INTERNATIONAL JOURNAL ON ECONOMICS, FINANCE AND SUSTAINABLE DEVELOPMENT
E-ISSN: 2620-6269

IJEFSD

Available online at www.researchparks.org

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Vol. 4 No. 8 | August 2022

Investment Real Estate Account Improvement Guidelines

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ABSTRACT

The topics of investment real estate accounting based on international standards are discussed in this article. On the basis of the findings of the research that was done, suggestions for enhancing the investment real estate account were made.

ARTICLEINFO

Article history:
Received 10 jun 2022
Received in revised form
10 Jul 2022
Accepted 9 Aug 2022

Key words: investment, investment real estate, financial reporting, international standards of financial reporting, current value.

INTRODUCTION

The problem of creating a technique of recognizing and valuing investment property objects based on the demands of market regulations, including investment real estate as an object in accounting, has not yet been resolved in the conditions of economic modernization. Operational compliance with

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international standards in the area of investment real estate accounting is one of the essential problems of the day.

LITERATURE REVIEW

Economists have done research on how to account for investment real estate.

Capital and financial investments are the two categories into which investments fall, according to economist K. Orazov [1].

Long-term assets can be invested in fixed assets, intangible assets, unfinished capital investments, securities, as debt and credit, as a foundation contribution to other businesses of diverse properties and forms, according to K. Orazov.

Four categories are used to categorize the company's assets, according to Russian economist V.G. Belolipetsky:

1. Assets related to the current maintenance of the production capacity of the enterprise;
2. Reserve assets necessary to protect the assets of the first category from various risks;
3. Investment assets related to business expansion;
4. Assets that are not directly related to the production capacity of the enterprise [2].

The scientist solely mentioned capital investments when he discussed investment assets. Our perspective is that investment assets, or investment properties, include more than just capital investments. It also comprises securities, as was previously indicated, and other forms of intellectual property. However, it should be emphasized that this scientist's classification of assets is a little bit more accurate.

According to the Big Accounting Dictionary, edited by A.N. Azrilyan, "Investment property is long-term investment, income-generating property." [3].

Additionally, definitions of investment property may be found in several economic dictionaries. Investment property is defined as "a collection of assets (stocks, real estate, and other investment instruments) or rights relating to them, attracted for the goal of generating income" [4] in one of the economic dictionaries.

In order to clarify the aforementioned aspects in greater detail, we will attempt to elaborate on the components of investment real estate items.

ANALYSIS AND RESULTS

There are national standards for accounting for investment property, but as of yet, our republic's laws do not specifically address this type of accounting. It would be helpful if we called attention to IAS No. 40, which is about investment real estate.

IAS No. 40 defines the following items as property when referring to investment real estate:

1. Land
2. Building
3. Part of the building
4. Land and building [5].

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- In this case, the property owner receives rent or the value of the property increases.
- Investment real estate does not include:
- means employed in production, delivery of products, goods, work and services;
- assets intended for sale in the ordinary course of business.

Own-use property is real estate that is utilized for business by the owner. They perform their computation using IAS No. 16, named "Fixed Assets."

An operational lease specifies how the lessee will get the car. If the renter sublets the property in this situation, the money will be recorded as income and added to the value of the leased object. The following prerequisites must be satisfied in this scenario:

- the rental property must fit the criteria of investment real estate;
- the renter must provide it current value.

All rental property should be treated as investment real estate and evaluated at current market value if the lessee employs the aforementioned method of accounting. Real estate purchased as an investment is done so to generate rental revenue or capital growth. Examples of investment properties are shown below:

1. Land meant for long-term capital appreciation rather than sale in the company's regular course of operations;
2. Property earmarked for future commercial use. Vacant building for rent;
3. the company's building (both bought on the basis of a financial lease and also provided to an operational lease);
4. land is regarded to be property designed to raise the value of firm capital.

The description of real estate used for investments differs from that of property used for internal purposes, according to the International Accounting Standards Committee. IAS No. 40 and SSAP 19 both discuss the categorisation of investment real estate. However, there are also distinctions between them. This will be displayed in the table below (Table 1).

Table 1. Description of investment property according to ISFR No. 40 and SSAP 19 [1]

Description of investment real estate	No. 40 on IAS	According to SSAP 19
Land available in the enterprise for the purpose of increasing the capital value	+	+
A plot of land available in the enterprise for future use	+	+
A building owned and leased by an enterprise under one or more operating leases	+	+
Currently vacant building intended for operational lease	+	+
Property being improved for future use as investment property	+	+
The property is owned by a tenant based on an operating lease	-	+
Property expected to be sold in the ordinary course of business	-	-

[1] Made by author.

