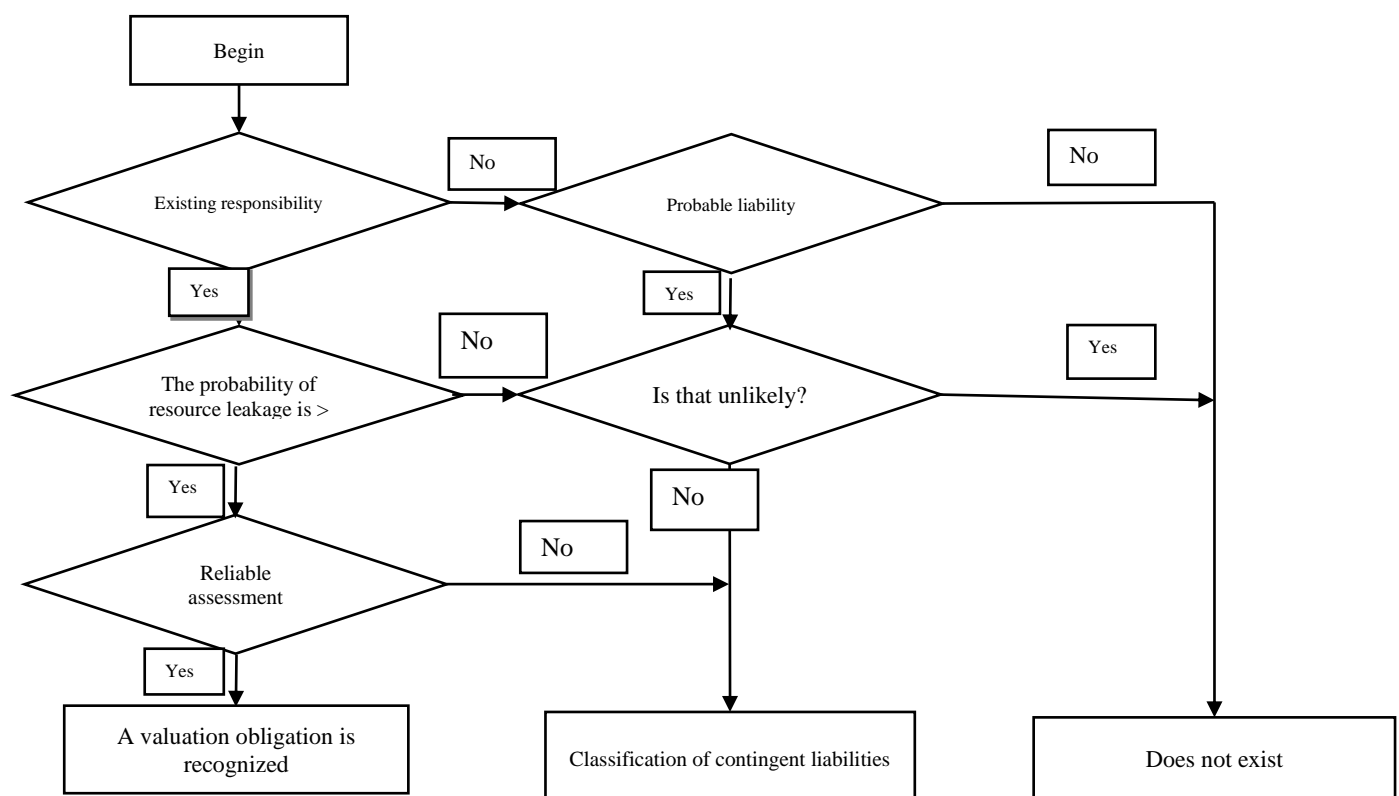
Legal responsibility	Constructive responsibility
Agreement (subject to the conditions expressly stated or implied therein)	Based on previous experience, published policy or a fairly clear current statement, the Company has indicated to other parties that it assumes certain responsibilities;
Legislation	As a result, the Company creates reasonable expectations from other parties regarding the fulfillment of its obligations.
Other legal norms	

From this table it can be seen that responsibility is divided into two types: legal and constructive responsibility.

Legal liability may arise from contracts concluded with suppliers of goods and contracts concluded with other buyers. Constructive liability is not defined either in the law or in the contract, but in the accounting policy or on the official website can be considered as an obligation that is assessed in accounting.

Based on the above conditions for the recognition of provisions, we have created this scheme.

In the following scheme, we first need to determine if there is an obligation, and if so, then we check the fulfillment of the following condition. Then, in the next condition, we check whether the probability of resource downtime exceeds 50%. After fulfilling this condition, we need to know whether the obligation is reliably assessed. So, after these conditions are fully met, we will have to recognize the assessed obligation or transfer it to a conditional obligation [4].



### 1- Fig. Recognition of provisions.

A decrease in the economic benefits required to repay the obligation is likely if such a decrease is more likely than not. The possibility of reducing economic profit is assessed separately for each obligation, if there are several obligations of the same nature at the reporting date and the uncertainties arising from them, they are assessed jointly by the enterprise. The reservation of amounts to be attributed to expenses is regulated by regulatory legal acts, as well as the Regulation "On the composition of costs for the production and sale of products (works, services) and the procedure for the formation of financial results", approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 54 of February 5, 1999 [5].

