

IMPROVING THE METHODOLOGY OF ASSET IMPAIRMENT AUDIT

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Abstract: In this article, the role of asset impairment losses in the company's financial indicators and proposals for its improvement are developed.

Keywords: *return on assets, return on working capital, impairment losses, level of asset impairment.*

Introduction

In the conditions of rapid development in Uzbekistan, special attention is paid to ensuring socio-economic stability, strengthening the competitiveness of the economy and further improving the investment environment. In particular, in terms of increasing the attractiveness of the investment environment in the country, the tasks of "further improving the investment environment in the country and increasing its attractiveness, taking measures to attract 120 billion US dollars, including 70 billion dollars of foreign investments, in the next five years" have been defined. Effective implementation of these tasks and strengthening the attraction of foreign investors to the country today requires the transfer of the accounting system to international standards of financial reporting and increasing the confidence of foreign investors in the prepared financial reports. This is aimed at researching the problems of transforming investment objects and their financial reports into international financial reports and thereby increasing the correctness and accuracy of reports, determining the real market value of investment objects and their assets, and as a result, providing foreign investors with transparent information about the financial status of investment objects. determines the relevance of the implementation of scientific works.

Literature review

In particular, the economists of our country, U.I. Inoyatov, S.D. Yusupova, F.R. Salimbekova, defined moral obsolescence as follows, "moral obsolescence squeezes old objects that provide high labor productivity, which were previously in use in terms of their structure, from production until they are physically completely obsolete." [1]

The National Standard of Property Appraisal of the Republic of Uzbekistan (No. 15 MBMS) of the National Standard of Property Appraisal of the Republic of Uzbekistan (No. 15 MBMS) in chapter 6 of the standard "Evaluation of the value of machinery and equipment" states the following about mental wear and tear, i.e. "Mental wear and tear is the improvement of the properties and characteristics of similar devices (It is defined as "obsolescence caused by a change in technical parameters or constructive solutions, the emergence of new capabilities, greater environmental friendliness, energy saving, etc.) or a decrease in the cost of production of the series".[2]

Well-known scientists H.G. Nabiyeu, D.H. Nabiyeu in their works on moral obsolescence have been discussed as follows: "main funds gradually decay as a result of long-term use in the production process. Depreciation forms the material basis of depreciation of fixed assets. Decay is divided into

physical and spiritual types. Basic funds. moral obsolescence occurs as a result of the appearance of more productive elements of fixed assets and the creation of cheaper fixed assets".[3]

The well-known scientist N. Abdusalomova in her scientific work touched on the processes related to the wear and tear of the main tools as follows:

"There are two types of depreciation of fixed assets:

1. Physical wear and tear;
2. Spiritual obsolescence.

There are two types of moral obsolescence. The first is a decrease in the value of such fixed assets as a result of the cheaper reproduction of such fixed assets, and the second is a decrease in their value due to the introduction of new and more advanced fixed assets and their technical backwardness [4].

Research methodology

Abstraction, induction and deduction, analysis and synthesis, documentation, evaluation, double-sided writing, economic analysis and statistical methods are widely used in research .

Analysis and results

In order to check the process of depreciation of assets, first of all, it is required that the management and officials of the enterprise have sufficient knowledge and understanding. In the table below, in order to determine the risk of unexpected devaluation of assets in enterprises, the aspects that should be taken into account by the management of the enterprise when checking the process of asset depreciation are mentioned. (1-table).

Table 1

Considerations to determine the risk of unexpected asset impairment¹

| A matter to consider | Questions to consider |
|---|---|
| <i>Assets that require annual testing</i> | Does the business have identifiable intangible assets with indefinite useful lives, intangible assets not yet available for use, or goodwill that requires annual impairment testing? |
| <i>Possible Indicators of Impairment</i> | <p>If the market value of the enterprise is less than the net assets shown in the statement of financial position of the enterprise?</p> <p>Has performance decreased since the end of the financial year or is it expected to decrease in the future?</p> <p>Are there significant changes in the business or its environment now or in the future? Examples, if relevant, may include:</p> <ul style="list-style-type: none"> • a decrease in the market or price of products or services • oversupply of products or services in markets • problems in obtaining raw materials or services • increase in production or service costs • changes in exchange rates that affect costs or sales • new competitors • new products or services from competitors • technological change • changes in laws or regulations • changes in economic conditions |

¹ The author by work developed

| | |
|---|---|
| | <ul style="list-style-type: none"> • changes in interest rates (which may affect the discount rates used to calculate the value of the asset) • physical damage to assets • plans to dispose of assets earlier than expected • plans to discontinue or restructure operations and • other changes in the enterprise's activity. <p>Are there other indicators that non-financial assets may be impaired?</p> |
| <p><i>Accounting department's evaluation of impairment indicators</i></p> | <p>Are accountants aware of the environment in which the enterprise operates?</p> <p>Have the accountants assessed the indicators of impairment and the need for impairment testing?</p> <p>Has the accountant provided management with an assessment of impairment indicators or information on assets that are impaired or may be impaired in the near future?</p> <p>Are the accountants' analyzes and conclusions regarding the impairment of assets correct?</p> |

This case, if the probability of impairment of assets is high, the auditor should study the process of asset impairment in depth.

