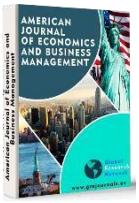

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Article

Developing an Improved Methodology for the Presentation of Property, Plant and Equipment Information in Financial Statements

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Abstract: This article examines issues related to improving the accounting and financial reporting system in the country on the basis of international standards, enhancing the transparency of financial reporting information, and creating a reliable information environment for foreign investors. The study analyzes the procedures for recognizing property (land and buildings), plants, machinery, and equipment in financial statements, their movement, depreciation methods, as well as the disclosure of revaluation and impairment results in accordance with the requirements of IAS 16 "Property, Plant and Equipment" and IAS 36 "Impairment of Assets". In addition, the feasibility of preparing internal reports on the movement of fixed assets to improve the reliability of information presented in the statement of financial position is substantiated.

Keywords: Accounting, Financial Reporting, National Accounting Standards, International Financial Reporting Standards, Property (Land and Buildings), Machinery and Equipment, Depreciation, Revaluation, Impairment, Market Value, Fair Value.

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1. Introduction

With economic globalization and the growing competitiveness of the investment environment, the reliability and transparency of accounting and financial reporting information is gaining the greatest importance. More specifically I believe that property (land and buildings), plant and machinery and equipment constitute the most considerable and strategically most important balance sheet items on the enterprise asset side. Fair measurement of these assets, alongside proper disclosures with respect to depreciation and impairment amounts, provide crucial information to financial statement users such as investors, creditors and auditors.

Internationally, IAS 16 Property, Plant and Equipment sets out the recognition, determination of carrying amounts and disclosure requirements for property, plant and equipment. It lays down requirements for the depreciation and revaluation of an asset, its original cost, accumulated depreciation, impairment, and how these fixed assets change over time, within financial statements. Further, IAS 36 treats amounts recognized as profit or loss in respect of impairment of assets separately.

In national accounting practice, incomplete disclosure of movements in property, plant, and equipment and certain related expenditures adversely affects the reliability of financial reporting information. Therefore, improving financial reporting disclosures for

property (land and buildings), plant, and machinery and equipment in accordance with international standards and introducing an internal reporting system is a topical issue of scientific and practical relevance.

Literature Review

In recent years, numerous textbooks, teaching manuals, and scientific articles have been published in Uzbekistan on the implementation of IFRS in corporate practice. According to IAS 16, subsequent (continuing) expenditures related to property, plant, and equipment are capitalized only when they increase the asset's future economic benefits; otherwise, they are recognized as period expenses. This approach requires clear separation of building repair costs and machinery maintenance costs [1].

Kieso, Weygandt and Warfield contend that the primary distinction determines whether the subsequent expenditure on property, plant, and equipment capitalized is to extend the life of the asset or to improve its efficiency; routine servicing and maintenance are not to be capitalized [2]. Libby, Libby, and Short observe that undue capitalization of later costs for such buildings and equipment results in inflated values, making asset overstatement artificial [3]. As per the practice in Grant Thornton, land-related costs (except land improvements) are not depreciated. Subsequent expenditures on buildings and machinery should preferably be accounted for as a component [4]. According to specialists from Deloitte,component accounting method enhances the quality of property, plant and equipment accounting [5].

According to Tashnazarov S.N., the correct classification of maintenance, repair, and modernization expenditures for property, plant, and equipment National Standard No. 16 provides that information [6]. Urazov K.B. points out that separation of "capital expense" and "current expense" is one of the most tricky methodological problems of accounting [7]. Kurbonov A.Sh. It suggests that technical service costs of machinery and equipment should in principle be expensed directly, only capitalization should be allowed for modernization leading to increased production capacity [8].

2. Materials and Methods

To examine practical issues in reflecting property, plant, and equipment in accounting and reporting under IFRS, and to improve the accounting of revaluation results in line with international standards, this study applies a systematic approach and uses deduction, induction, analysis, comparison, valuation (including discounting techniques), and other relevant methods.

