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USE IMPROVING CREDIT AND DEBT ACCOUNT ON THE BASIS OF IFRS

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Abstract

This article describes how to correctly reflect the economic relations related to credit and debt funds arising from the economic activity of economic entities in accounting based on national and international standards, their similarities and differences. Currently, accounting of credit and debt funds in economic entities is regulated on the basis of national accounting standards. Recently, in the practice of our country, drawing up financial statements based on international financial reporting standards (IFRS) has become an urgent issue. This process is introduced in the practice of joint-stock companies, commercial banks and large taxpayers. International standards of financial reporting serve to increase the transparency and accuracy of information on credit and debt funds calculated from the main objects of accounting. Entering into economic relations with developed countries, foreign investment and attracting partners creates the need to organize accounting work on the basis of IFRS. Loans and debts received and given by business entities are classified as debt financial levers in the international standards of financial reporting, at the same time, the accounting of loans and debt funds is regulated based on the international standards of financial reporting entitled "Financial Levers" (IFRS-9) [4]. It is important to keep correct and accurate accounts of credit and debt funds in economic entities. Also, the article presents the work to be carried out in the Republic of Uzbekistan regarding the transition to international standards of financial reporting. Proposals have been developed for the definition of credit and debt funds, their classification bases in accordance with international standards. In addition, the report on the financial situation contains recommendations on the formation of information related to credit and debt funds.

The main task when the company attracts credit and debt funds is to reflect it at what value, taking into account all costs in the process of attracting these funds, we will consider the processes of determining the real value of credit and debt funds on the example of "FAZO-LUXE" LLC.

Keywords: credit and debt funds, borrower, lender, effective interest rate.

Introduction

Business entities constantly need financial resources in their financial and economic activities. Currently, the need for financial resources in business entities is mainly covered by bank loans and debts. It can be seen that the correct organization of credit and debt accounts is important. In order to establish cooperation relations with developed countries, to harmonize accounting in attracting foreign investments, the transition to the IFRS is a requirement of the time. Extensive economic reforms are being implemented in our republic. In particular, the decision of the President of the

Republic of Uzbekistan “On additional measures for the transition to international standards of financial reporting” No. PD-4611 of February 24, 2020 opened a wide way to speed up in this area [1]. Accounting of credit and debt funds in business entities based on international standards of financial reporting serves to ensure openness and transparency of information.

1. Literature Review

The study of the methodological basis of the calculation and analysis of credit and debt funds of economic entities is reflected in researches, scientific works, brochures and articles conducted by economic scientists of our country and abroad. In particular, we can include such well-known foreign scientists as D.Hendrix, A.S.Vyskrebentseva, I.V.Andryushchenko, A.S.Teplyakova among them.

For example, according to A.S. Teplyakova: “The need to attract loan funds arises due to the temporary shortage of the most active liquid assets of the enterprise, the purchase of raw materials, goods for sale and basic production funds” [6].

Economists of our country E.A.Akramov, A.A.Karimov, A.K.Ibragimov, M.Q.Pardaev, Sh.Z.Abdullaeva, M.Yu.Rakhimov, B.N.Moydinov, A.J.Toychiev , S.K. Makhmudov, A.N. Gulomkho'jaev, N.N. Mavlonov studied some aspects of the problems of developing the theoretical and methodological bases of accounting and analysis of credit and debt funds of enterprises.

Economist A. Toychiev defined “obligation as a legal relationship that arises as a result of the transfer of property, performance of work, rendering of services, payment of money and other actions of one business entity to another entity and is the basis for subsequent mutual calculations” [5].

Also, there are many views related to disclosure of the nature of credit and debt obligations in regulatory legal documents. In the “Conceptual framework for preparation and presentation of financial statements” approved by the Ministry of Finance of the Republic of Uzbekistan, the obligation is defined as follows:

“Obligations are the obligation of a person (debtor) to perform a certain action in favor of another person (creditor), for example, to transfer property, perform work, pay money, etc., or to refrain from a certain action, and the creditor has the right to demand that the debtor fulfill his obligations” [2].

In 2021, the "Brief Explanatory Dictionary of Economic Terms" published by the Ministry of Economic Development and Poverty Alleviation of the Republic of Uzbekistan defines the word credit as follows:

“A loan is a loan in the form of money or goods provided by the lender to the borrower, with the condition of repayment, in most cases, the borrower pays interest for using the loan”.

