



THE ROLE OF ASSET DEPRECIATION IN THE COMPANY'S FINANCIAL INDICATORS AND ITS IMPROVEMENT

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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.

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INTRODUCTION

As a result of the increasing globalization processes in the world economy, the influence of the factors causing its instability is also increasing in various forms and levels. Situations such as global financial and economic crises, the coronavirus pandemic, have caused unprecedented uncertainty in the world economy, and as a result of this, a sharp reduction in the scope of economic activity, in particular, is intensifying the processes of devaluation of the assets of economic entities. According to the report published by the international company "Audit Analytics", "in 2018, the depreciation of fixed assets amounted to about 49.0 billion dollars, and by 2020 this figure will exceed 200.0 billion dollars, and the depreciation of intangible assets will be about 100 billion in 2018. 0 billion dollars, by 2020 it

will be almost 200.0 billion dollars ¹. These processes make the issues of improving the accounting and auditing of asset impairment in business entities urgent.

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 property valuation standard of the Republic of Uzbekistan (MBMS No. 15) in Chapter 6 of the "Machine and Equipment Valuation" standard states the following about moral wear and tear: "Moral wear and tear is the improvement of the properties and characteristics of similar devices (changes in technical parameters or structural solutions, the emergence of new capabilities) arrival, more environmentally friendly, energy saving, etc.) or they are defined as obsolescence caused by the lower 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 the process of analyzing the company's assets, we use several methods of economic analysis, in particular, we use horizontal analysis, vertical analysis and trend analysis.

One of the analytical procedures used for initial asset impairment is the ratio of the asset's impairment value to its original value, which allows us to see how much the asset has been impaired and is expressed as follows:

We know that once an asset is impaired, the impairment loss is first recorded as a loss on the entity's statement of financial results. Impairment losses reduce the profits of this enterprise.

The step-by-step transformation of our national accounting to the international standards of

¹ Source: www.audianalytics.com

accounting brings with it a number of advantages and achievements, as well as its own problems.

In particular, in the process of analyzing the indicators of the financial statements of enterprises, there are aspects that differ from the indicators based on the national accounting standards and the analysis indicators based on the international standards of financial accounting.

When calculating financial analysis indicators, several analysis indicators are widely used in world practice. One of them is EBIT (Earnings before interest and tax). EBIT, or earnings before interest and taxes (EBIT), is a measure of a company's profitability. EBIT can be calculated as income minus expenses, excluding taxes and interest. EBIT is also called operating profit, operating profit, and earnings before interest and taxes.

This indicator is found by the following formula:

$$EBIT = Revenue - COGS - Operating Expenses$$

$$EBIT = Net Income + Interest + Taxes$$

In this :

Revenue-net income from product sales;

COGS - cost of goods sold ;

Operating Expenses - other expenses of the enterprise on the main activity;

Net income-net profit;

Expenses in the form of interest

Taxes-taxes.

In our analysis process, we can see that asset impairment losses can affect several financial ratios. Below are the coefficients that can be changed:

Financial ratios

$$Return\ on\ Assets(ROA) = \frac{\text{"Net profit"}}{\text{"Total Assets"}}$$

$$Return\ on\ working\ capital\ (ROCE) = \frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Total assets}}$$

$$Net\ Profit\ Margin(NPM) = \frac{\text{Net profit}}{\text{Net income from product sales}}$$

$$Operating\ profit\ (OPR) = \frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Net income from product sales}}$$

$$1\ unit\ of\ earnings\ per\ share\ (EPS) = \frac{\text{Net profit}}{\text{Number of shares}}$$

From the chart shown above, we can see that losses from asset depreciation primarily lead to changes in the company's accounting data, and as a result, changes in a number of profitability and efficiency indicators of the company.

Table 1

During 2018-2020, the amount of losses incurred due to impairment of assets in "Uzbekistan temir yollari" JSC²