3. Results and Discussion

Financial statements must disclose the following information for each class of property (land and buildings), plant, and machinery and equipment:

- Measurement basis for the gross carrying amount;
- Depreciation methods used;
- Useful lives or depreciation rates applied;
- Gross carrying amount and accumulated depreciation (including accumulated impairment losses);
- Carrying amount at the beginning and end of the reporting period;
- Additions;
- Disposals;
- Acquisitions through business combinations;
- Increases or decreases arising from revaluation in accordance with paragraphs 31, 39, and 40 of ias 16;
- Impairment losses recognized in profit or loss in accordance with ias 36;

- Reversals of impairment losses recognized in profit or loss in accordance with ias 36;
- Depreciation expense;
- Net exchange differences and other changes arising from translation from functional currency into presentation currency, including translation of foreign operations.

Figure 1. Mandatory Disclosures Related to Property, Plant and Equipment (IAS 16).

The illustration outlines the categories of information on property, plant and equipment to be presented by entities in the financial statements in accordance with IAS 16 and related standards. The first category is assets pledged or restricted, which provides details on property, plant and equipment that are used as security for liabilities, or prevented by legal or contractual obligations. These disclosures enable users to evaluate the financial risk and other control over the entity's assets. Another category concerns capitalized expenditures, which includes costs that increase the carrying amount of property plant and equipment as a result of refurbishment, reconstruction or re equipment which can be used to assess changes in asset values and future economic benefits. It also illustrates contract commitments, which shows what PPE you are obligated to purchase in the future, and allows you to gauge future capital expenditure and cash outflows. Lastly, it comprises compensation received for impairment, loss, or disposal of PPE from third party, to disclose income from asset event.

Overall, comprehensive disclosure of these elements enhances the transparency, reliability, and comparability of financial statements and supports informed decision-making by investors, creditors, and other stakeholders.

The selection of depreciation methods and the estimation of useful lives are matters of professional judgment. Accordingly, information on the methods adopted, useful lives used for accounting purposes, and depreciation rates enables users of financial statements to analyze management's policies and compare them with other entities.

Where property (land and buildings), plant, and machinery and equipment are reported using the revaluation model, the following information must be disclosed:

- The date of the revaluation;
- Whether an independent valuer was involved;
- Methods and significant assumptions applied in estimating fair value;
- The extent to which fair value was determined by reference to observable prices in an active market, a recent arm's-length market transaction, or other valuation techniques;

- The carrying amount that would have been recognized under the cost model for each revalued class;
- Changes in revaluation surplus during the period and any restrictions on distribution of the balance to shareholders.

Information on land, buildings, and machinery and equipment in the statement of financial position may be presented in the following format.

Table 1. Presentation of Property (Land), Buildings, and Machinery and Equipment in the Statement of Financial Position (Example of "Hudud Gaz Ta'minoti" JSC, 2024, in UZS).

Item name	Line code	At the beginning of the reporting year	At the end of the reporting year
Long-term tangible assets, total (040+050+060)	10	727,287,183.86	455,648,956.10
Total initial cost of property (land), buildings, machinery and equipment (021+022+023+024+025+026), including:	20	7,379,121,635.79	74,946,752,207.23
Land and land improvements	21	0	0
Buildings and structures	22	5,392,636,560.59	5,392,636,560.59
Large machines and mechanisms	23	17,403,194.43	94,635,337.29
Water and air vessels	23	0	0
Motor vehicles	24	1,930,072,922	1,930,072,922
Machinery and equipment	25	2,708,906.10	2,708,906.10
Furniture, office equipment and appliances	26	36,300,052.67	74,621,481.25
Accumulated depreciation	30	6,651,834,451.93	7,039,026,251.13
Carrying amount of property (land), buildings, machinery and equipment (020–030)	40	727,287,183.86	455,648,956.10
Uninstalled equipment	50	0	0
Construction in progress (capital work in progress)	60	0	0

This balance sheet classification of "Property (land), buildings, and machinery and equipment" has been developed in accordance with international standards (Table 1). The Company reconciles the statement of financial position figures with information reflecting movements in property (land and buildings), plant, and machinery and equipment. For this purpose, it is advisable to prepare an internal report on movements of property (land and buildings), plant, and machinery and equipment.

Table 2. Internal Report on Movements in "Property (Land), Buildings, Machinery and Equipment" (Example of "Hudud Gaz Ta'minoti" JSC, 2024, in UZS) [9].