2. Research Methodology

Тадқиқот ишини ташкил қилиш ва бажариш жараёнида бухгалтерия ҳисоби усуллари асосида экпертлар баҳоси, иқтисодий таҳлил ва статистик усуллардан фойдаланилади.

3. Analysis and results

Accounting of credit and debt funds in business entities is regulated on the basis of national accounting standards. Entering into economic relations with developed countries, foreign investment and attracting partners creates the need to organize accounting work on the basis of IFRS. Loans and debts received and given by business entities are classified as debt financial levers in international financial reporting standards, and the accounting of loans and debt funds is regulated on the basis of international standards of financial reporting entitled “Financial Levers” IFRS 9 [4].

It is important to keep correct and accurate accounts of credit and debt funds in business entities. Accounts for short-term loans and debts are kept in accounts 6800 and long-term loans and debts are kept in accounts 7800 based on the national accounting standard of the Republic of Uzbekistan (No. 21 National accounting standarts) “The plan of accounts of financial and economic activity of economic entities and the instructions for its application”.

Generalization of information on various short-term loans and debts received by the enterprise from the Republic of Uzbekistan and foreign banks and lenders in soum and foreign currency 6810 – “Short-term bank loans”, 6820 – “Short-term debts”, 6830 – “Payable bonds”, 6840 – “Bills payable” accounts. The long-term part (longer than 12 months) is kept in accounts 7810 – “Long-term bank loans”, 7820 – “Long-term debts”, 7830 – “Payable bonds”, 7840 – “Payable bills”.

The main purpose of keeping accounts of credit and debt funds in business entities according to international or national standards is the effective use of credit and debt funds. The goal of the lender and the borrower is different when accounting for credit and debt funds.

The purpose of the lender is to provide free working capital at the disposal of the enterprise and receive income (interest) from it. In this case, after a certain period of time, the loaned funds will also be returned to him.

The borrower's goal is to attract the necessary working capital for use in its activities at an additional cost (interest). The borrower pays interest to the lender for using the loaned funds. This interest paid is an additional cost to the borrower. In this case, he will have to return the loan funds after a certain period of time. The main condition for attracting funds from the borrower is the recognition of the financial obligation.

We will consider this situation on the example of a loan agreement signed between the lender “FAZO-LUXE” LLC and the borrower “ZUMA PHARM” LLC.

1. The lending company provided a loan in the amount of 4,150,000,000 soum for one year with the condition of paying 10% per year. In doing so, he incurred additional costs (15,000,000 soum) related to credit risk assessment and others for the preparation of this transaction.

The initial price of the loan at the lender:

4 150 000 000 + 15 000 000 = 4 165 000 000 soum.

2. Borrowing enterprise took a loan for one year in the amount of 4,150,000,000 soum with the condition of paying 10% per year. For the preparation of this transaction, he made an additional cost (15,000,000 soum) related to the formalization of the pledge.

Initial valuation of the debt obligation:

4 150 000 000 – 15 000 000 = 4 135 000 000 soum.

We evaluate the future status of the above debt obligation. In the future, debts will be valued at their amortized cost. The difference between the initially recognized value of the debt and the amount to be extinguished is amortized.

An effective interest rate is applied to repay this amount in one lump sum over the life of the loan. This is the discount rate for future cash payments or receipts calculated during the term of the loan agreement.

When calculating the effective interest rate, the company must evaluate the expected cash flows, taking into account all the terms of the contract (prepayment, grace period, bonuses, transaction costs, discounts, premiums, etc.).

In the above case, the amount of 15,000,000 soum should be amortized during the year.

Calculation for the lending company:

The initial value of the loan is 4,150,000,000 soum.

The interest charged is calculated from the amount of the loan under the contract:

4 150 000 000 x 10% = 415 000 000 soum.

Lender's interest income:

415,000,000 – 15,000,000 = 400,000,000 soum.

Effective interest rate:

400,000,000 : 4,165,000,000 x 100 = 9.6%.

The difference between the interest earned and the lender's interest income:

415,000,000 – 400,000,000 = 15,000,000 soum – additional expenses spent by the lender on the deal.

