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ACCOUNTING, TAX AND AUDIT SPECIFICS IN DEPRECIATION AND AMORTIZATION OF LONG-TERM ASSETS

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Abstract
This thesis analyses the conceptual differences between economic depreciation and accounting amortization of long-term assets, as well as the conflicts between International Financial Reporting Standards (IFRS) and the Tax Code of the Republic of Uzbekistan in recording these. Based on concrete quantitative evidence, the impact of these differences on enterprise working capital is demonstrated, and the introduction of new analytical accounts into the national chart of accounts is proposed to improve the audit review process.

Keywords: Long-term assets, economic depreciation, amortization charges, IFRS (IAS 16), Tax Code, temporary differences, deferred taxes, audit methodology, chart of accounts.

INTRODUCTION

Today, as enterprises are transitioning to preparing financial statements in accordance with International Financial Reporting Standards (IFRS), the correct accounting of depreciation and amortization of long-term assets is of paramount importance. From a scientific and economic perspective, the objective process of an asset's "depreciation" and the mechanism of "amortization" — which

distributes its value to expenses — differ fundamentally. Particularly in large infrastructure and railway transport enterprises with high capital intensity, the correct assessment of these processes directly affects the enterprise's financial results, investment attractiveness, and working capital stability.

The core practical problem is that while international accounting standards (IAS 16) allow enterprises to freely use depreciation methods that reflect economic reality, the national Tax Code (Article 306) requires only a single, restricted rate. These conceptual conflicts cause artificial inflation of enterprises' tax bases and create serious difficulties in assessing temporary differences and deferred taxes (IAS 12) during audit procedures. Accordingly, the primary objective of this work is to research specific solutions for reconciling these differences and improving audit methodology — in particular, adapting the national chart of accounts to modern automated systems.

MAIN BODY

One of the most significant methodological challenges facing auditors during the transition to IFRS is the clash of terminological and economic concepts. From a scientific standpoint, depreciation (physical and moral) and amortization differ fundamentally:

Depreciation (physical and functional obsolescence): This is the process by which an asset objectively loses its value and serviceability over time, through intensive use, or as a result of technological advancement.

Amortization: This is the mechanism by which economically depreciated value is allocated to and recovered through enterprise expenses according to strict rules (rates).

The problem is that the actual (economic) depreciation of an asset does not always correspond to the amortization rates set by law. Tax accounting standards require that an asset be expensed according to a strictly fixed template, without regard to how quickly it physically deteriorates.

Under accounting standards (IAS 16), enterprises are free to use any of 4 depreciation methods (straight-line, reducing balance, units of production, and sum-of-years-digits) to reflect economic reality. However, Article 306 of the Tax Code of the Republic of Uzbekistan recognizes only one mechanism — the straight-line method based on strictly defined maximum rates (in percentages).

This inconsistency leads to an artificial inflation of enterprises' taxable base and the unjustified tying-up of working capital.

Factual Quantitative Analysis (Example of a Large Infrastructure Asset):

A railway transport enterprise purchased a locomotive valued at UZS 10 billion. Its standard service life is 10 years. In the first year, the asset was operated continuously in two shifts due to high freight demand.

Indicator	Financial Accounting (per IFRS)	Tax Accounting (per Tax Code Art. 306)
Method applied	Units of production method	Straight-line method (fixed rate)
Annual depreciation/amortization	20% (UZS 2 bln) — actual depreciation	10% (UZS 1 bln) — maximum allowance

The remaining UZS 1 billion of depreciation calculated under IFRS is not recognised for tax purposes. As a result, the enterprise's profit in the tax return is overstated by UZS 1 billion, and the enterprise is forced to pay an additional 15%

(UZS 150 million) in advance corporate income tax on this unrealised profit. This leads to an inefficient outflow of UZS 150 million from the enterprise's working capital (cash flow).

In conditions of such conflicts, auditor activities must be organised in accordance with the requirements of IAS 12 — Income Taxes. The auditor must identify the differences between amortization calculated under IFRS and the Tax Code as deductible temporary differences and recognise a Deferred Tax Asset (DTA).

However, the current National Accounting Standard No. 21 ("Chart of Accounts for Accounting") does not have a mechanism for automatically recording these differences. Accountants maintain only general entries in accounts 0200, keeping tax and financial differences in separate spreadsheets. This significantly increases the risk of human error and audit risk.