Line	Buildings and structures	Machinery and equipment	Transport vehicles	Total
010 – Initial cost at the beginning of the period	37,590,977.16	17,403,194.43	72,076,132.02	127,060,303.61
030 – Revaluation	70,000.77	486,957.02	–	556,957.79
060 – Initial cost at the end of the period	37,660,977.93	17,890,151.45	72,076,132.02	127,627,261.40

(010+020+030−040+(−)050)				
070 – Accumulated depreciation and impairment at the beginning of the period	18,787,596.58	17,403,194.43	72,076,132.02	108,266,923.03
090 – Depreciation expense for the year	1,879,548.84	–	–	1,879,548.84
120 – Total (070+(−)080+090−100+(−)110)	20,667,145.42	17,403,194.43	72,076,132.02	110,146,471.87
130 – Carrying amount at the beginning of the period (010−070)	18,803,380.58	0	0	18,803,380.58

These internal management accounting data are reconciled with the statement of financial position (Table 2). Where differences arise, their causes are identified. The structure of this report helps ensure fair presentation of financial reporting data and expands the scope of financial statement information.

Recognition in Accounts and Revaluation Practice

Under the standard, property, plant, and equipment are recognized in the relevant accounts at an initial cost determined as follows:

a) Assets contributed by founders to the entity's authorized capital as their share — based on agreement of the parties;
b) Assets internally constructed and assets purchased for consideration from other entities and individuals — at actual costs incurred to construct (build, restore) the asset or purchase it, including non-refundable taxes (other mandatory payments), as well as delivery, assembly, installation, commissioning, and other directly attributable costs necessary to bring the asset to working condition;
c) Assets received free of charge from other entities and individuals, including those received as government grants — at market value on the date of receipt or at the value stated in acceptance-transfer documents.

All business entities (except microfirms and small enterprises), regardless of ownership form, revalue fixed assets at current prices as of 1 January each year. Microfirms and small enterprises revalue fixed assets once every three years as of 1 January [10]. The amount of increase (decrease) in revaluation is recorded by debiting (crediting) the relevant property, plant, and equipment accounts and crediting (debiting) the "Adjustments for Revaluation of Property" account.

Property, plant, and equipment constructed by the entity itself, including under construction contracts, are recognized by debiting the relevant property, plant, and equipment account and crediting the "Construction in progress" account [11]. Assets purchased from suppliers, contractors, and other parties are recognized by debiting the relevant property, plant, and equipment account and crediting the "Acquisition of property, plant and equipment" account. Assets received free of charge are recognized by debiting the relevant property, plant, and equipment account and crediting the "Property received free of charge" account. However, for tax purposes, the value of free-of-charge assets is included in the taxable base for corporate income tax.

Upon disposal (retirement), sale, donation, contribution as a share to authorized capital, lease, or derecognition due to shortages or damage, the initial cost is transferred from the relevant property, plant, and equipment accounts to the debit of the "Disposal of property, plant and equipment" account [12].

Increases in property, plant, and equipment are financed through capital investments, which may be carried out under two approaches: the contract method and the self-construction (in-house) method. Under the contract method, capital investments are executed based on a contract between the contractor (builder) and the customer [13]. The contractor performs construction of a new asset, expansion, reconstruction, or modernization of an existing asset, and the customer pays for the completed works. Under the in-house method, the entity carries out construction, expansion, reconstruction, or modernization using its own resources.

Revaluation may be performed using one of two methods. The first is based on market prices. In this case, valuation organizations may be engaged under contract to determine market values for land, buildings, and structures [14]. Valuers consider location, prices of comparable real estate in the market, the condition of the building, marketability, and other factors in determining market value. This approach may also be used for revaluation of machinery and equipment. The second method uses coefficients recommended by government authorities, where the value of fixed assets is multiplied by the relevant coefficient [15].

4. Conclusion

The study findings indicate that disclosing financial reporting information on property (land and buildings), plant, and machinery and equipment in accordance with international standards ensures transparency and reliability of corporate financial statements. Detailed disclosure of initial cost, accumulated depreciation, revaluation, and impairment results in line with IAS 16 and IAS 36 enables financial statement users to analyze accounting policies and valuation decisions adopted by management.

By preparing internal reports on movements in property, plant, and equipment, it becomes possible to reconcile them with statement of financial position figures. This allows timely identification of potential discrepancies and elimination of their causes.

In conclusion, accounting for revaluation and impairment results of property, plant, and equipment under international standards, along with comprehensive disclosure in financial statements, plays a key role in increasing investment attractiveness, ensuring the reliability of audit conclusions, and harmonizing the national accounting system with international practice.

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