Obligations for the future restructuring of the company's activities exist at the reporting date and are accounted for on the basis of the following conditions:

a) The company has a detailed, duly approved plan for the future restructuring of its activities, which includes at least:

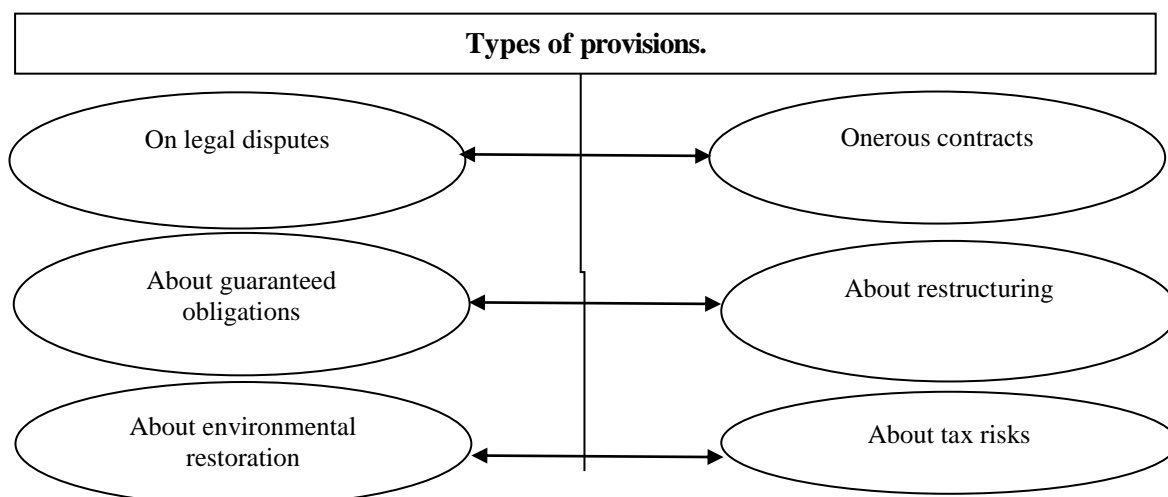
- the activity of the enterprise (or part of it) and the place of its implementation are affected by future restructuring;
- the estimated number of employees of the enterprise to whom compensation will be paid in connection with the termination of structural divisions, tasks and labor relations with them;
- expenses necessary for the restructuring of the company's activities in the future;
- the time of the start of the implementation of the restructuring plan of the company in the future;

b) The company, by its actions and statements, expects that the restructuring plan will be implemented in the near future among persons whose rights will be affected by the future restructuring of the company's activities.

When determining the size of the provisions, the company proceeds from the following.

a) if the estimated amount of the obligation is determined by choosing from a set of values, then the average value is taken as the value calculated from the average probability of each value product;

b) if the value of the provisions is determined by choosing from the interval and the equal probability of each value, then the arithmetic mean of the largest and smallest values of the interval is obtained.



**2-Fig. Types of provisions.**

A corporate accountant is obliged to be aware not only of changes within the company, but also of all changes in the legislation of the country and the economic environment. When the impact of the time value of money is significant, the provisions should be equal to the present value of the expenses that are expected to be required to settle the liability. That is, we will have to find the current value of our value when we want to restore the environment in 25 years. To do this, we need to carry out the practice of discounting the expenses of the future period to the cost of the current period through the discount rate. Such a discount rate should be a pre-tax rate reflecting the current market assessment of the time value of money and the risks inherent in the obligation.

The provisions are reviewed at the end of each reporting period and adjusted to reflect their most current fair value. That is, at the end of each reporting period, it will be necessary to conduct an audit based on information known to the company's management or accountant. When discounting, the carrying amount of the assessed liability increases each period, reflecting the passage of time. This increase is recognized as borrowing costs. We annually increase the estimated amount of liabilities by the discount rate.

Transfers to accounts are executed as follows for liabilities to be assessed in accounting:

Recognition of the obligation to be assessed

Debit. Schemes that relate to expenses or assets

Credit. Provisions

If we focus on the emergence and emergence of the responsibility assessed in this standard, then the result of other standards is just such a transfer.

Discount depreciation

Debit. Expenses as a percentage

Credit. Provisions

At the time when we initially assessed the liability, the present value of the liability was determined. Now every year we increase the value of this present value by the discount rate and make the above transfer in accounting.

Use of the assessed obligation.

Debit. Provisions

Credit. Funds, etc.

The estimated obligation should be used for the purpose for which it was created. Misuse leads to the concealment of two different events one after the other and reduces the reliability of accounting statements.

Compensation of assessed liability.