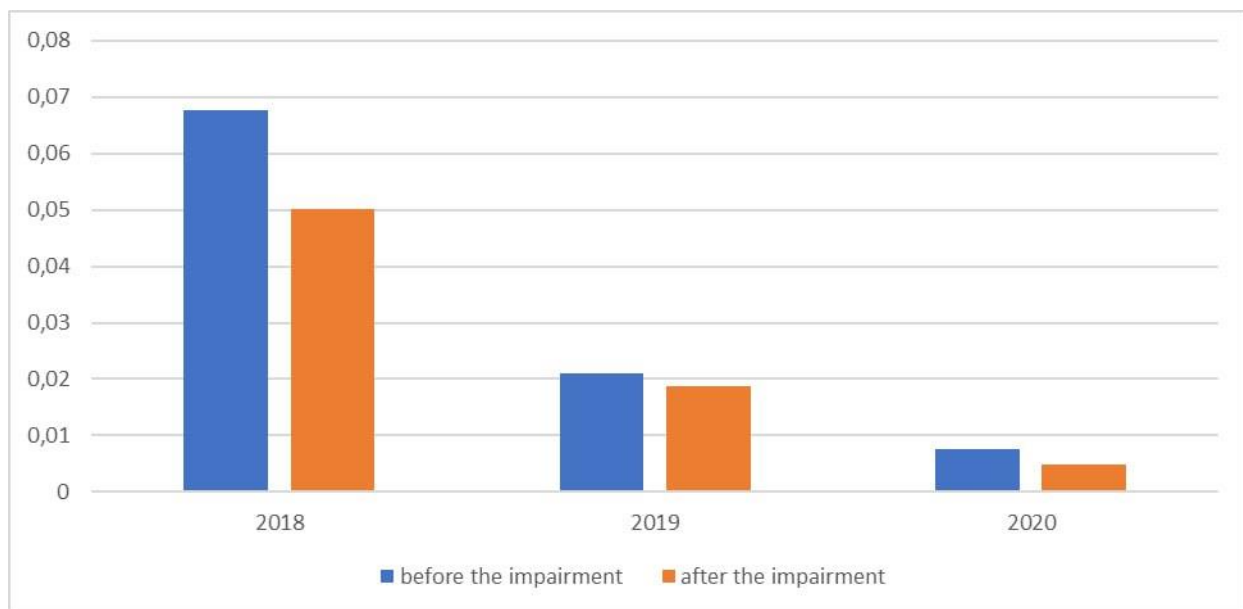
No	Indicators	in 2018 (in thousand)	in 2019 (in thousand)	in 2020 (in thousand)
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² The author by work developed

		soms)	soms)	soms)
1	The amount of losses incurred due to the impairment of debt	412.247.356	55,198,242	64,650,400
2	The amount of losses from the impairment of current assets	0	8,784,379	13,002,498
3	Amount of total impairment losses	412.247.356	63,982,621	77,652,898

In the table given below, we will be able to see the amount of losses incurred due to depreciation of assets in the joint-stock company "Uzbekistan Railways" during 2018-2020. In 2018, losses from impairment of total assets amounted to 412,247,356.0 thousand soums, and in 2019 to 63,982,621.0 thousand soums, in particular, losses from impairment of receivables amounted to 55,198,242.0 thousand soums, and losses from impairment of current assets amounted to 8,784. If it was 379 thousand soums, by 2020 this indicator will be 77,652,898.0 thousand soums, including the amount of losses from the impairment of receivables 64,650,400,0 thousand soums, and the amount of losses from the impairment of current assets will be 13,002,498 thousand soums. (Fig. 2).

In the diagram below, we can see the impact of post-impairment and pre-impairment processes on return on assets (ROA) in Uzbekistan Railways JSC during 2018-2020. If we look at this process over the years, in 2018, the return on assets (ROA) was 0.067 before the depreciation, and after the depreciation, this indicator was 0.05, and according to the analysis, we can see that this indicator decreased to 0.018. In addition, in 2019, we can see that this indicator decreased by 0.002, and in 2020 by 0.003 (Figure 1).



1 . Impact of asset impairment on return on assets (ROA) of Uzbekistan Railways JSC during 2018-2020³

³ The author by work developed

In addition, in the diagram below, we can see the impact of the post-impairment and pre-impairment processes on the return on operating capital (ROCE) of Uzbekistan Railways JSC during 2018-2020. If we look at this process over the years, in 2018 the return on operating capital (ROCE) was 0.094 before the depreciation, and after the depreciation, this indicator was 0.078, and according to the analysis, we can see that this indicator decreased to 0.017. In addition, we can see that in 2019 this indicator decreased by 0.002, and in 2020 by 0.003 (Figure 2).

