



DISCLOSURE OF INTANGIBLE ASSETS IN FINANCIAL STATEMENTS

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ABSTRACT	KEY WORDS
This article presents the procedure for disclosing information about intangible assets in the financial statements of enterprises, including the statement of financial position and the statement of financial performance. It also provides proposals and recommendations on the presentation of information regarding intangible assets in financial statements. Based on these proposals, enterprises are enabled to harmonize their financial reporting forms with international standards.	Financial performance, balance sheet, intangible assets, asset impairment, national accounting standards, international financial reporting standards (IFRS).

Introduction

The International Financial Reporting Standards (IFRS) adopt a specific approach to preparing financial statements, based on the concept of general-purpose financial reporting. According to this concept: “A general-purpose financial statement (hereinafter referred to as a ‘financial statement’) is a financial report intended to meet the needs of users who are unable to demand reports tailored to their specific information requirements.” Assessing whether the general-purpose financial statements of an entity can reasonably be expected to influence the decisions of its primary users requires the entity to consider not only the characteristics of these users but also its own circumstances.

Research shows that users of financial statements, such as investors, lenders, and other creditors, cannot directly require reporting entities to provide information; instead, they must rely largely on general-purpose financial statements to obtain the financial information they need. Consequently, these users are considered the primary users of general-purpose financial statements. The financial reports of an entity are therefore prepared mainly for users who possess sufficient knowledge of economic activities and the ability to analyze financial data.

Although both international and national reporting frameworks provide guidance on the disclosure of information regarding intangible assets, adjustments may be required to meet the needs of potential investors or other users of financial statements. Thus, a financial statement represents a structured expression of an entity’s financial position and performance, aiming to provide users with relevant

information on the entity's financial condition, results of operations, and cash flows to support economic decision-making.

LITERATURE REVIEW

In the National Accounting Standard No. 1, "Presentation of Financial Statements," the following term is defined: "A general-purpose financial statement ('financial statement') is a financial report intended to meet the needs of users who are unable to demand reports tailored to their specific information requirements." The standard also notes that "the elements of a reporting entity's financial statements provide information about economic resources, claims against the entity, and changes in these resources and claims."

The purpose of financial reporting is to provide users with information on the reporting entity's assets, liabilities, equity, income, and expenses that is useful for assessing the prospects of future cash inflows and the management's stewardship over economic resources.

In Uzbekistan, the national accounting standards conceptualize financial statements as follows: "Financial statements are part of the financial reporting framework and are defined by the National Accounting Standards (BHMS). They include notes, calculations, and explanations based on or related to these statements. Such information should reflect the financial results of activities across industries and geographical regions, explaining the effects of price changes on financial outcomes."

When comparing the definitions in international and national standards, it becomes evident that the IFRS primarily target users, whereas the national standards focus on presenting the financial condition of the enterprise.

The Law of the Republic of Uzbekistan "On Accounting" defines a financial statement as "a systematized report on the financial position of an accounting entity at the reporting date, the results of its operations during the reporting period, and cash flows."

Economists and accounting specialists have offered various definitions of financial statements:

- A. Karimov: "A financial statement is a document providing comprehensive information on an entity's financial position, operations, and cash flows over a certain period. It is an essential tool for analyzing financial condition and making decisions."
- A. Ibragimov: "A financial statement is a collection of information about the results and conditions of a business entity over a past period, used for analysis, control, and management purposes."
- S. Tashnazarov: "Financial statements represent a system that consolidates accurate and high-quality information on an entity's financial position, its financial-economic activities, and cash flows, prepared according to generally accepted rules. It primarily serves external and internal users to meet their information needs for decision-making and oversight."
- V. Kovaleva: "The main purpose of financial statements is to provide reliable and complete information on an entity's financial condition and its changes. Completeness, accuracy, timeliness, and reliability are critical for users to accept financial statements as a source of financial analysis."
- A. Trushkina: "Information in financial statements is assumed to be available to a wide range of interested users. Each user group will use the information according to its needs. The accounting information base enables extensive possibilities for analysis, forecasting, and planning, despite the tendency in some companies to provide minimal reporting ('the less, the better')."