Debit. Covered asset

Credit. Expenses

Provisions are determined only on the basis of existing liabilities, as indicated above. Future operating losses do not meet the definition of a liability and the general recognition criteria for the liabilities to be assessed. That is, they do not meet the requirement of past events as the first

requirement of the obligation.

In addition, under a loss-making contract, we will initially have to recognize a loss from any impairment of assets attributed to the performance of the contract. That is why it is harmful, after a certain period of time or as a result of the release of new technologies, our costs exceed the values we agreed on in the contract, this of course may be a consequence of the impairment of assets, and such depreciation should be tested for impairment in accordance with IFRS 36. Secondly, we must create a separate assessed obligation under a tort contract. To do this, we need to choose the smaller of the following two values:

1. Expenses necessary for the execution of the contract.
2. Compensation or penalties for non-fulfillment of obligations.

If it is clear that we will be harmed under the contract, the company has a clear choice between these two cases, and logically, if the amount of compensation paid as a result of non-fulfillment of the contract is less than the cost of fulfilling the contract, the company terminates the contract. Based on this logic, the 37th standard also provides for the evaluation of the smaller of these two values. As part of the provisions, the initial recognition of the decommissioning of facilities, restoration of the environment and changes in similar obligations implies the recognition of the provisions and fixed assets. That is, the amount of the obligation to be assessed is added to the value of the specified object, and cash flows when expenses are incurred in the future period, the discount rate reflecting the current market conditions at the reporting date is of great importance. Decommissioning of facilities, restoration of the environment and modification of similar obligations are initially recognized in accounting as follows:

D-t fixed assets

C-t Taxable liability

In accordance with IFRS 37, the use of an provisions should be used for the purpose for which it arose, and is reflected in the reduction of the provisions and the recognition of various assets or other liabilities. Periodic depreciation of discounting should be recognized as a financial expense in profit or loss in the period in which it occurs. It is forbidden to use capital letters in accordance with BHXS No. 23.

Another important special case is restructuring.

Restructuring is a program that includes changes planned and controlled by the company's management. Them:

- a) the scope of activities carried out by the company;
- b) method of operation;
- c) Examples of the restructuring process include:
  - (a) the sale or liquidation of a business;
  - (b) the closure of certain business units in a country or region or the transfer of business activities from one country or region to another;
  - (c) changes in the management structure, elimination of the management level;
  - (d) A radical reorganization that has a significant impact on the nature and direction of the company's activities [6].



**Table 2 Views on the restructuring process**

<b>Detailed official plan</b>	<b>Reasonable expectations on the part of the parties affected by the restructuring</b>
business activity	the beginning of the implementation of the restructuring plan
main geographical location	announcement of the main features of the restructuring
staff	
expenses incurred	
implementation period of the plan	

An provisions may arise in connection with the restructuring. The valuation of this provisions is determined by the value of the following two characteristics:

1. Expenses arising as a result of direct reorganization and not related to the current activities of the organization;
2. The costs of retraining or relocating the remaining employees, marketing or investing in new systems and distribution networks.

In addition, identifiable future operating losses prior to the restructuring date are not included in the provisions unless they are related to loss-making contracts. In addition, the benefit from the expected disposal of assets is not taken into account when assessing the liability to be assessed during the restructuring, even if the sale of assets is considered as part of the restructuring.

In conclusion, we can say that the importance of reflecting the provisions in accounting is expressed in the following:

1. Determination of the net profit of the business: to determine the actual profit of the business. All expenses for this year, regardless of whether they are paid or not, must be debited to the profit and loss account;
2. Determining the true financial position of the organization: viewing the balance sheet gives a true and fair view of the financial position of the organization. Funds should be allocated for all anticipated losses and expenses;
3. Properly allocate costs.

### **Conclusion**

By studying textbooks and scientific articles published by scientists who have studied accounting and auditing of obligations in their scientific work, the essence, description and main features of obligations, as well as the purpose, objectives and sources of information of liability audit were identified. It is fully disclosed economically.

The theoretical foundations of the audit organization were also studied to verify the correctness of the organization of accounting for liabilities. By comparing the concepts of obligation and responsibility used in national and international standards, their differences were highlighted. The main features of provisions and contingent liabilities used in international standards as a result of various responsibilities are studied, as a result of which recommendations are given for further increasing their role and importance in the preparation of financial statements of economic entities based on international standards. . It should also be recognized that the term

"Provisions" is not used in the title and text of the original standard in English, but it is clear that it is specific and corresponds to the terminology of national accounting standards in Uzbekistan. Therefore, we believe that the concepts of "provisions" and "reserve of upcoming expenses" should be widely used.

In our opinion, it is advisable to indicate as sources of information for the audit of obligations:

- Primary documents, including: credit agreements, purchase and sale agreements, payment orders, invoices, cash receipts, reconciliations, inventory statements, material receipts.
- Sources of information in the accounting registers for obligations; (corresponding automated forms, if automated accounting is conducted);

The accounting policy procedure, the conclusion of the internal audit, accounting statements - information in the form of "Balance sheet", "Cash flow Statement", "Notes and explanations to the accounting statements", the results of the previous audit

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