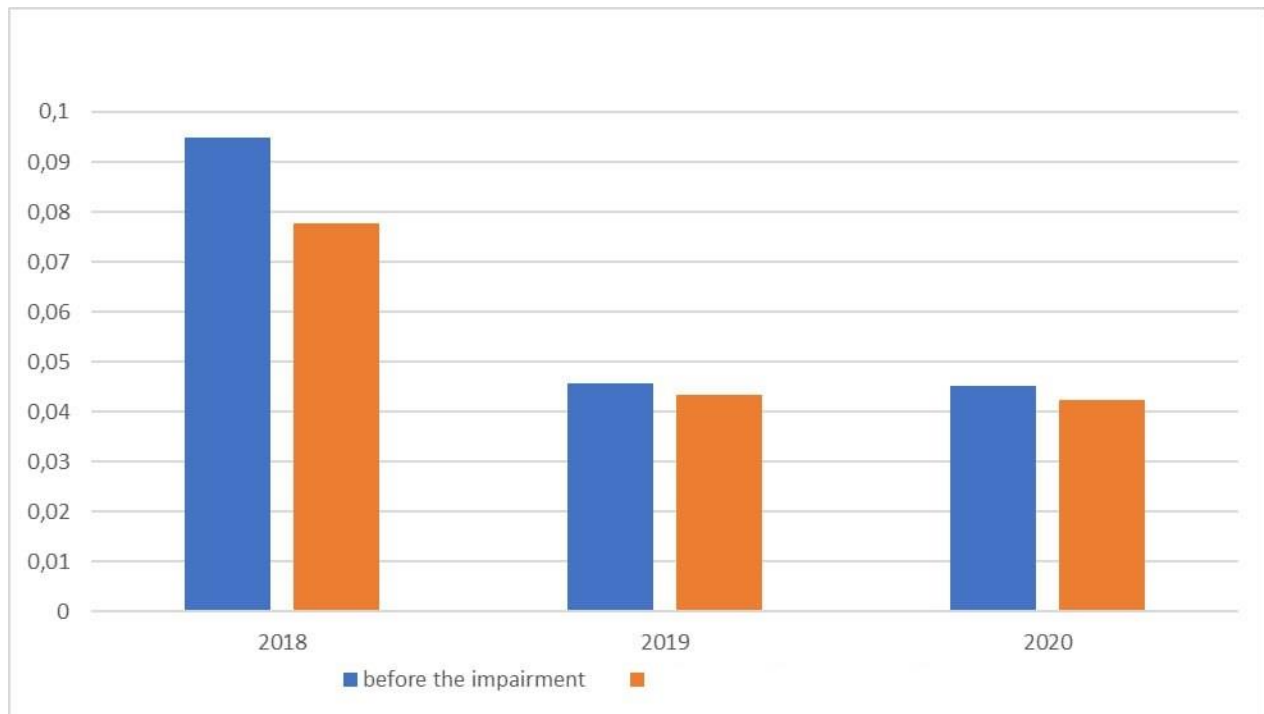


Figure 2. Impact of asset impairment on return on working capital (ROCE) of Uzbekistan Railways JSC during 2018-2020⁴

We also suggest using the following asset impairment ratio formula to calculate the extent to which assets are impaired:

$$\text{Asset impairment ratio} = \frac{\text{Losses from asset depreciation}}{\text{Initial cost of assets}}$$

In practice, this formula makes it possible to determine the extent to which assets have been depreciated compared to the initial value of the company's assets, and it can be widely used in the process of analyzing the company's activities (Table 2).

Table 2

Asset impairment ratio for 2018-2020 in "Uzbekistan Railways" JSC⁵

No	Indicators	2018 (in thousand soms)	2019 (in thousand soms)	2020 (in thousand soms)
1	Initial cost of assets	22,240,447,767	26,182,770,028	28,288,759,071

⁴ The author by work developed

⁵ The author by work developed

2	Asset impairment losses	412.247.356	63,982,621	77,652,898
3	Asset impairment ratio	0.0185	0.0022	0.0027

As we have seen above, the loss from the impairment of assets is reflected as a loss in the statement of profit and loss. This loss reduces the net profit of the enterprise and affects the private capital of the enterprise.

Conclusions and suggestions

In short, the losses caused by asset depreciation primarily lead to changes in the company's accounting information and, as a result, to changes in several profitability and efficiency indicators of the company.

In particular, if we look at the impact of impairment losses on the profitability of assets, first of all, impairment losses reduce net profit, lead to a change in the balance sheet value of assets, i.e. an increase, and as a result, the profitability index of assets decreases due to the same amount of decrease and increase of the divisor and denominator. This is a negative situation for the company.

Leads to a decrease in income before interest and taxes, a change in the book value of assets, i.e. an increase, and as a result, the divisor and divisor are decreased and increased by the same amount. the rate of return on working capital will decrease. This is a negative situation for the company.

In addition, if we look at the effect of impairment losses on net profit margin, impairment losses primarily reduce net profit, while net income from product sales is not affected, and the ratio of net profit margin decreases due to a decrease in the divisor. This is a negative situation for the company.

At the same time, if we consider the indicators of the profitability of the economic entities, the damage caused by the depreciation primarily reduces the income before interest and taxes, and the indicator of the profitability of the operational activity decreases due to the decrease of the divisor, without affecting the net income from the sale of products. This is a negative situation for the company.

From the above-mentioned, it can be concluded that the losses caused by the depreciation of assets have a negative effect on the financial performance of economic entities. The deterioration of financial indicators will have a negative impact on the stable operation of the enterprise.

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