- K. Ahmadjonov: “The reports of joint-stock companies consist of aggregated indicators describing financial and operational results for a certain period, based on accounting, statistical, and operational-technical data.”
- I. Ochilov: “A financial statement is a document containing information about the financial results of an entity over a certain period, indicating how the statements should be prepared and presented.”
- B. Hoshimov: “To know the results of a joint-stock company’s activities, information is ‘summarized and systematized’ through reporting. A report is a set of data on past activities used for analysis, control, and management.”
- I. Ibragimova: “International accounting systems form financial statements based on theoretical and conceptual foundations to enhance their informational potential.”
- Foreign economists (B. Nidzl, H. Anderson, D. Caldwell): “A financial statement is a model of an economic entity. Even if it cannot fully depict actual events, it represents the most appropriate effort by accountants.”
- L. Donovan: “An entity’s financial (accounting) statements serve as the primary source of information on its financial and operational activities. A thorough review of the statements reveals the causes of achievements and shortcomings and helps identify ways to improve operations.”
- R. Anthony, J. Rees: “The statement of financial position and the statement of changes (movements) are categorized such that the balance sheet belongs to the first category, providing information on an entity’s resources at a specific point in time. Statements of profit and loss and cash flows belong to the second category.”
- A. Suvorov: “A financial statement must include the reporting entity’s name or identification, indicate whether the statement pertains to an individual entity or a group, the reporting period’s end date or covered period, notes as required by IFRS, and the currency and its rounding method.”

Based on the above views, a comprehensive definition of financial statements can be formulated: “A financial statement is a system of indicators reflecting an entity’s (organization’s) property and financial position at the reporting date, as well as the financial results, equity, and cash flows during the reporting period.”

METHODOLOGY

In writing this article, a systematic approach was applied to disclose information on intangible assets in financial statements. The study utilized methods including grouping, comparative analysis, induction, deduction, benchmarking, theoretical and practical investigation, statistical analysis, and factor analysis.

ANALYSIS AND RESULTS

The financial statements of entities prepared in accordance with IFRS include information on:

- assets;
- liabilities;
- equity;
- income and expenses, including profit and loss;
- contributions made by owners in their capacity as owners and the amounts distributable to them;
- cash flows.

As a result, this information, together with other data disclosed in the notes, enables users of financial statements to forecast the entity's future cash flows, in particular their timing and reliability.

The recognition and disclosure of intangible assets in financial statements remain an ever-relevant issue, since intangible assets, as a relatively new object of accounting, are highly dynamic and require constant adjustments. It cannot be assumed that information regarding intangible assets follows a uniform trend. Information reflected in a company's balance sheet today may lose its relevance over time, meaning that it may no longer be possible to obtain reliable data.

Table 1 Recognition of Intangible Assets in Financial Statements¹

Balance Sheet	Income Statement	Cash Flow Statement	Statement of Changes in Equity
Intangible Assets: Initial (Acquisition) Cost (0400) – line 020 Accumulated Amortization (0500) – line 021 Net (Carrying) Value – line 022	Other Operating Expenses (Loss on Disposal of Intangible Assets) – line 070. Other Operating Income (Gain on Disposal of Intangible Assets) – line 090	Investing Activities: Purchase and Sale of Intangible Assets – line 070	Revaluation of Long-term Assets – line 030

It is evident from the data in this table that information on intangible assets is reflected in all forms of financial statements. This information is interrelated, which ensures the coherence and consistency of the financial statement forms.

Table 2. “Reflection of Intangible Assets in the Balance Sheet of JSC ‘Farg‘onaazot’”²

BALANCE			SHEET
As of December 31, 2024 (in thousand soums)			
ASSETS	Row code	As of the beginning of the reporting period	As of the end of the reporting period
I. Non-current assets			
Intangible assets			
Acquisition cost (0400)	020	3851830.00	2053273.00
Accumulated depreciation (0500)	021	555544.00	857958.00
Net book value (line 020 — 021)	022	3296286.00	1195315.00
I Total for the section	130	876476992.00	849409489.00
Total assets.	400	2050224385.00	2079479281.00

According to the balance sheet data, it is evident that the condition of intangible assets in the company shows a decreasing trend compared to the beginning of the reporting period. For intangible assets:

- The initial cost decreased by 1,798,557 thousand UZS (or 53.2% compared to the beginning of the reporting period);
- The accumulated depreciation increased by 302,414 thousand UZS (or 154.5% compared to the beginning of the reporting period);

¹ Original contribution of the author derived from research results

² Author's elaboration derived from the financial reporting data of JSC “Farg‘onaazot”

- The net book value decreased by 2,100,971 thousand UZS (or 36.1% compared to the beginning of the reporting period).

The share of intangible assets in relation to non-current assets amounted to 0.43% at the beginning of the reporting period and 0.24% at the end;

In relation to total assets, the share was 0.187% at the beginning of the reporting period and 0.098% at the end.

Research on the presentation of intangible assets in financial statements has been conducted by scholars. In particular, N. Rizayev studied the issues of presenting intellectual property objects in financial statements and disclosing reliable information about them. In his research, he emphasizes that the information on intellectual property objects is reflected in the balance sheet lines 020-021-022 under “Intangible assets,” which provides aggregated data that does not allow obtaining or analyzing detailed information on intellectual property objects. Therefore, he considers it appropriate to introduce an additional reporting form — a register entitled “Depreciable assets,” which would consolidate complete information on intellectual property objects into the balance sheet (Form No. 1).