Calculation for the borrowing enterprise:

The initial value of the loan is 4,135,000,000 soum.

The interest payable is calculated from the amount of the loan under the contract:

4 150 000 000 x 10% = 415 000 000 soum.

Borrower's interest cost:

4 135 000 000 – 4 150 000 000 – 415 000 000 = – 430 000 000 soum.

Effective interest rate:

430,000,000 : 4,135,000,000 x 100 = 10.4%.

The difference between interest paid and the borrower's interest expense is:

430,000,000 – 415,000,000 = 15,000,000 soum – additional expenses spent by the borrower on the deal.

Accounting for loans and borrowings differs from the perspective of the lender and the borrower.

Table 1 [1] Accounting reflection at the lender

Operation	In thousand soms	Debet	Credit
A loan was granted	4 150 000	Debt	Money
Additional costs were incurred on the deal	15 000	Debt	Money, accounts with suppliers
Interest income was calculated 4,165,000 x 9.6%	399 840	Debt	Interest income
Interest was charged on the agreement 4,150,000 x 10%	415 000	Money	Debt
The loan was repaid	4 150 000	Money	Debt

[1] Compiled by the author based on enterprise information.

You can adjust the normal accounts in NAS No. 21 when applying international financial reporting standards.

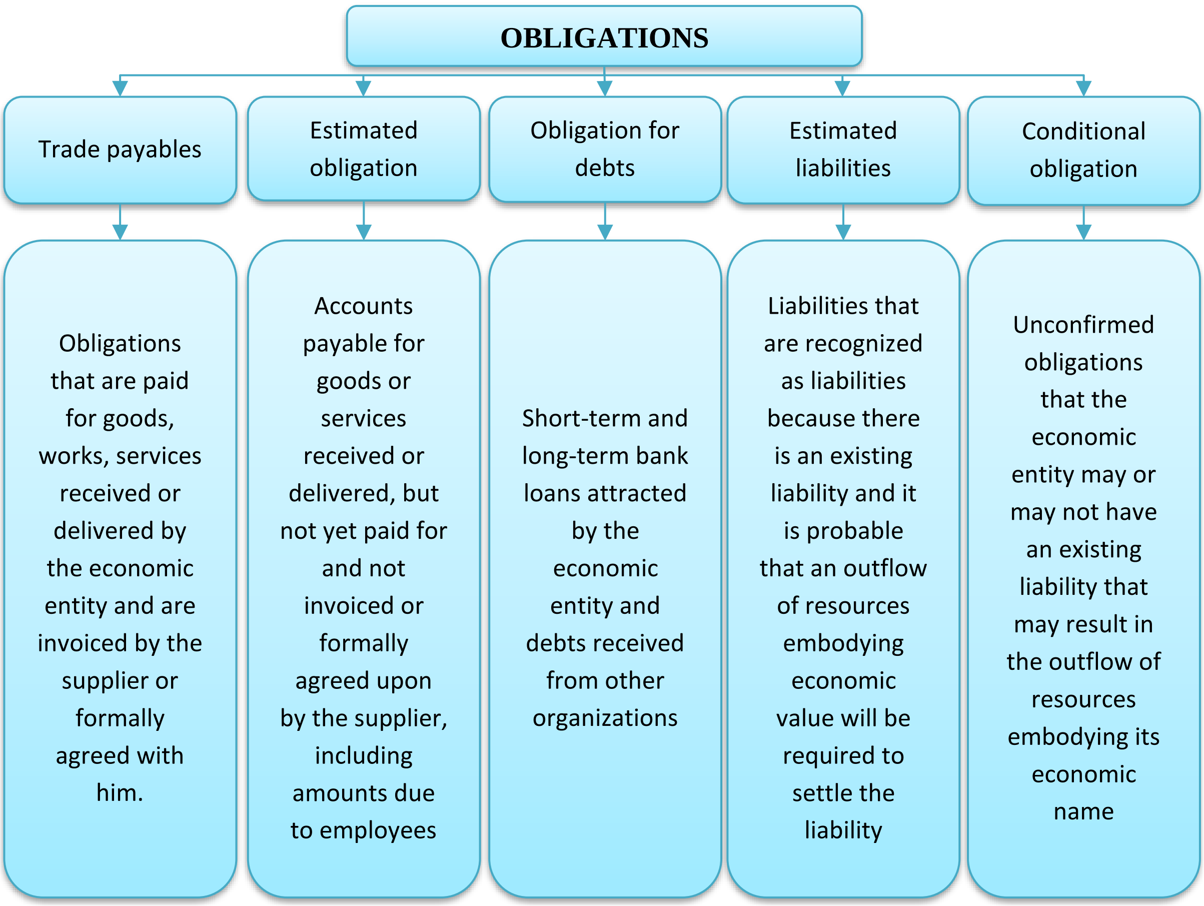
The tables show the amounts of interest calculated and paid in one year. In practice, interest is calculated every month based on the number of calendar days used for the loan. The dates on which the loan will be paid and returned, as well as interest, are determined by the terms of the contract.