In the next step, the auditor should assess the internal control system related to the asset impairment process.

Testing of internal control to ensure that the entity has adequate and appropriate processes for assessing any impairment of assets and the extent to which the entity's asset impairment process is organized includes the following steps:

Based on the above, the sequence of actions that should be performed by the auditor during the audit of the asset impairment process is as follows:

Initially, the auditor should check the origin, condition and true value of the assets in the audited object in a short audit.

As a result of a short examination, if assets or cash-generating units with a difference between the balance sheet value and the actual value of the object are identified, losses from the impairment of assets are determined.

The process of recording losses from the depreciation of these assets in the initial accounting documents is checked.

And finally, the process of reflecting the impairment losses in the financial statements is checked. In the figure given below, we can see the sequence of auditing the process related to asset impairment (Figure 1).

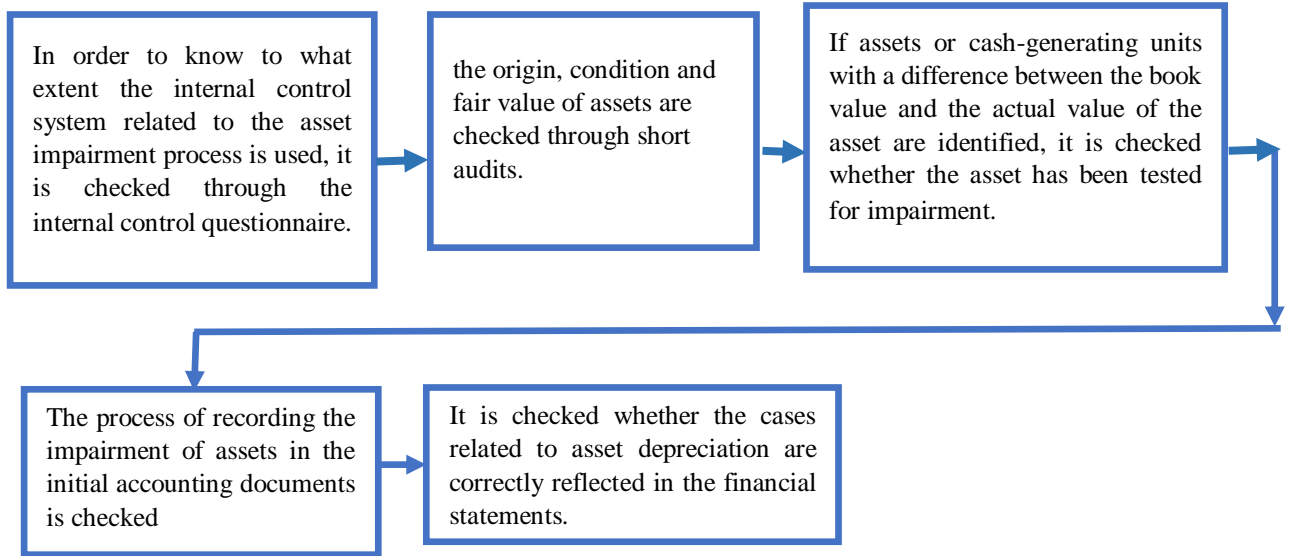


Figure 1. The sequence of auditing the process related to the impairment of assets²

In examining these processes, the auditor collects audit evidence using the audit procedures for obtaining audit evidence specified in the above-mentioned International Standard No. 500 "Audit Evidence".

There are three different types of audit evidence sources an auditor may have when examining an asset impairment process. Sources of audit evidence are one of the most important aspects of an audit.

In the figure given below, we can consider these sources and their quality aspects in recognition as audit evidence (Figure 2).



Figure 2. Sources of audit evidence³ related to asset impairment

In the category of audit evidence determined directly by the auditor, we can include the evidence determined as a result of the auditor's examination, observation, recalculation, re-implementation and

² The author by work developed

³ The author by work developed

application of analytical actions during the audit. The reliability of this audit evidence is the highest since it is determined directly by the auditor.

In the category of audit evidence provided by a third party, we will be able to include evidence provided by the parties in contact with the activity of the audited entity, that is, suppliers, buyers and clients of the audited entity, business partners, service banks, and tax and other government agencies. In gathering this evidence, the auditor uses audit evidence gathering procedures such as external confirmation, formal inquiry, and is included in the reliable evidence.

We can include primary accounting documents, contracts, account invoices, reports, financial statements directly submitted by the audited entity to the category of evidence provided by the audited entity. Since this evidence was provided by the subject under investigation, we can include it among the evidence of low reliability.

Also, the auditor may use different types of audit evidence during the audit of asset impairment. The following figure shows the types of audit evidence (Figure 3).