A property undergoing reconstruction with the participation of a third party	-	-
Owned property	-	-

First and foremost, we must concentrate on how investment real estate is covered by the accounting policy when presenting it as a separate item in accounting. It is common knowledge that an organization's accounting policy refers to its whole arsenal of accounting techniques. In order to better understand this idea, we can consult NARS No. 1, which is titled "Accounting policy and financial reporting." This standard defines accounting policy as a collection of procedures used to manage and compile accounting and financial statements in line with the head of an economic entity's principles. [6]. It encompasses the progression of transactions that take place in business operations from the first observation through value expression, current grouping, and summarizing. The enterprise's accounting policy requires that all assets, including investment real estate, be recognized, evaluated, formalized in a document, and associated transactions recorded in accounting records.

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- to professional qualification;
- to the high experience of valuation of objects in the category of investment real estate.

After recognizing the investment property at cost, a current value accounting corporation analyzes all of its investment properties at current value. A rental investment property's current worth can be determined.

The value supplied by the transaction in the implementation of such transactions of investment real estate with independent individuals is, as can be seen from the foregoing, the current value of investment real estate. Considering the property's current worth entails transferring it concurrently with selling it and paying the buyer. Investment property's current value is calculated without accounting for any expenses paid during the sale of the property.

The market price at the start of the reporting period is reflected in the investment real estate object's current value. Market circumstances and the amount corresponding to the present value, however, are subject to change.

The present value of investment real estate reflects the current rental income received from it as well as the economic feasibility of the investment given the existing and projected rental revenue.

An investment property's current worth is determined independently, so both the seller and the buyer will be aware of the following:

- technical description of investment real estate;
- the existing and potential possibilities of using the object;
- the market value of similar objects on the date of the reporting period.

As can be observed, neither the buyer nor the seller attempts to purchase investment property at a price above the going rate; rather, they both want to sell at the going rate. It can occasionally be challenging to estimate the value of investment real estate. This is because a specific kind of investment real estate is either not sold or is not readily available on the market.

Value in use and present value are two separate things. IAS No. 36, titled "Impairment of Assets," regulates this idea. The open market value of an investment property is reflected in the current valuation. The value in use is based on the company's assessments, which are not agreed upon by the open market, of the worth of the investment property. The following elements, which buyers and sellers intend to complete the deal and are unaware of one another, are thus not represented by the present value:

- added value created as a result of the formation of a portfolio of investment real estate located in different locations;
- combination of investment real estate and other assets;
- legal rights and legal restrictions characteristic of the real owner of the property.

The firm considers fundamentally separate components of investment real estate when assessing the present value of such real estate.

Examples of components that make up investment real estate that are constructively inseparable:

1. In most cases, equipment like elevators and air conditioners are a necessary component of the building and are accounted for in the value of investment real estate rather than being treated separately as fixed assets.

2. When renting a furnished office, the furniture's current worth is often added to its current value, and the rent revenue is the furnished office's to keep. The corporation does not see the furniture as a distinct asset when calculating the value of the furniture in relation to the current value of the investment property.

3. The revenue and costs of the future term, which are shown as a distinct asset or liability under an operating lease, are not included in the present valuation of investment real estate.

The current value of investment real estate objects:

- does not account for future capital expenditures for facility extension or enhancement;
- does not account for future economic advantages.

After the expenditures of reconstruction are expended, the building's existing worth might rise. The present value of the maximum rental payments may occasionally rise as a result of the present value of the payments related to the investment property. In this situation, liabilities should be recognized and their amount determined in accordance with IAS No. 37, "Reserves, Contingent Liabilities and Contingent Assets."

The current value of investment real estate cannot always be assessed with certainty. That is, there won't be a different estimation of the current worth of investment real estate if there aren't many deals on comparable pieces of property on the market. In comparable situations, investment real estate is taken into account at its genuine value prior to sale in line with IAS No. 16, named "Fixed Assets." The liquidation value of investment real estate is considered to be zero in this instance.

CONCLUSION

In situations where it may be accurately calculated in line with IAS 16, investment real estate should be valued at current market value. The current value assessment is employed up until the object is sold if there aren't many transactions involving investment real estate or if the market value of comparable items is unstable. All investment property must be evaluated at fair value less cumulative depreciation and impairment losses if a corporation is using fair value accounting.

The process for identifying and appraising investment real estate was briefly mentioned above. We are persuaded by the arguments made that investment real estate is a distinct item of accounting and should be recorded alongside other assets. It is also appropriate to evaluate investment real estate using the current value method.

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