We propose the following specific integrated solution model to preserve the UZS 150 million in working capital that the enterprise is losing due to the identified inconsistency (IFRS: UZS 2 bln depreciation; Tax Code: UZS 1 bln allowed) and to successfully pass audit procedures:

1. Amendment to Article 306 of the Tax Code

Rather than a vague call for "greater freedom," we propose adding the following specific paragraph to prevent the risk of legal violations:

"For large infrastructure and railway transport assets with high intensity of use (locomotives, wagons, railway tracks), the taxpayer is granted the right to calculate amortization using the units-of-production method and to include it in the deductible expenses of the current year. In this case, it is strictly monitored that the total amortization calculated for the asset does not exceed its initial cost."

2. Mandatory Accounting Entry Algorithm

Until the above legislation is adopted, the following mandatory accounting entry (journal entry) algorithm must be introduced into accounting practice for the enterprise to preserve its UZS 150 million:

Step 1: Actual depreciation per IFRS (UZS 2 billion) is charged to expenses:
Dr 2010 (Main production) — UZS 2,000,000,000
Cr 0230 (Accumulated depreciation — machinery and equipment) — UZS 2,000,000,000

Step 2: The UZS 1 billion disallowed difference is identified in the tax return and 15% corporate income tax (UZS 150 mln) is recognised as a Deferred Tax Asset (DTA) under IAS 12:
Dr 0940 (Deferred tax assets) — UZS 150,000,000
Cr 9820 (Income tax expense) — UZS 150,000,000
Result of the solution: Through this second entry, the enterprise's current period expenses are reduced by UZS 150 million and net profit is protected from artificial decline. This amount is held in account 0940 on the asset side of the balance sheet, and will serve to reduce tax payments in future years when the locomotive operates less intensively (acting as a tax credit).

3. IT-Audit Control Formula for ERP Systems

Auditors currently spend a great deal of time searching for differences. To automate this in ERP (1C) systems, the following "control formula" (algorithm) is proposed for the IT audit program:

Deferred Tax Asset (DTA) (account 0940 turnover) = [Financial depreciation (accounts 0200) – Tax depreciation per Tax Code Art. 306] × 0.15

When the auditor runs this formula in the system, if the two sides do not balance, this means the enterprise has either incorrectly calculated taxes or has failed to recognise deferred taxes, thereby unjustifiably losing its working capital.

The introduction of the practical solutions and control mechanisms proposed above will, first and foremost, strengthen the financial stability of large infrastructure enterprises. By correctly identifying differences between financial and tax accounting, enterprises protect their working capital from being unjustifiably drawn into the budget. Furthermore, the accurate and transparent reflection of the actual economic depreciation of assets in financial statements creates a reliable information environment for foreign investors and international financial institutions.

In such conditions, the role of auditors also rises from that of traditional inspectors to strategic consultants. The auditor must not only note the difference between tax and financial reports, but also assist in optimising the enterprise's management and tax strategy through IT-audit tools (including the control formulas presented above). Specialised analytical accounts integrated into ERP systems significantly reduce the labor intensity of auditing practice and improve the quality and speed of risk detection.

Overall, prioritising economic logic in the accounting of long-term asset amortization is one of the most important steps in Uzbekistan's transition to full compliance with International Financial Reporting Standards (IFRS). The successful implementation of this financial integration practice in key sectors of the republic's economy — such as railway transport — will serve as a model for

other capital-intensive sectors (energy, metallurgy, mechanical engineering) in the future.

CONCLUSIONS AND RECOMMENDATIONS

Correctly reconciling tax base differences on long-term asset amortization and improving the accounting system at the level of the chart of accounts serves to ensure enterprises' financial stability and to prepare transparent reports in accordance with International Auditing Standards (IAS).

The following is recommended:

1. Amend Article 306 of the Tax Code of the Republic of Uzbekistan to permit the application, for tax purposes, of the units-of-production method for large manufacturing and infrastructure assets — a method that accurately reflects physical depreciation.
2. Introduce a special transit-analytical account — "0290 – Amortization Differences for Tax Purposes" — into the national chart of accounts. This account would accumulate amounts calculated under IFRS but not permitted for tax purposes, thereby enabling the automated audit of deferred taxes in ERP systems.

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