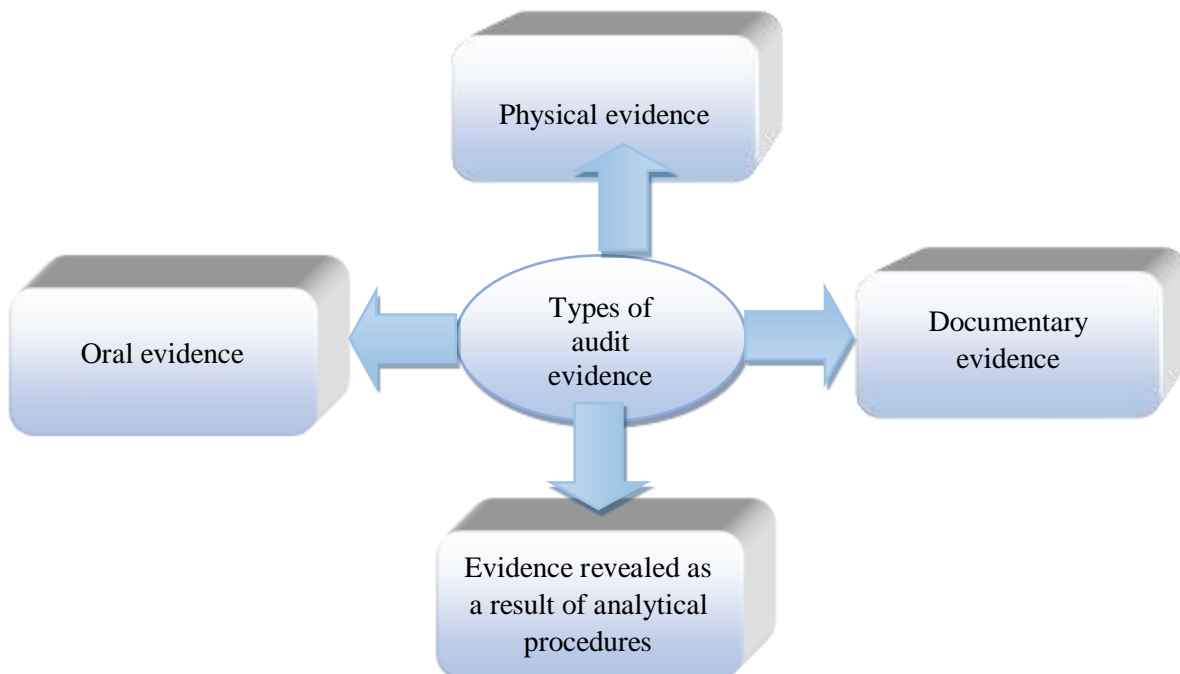


Figure 3. Types of audit evidence used in the audit of the asset impairment process⁴

We may include photographs, video footage or samples of assets and other types of evidence in the category of physical evidence of the asset impairment process audit. These types of evidence can be determined on the basis of three different sources, directly determined by the auditor, provided by a third party and the audited entity.

Above, we considered the sources of audit evidence and their levels of reliability.

We will be able to include preliminary accounting documents, reports of valuation organizations, financial statements and other types of evidence related to asset impairment. These types of evidence

⁴ The author by work developed

have three different sources, it can be determined directly by the auditor, provided by a third party and the audited entity.

In the category of evidence of impairment of assets determined as a result of analytical operations, we can include evidence determined directly by the auditor, as a result of recalculation, re-implementation and application of various analytical operations. This evidence belongs to the category of evidence directly determined by the auditor or audit team. In some cases, this type of evidence may be provided by a third party and the subject being investigated. For this reason, the auditor will be able to assess the level of reliability of these parties and take into account the audit risk.

of asset impairment process audit, we can include types of evidence related to asset impairment in oral form, i.e. by employees of the enterprise and other natural persons who are well aware of this situation, which are not reflected in any oral documents. can be determined by a third party and the subject of investigation, but these types of evidence are considered to be very low in terms of reliability and quality due to the fact that there is no basis. If the auditor encounters this type of evidence, it is appropriate to immediately reflect it in the explanatory letter, notification and other relevant documents.

Conclusions and suggestions

In short, checking the processes related to the depreciation of assets serves to increase the quality of audit work and the reliability of the audit report and audit opinion.

In many cases, it is observed that the person giving the explanation or instruction withdraws from his verbal explanation or instruction as a result of external influences.

Therefore, the implementation of these works increases the quality, objectivity, and transparency of the audit.

During the examination of the process of impairment of assets by the enterprise, the auditor shall refer to the following:

- to the extent to which the internal control system related to assets and their depreciation is functioning properly in the enterprise;
- that there are internal and external factors that cause depreciation of assets;
- that assets are determined by testing the impairment process;
- that impairment losses and processes related to them are correctly reflected in the initial accounting documents;
- special attention should be paid to the consistency of the preliminary accounting documents and financial statements that record the depreciation process.

After all, processes related to depreciation of assets have a direct impact on the financial condition and financial results of the enterprise.

Inadequate assessment of these processes by the auditor, without a separate examination, will increase the existing errors and shortcomings in the company's financial reports, and as a result, it will be possible to cause great damage to the users of these reports as a result of incorrect information.

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