Table 2[2] Reflecting in the borrower's accounting

Operation	In thousand soms	Debet	Credit
Loan received	4 150 000	Money	Debt obligation
Additional costs were incurred on the deal	15 000	Debt obligation	Money, accounts with suppliers
Interest was calculated at the effective interest rate 4,135,000 x 10.4%	430 040	Interest expense	Debt obligation
Interest paid	415 000	Debt obligation	Money
The loan was repaid	4 150 000	Debt obligation	Money

[2] Compiled by the author based on enterprise information.

We will consider how the above cases are reflected in the financial statement.
If the loan period falls within the reporting year, the loan will be returned on the next day after the reporting date, provided the interest is paid.
At the reporting date, the following is reflected in the balance sheet:
• at the creditor - the amortized value of the debt equal to the amount in the contract:
4 165 000 000 – 415 000 000 + 400 000 000 = 4 150 000 000 soum.
• at the borrower - the amortized value of the debt obligation:
4 135 000 000 – 415 000 000 + 430 000 000 = 4 150 000 000 soum.
The statement of financial results reflects the following:
• at the lender - interest income calculated at the effective interest rate:
4 165 000 000 x 9.6% = 399 840 000 soum.
• at the borrower - interest expense calculated at the effective interest rate:
4 135 000 000 x 10.4% = 430 040 000 soum.
It differs from the national standards of accounting by the specific aspects of the emergence of debt obligations in the preparation of financial statements and accounting based on IFRS.
Obligations according to IFRS can be divided into the following types:



Picture 1. Grouping of obligations by types [7].

There is no concept of contingent liability in the national accounting standards of the Republic of Uzbekistan. Conditional obligation is mainly used in international practice. International Accounting Standard No. 37 “Estimated Liabilities, Contingent Liabilities and Contingent Assets” defines the following:

A contingent liability is a probable liability that may arise from previous events and whose existence is confirmed only as a result of the occurrence or non-occurrence of one or more uncertain future events that are not under the complete control of the organization [3].

Contingent liabilities are recorded in the accounting records only when the event is likely to occur and the event can be estimated with a reasonable degree of accuracy. Common examples of contingent liabilities include: product warranties, debt guarantees, liquidated damages, and unpaid claims.

One of the important conditions for attracting credit and debt funds is the reflection of the value. First, it is necessary to evaluate the debt at its fair value, taking into account the expenses incurred. They may be costs directly related to this transaction. For example, assessment of the borrower's financial condition and guarantees, preparation and processing of loan documents, services for registration of collateral or other security, etc. are expenses paid for.

Above, we reviewed the 1-year loan agreement signed between the lender "FAZO-LUXE" LLC and the borrower "ZUMA PHARM" LLC.

In practice, there are more complicated cases than this, of course, since it is necessary to take into account many factors, it will not be easy to determine the effective interest rate. In practice, there are loan calculators that can be used to determine complex situations.

4. Conclusion

In conclusion, we can say that when the concept of obligations during the activity of economic entities is compared with the concept of obligations used in the IFRS, several differences were identified. Accounting obligations are reflected in financial statements based on the principles of full disclosure, materiality, and prudence in accounting on the basis of IFRS. We recommend keeping accounts of liabilities based on such principles in national accounting systems, and introducing IFRS No. 37 “Estimated liabilities, contingent liabilities and contingent assets” into the national accounting system within the framework of the Law “On Accounting”. Accounting in accordance with international standards of financial reporting provides foreign investors with the necessary information environment and expands access to international financial markets.

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