S. Qodirov, supporting these views, studied foreign practices (Germany, Russia, Italy, and others) and suggested that, in the current “Statement of Financial Position” (Balance sheet, Form No. 1), it would be more appropriate if assets were classified not by the longest useful life but from the perspective of profitability. For investors, information about assets that generate higher income is of primary importance.

From these opinions, it can be concluded that the presentation of intangible assets in financial statements requires continuous improvement. For this purpose, we propose reflecting information on asset impairment in line with international standards.

It is recommended to introduce a new line item “Losses from asset impairment” into the “Statement of Financial Performance.” This information would be based on account 0540 – “Capital investments in intangible assets and reserve for impairment of right-of-use assets” (contra-asset account), as suggested in paragraph 3.2 of this study.

Here, impairment loss refers to the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. If the carrying amount of an intangible asset exceeds its recoverable amount, the asset is considered impaired. At the end of each reporting period, the company must assess whether there are any indications of impairment. If such indications exist, the company should estimate the recoverable amount of the intangible asset.

The ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty if the asset is not yet available for use. Therefore, intangible assets not yet available for use must be tested for impairment at least annually. If the recoverable amount of an intangible asset is less than its carrying amount, the carrying amount must be reduced to the recoverable amount. Such a reduction is recognized as an impairment loss. Impairment losses on intangible assets are recognized directly in profit or loss.

It is noteworthy that the Ministry of Economy and Finance of the Republic of Uzbekistan has developed the “Regulation on the timing, composition, and content of financial reporting.” According to this regulation, in determining the “Profit (loss) from operating activities” (lines 030-040+090) in the “Statement of Financial Performance,” the inclusion of a new line item — “Losses from asset impairment” (line 080) — is recommended in the model form of the report.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Description of indicators	Line item code	In the corresponding period of the previous year		For the reporting period	
		Profit	Expenses (losses)	Profit	Expenses (losses)
1	2	3	4	5	6
Total operating expenses for the period (line 050+060+070+080), including:	040	x	1000000	x	1500000
Selling expenses.	050	x	400000	x	450000
Administrative expenses.	060	x	500000	x	600000
Other operating expenses	070	x	80000	x	200000
Impairment losses on non-current assets	080	x	30000	x	250000
Other revenues from core activities	090	200000	x	400000	x
Operating profit (loss) (line 030–040+090)	100	3500000		4200000	

The proposed account “Losses from asset impairment” would cover not only the impairment of intangible assets but also the impairment losses of property, plant, and equipment. As a result, this line item will be included in determining the company’s operating loss.

According to NAS 7 “Intangible Assets”, special provisions are established for the disclosure of information on intangible assets in financial statements. In particular, the notes to the financial statements must disclose the accounting policies adopted for intangible assets and their specific groups, including the following:

1. Useful lives of intangible assets (by groups) recognized by the entity. In the course of our research, we emphasized the distinction between intangible assets with definite and indefinite useful lives. Current legislation requires that intangible assets without a definite useful life be written off within five years. Therefore, the company must clearly describe this policy in its accounting policy and disclose it in the financial statements.
2. Methods of amortization applied to different groups of intangible assets. The company must disclose in its financial statements the method of amortization applied to intangible assets. For instance, if the “production method” is applied to software, this method should remain consistent throughout the reporting period. Any changes must be explained, along with their reasons.
3. The gross carrying amount and accumulated amortization of all intangible assets at the beginning and end of the reporting period. After recognition, intangible assets must be presented in the balance sheet at their initial cost, accumulated amortization, and net book value both at the beginning and end of the reporting period. This ensures transparency for analysis and reliable information for users.
4. Changes in the carrying amount of intangible assets during the reporting period due to additions, disposals, or other movements. Any changes in the carrying amounts of intangible assets should be explained in detail in the notes.
5. The carrying amount of internally generated intangible assets. Intangible assets may be recognized not only through acquisition but also through internal

development, such as software development by employees, creation of useful models, or industrial designs. These assets must be recognized at actual cost and disclosed accordingly.

In addition, NAS requires disclosure of the following in the notes to the financial statements:

- A description of significant intangible assets, their carrying amounts, and remaining useful lives;
- The total carrying amount of intangible assets subject to restrictions or pledged as security for liabilities;
- The description and carrying amount of intangible assets not subject to amortization and the reasons for non-amortization.

Companies must also provide concise disclosures in the notes to the financial statements regarding:

- Intangible assets that meet the recognition criteria as of the reporting date but were previously expensed in prior reporting periods;
- Activities aimed at creating or enhancing intangible assets expected to generate future economic benefits.

Under international standards, similar disclosure requirements apply. For example, according to IAS 38 “Intangible Assets”, entities must distinguish between internally generated intangible assets and other intangible assets and disclose the following for each class of intangible assets:

- a) Whether useful lives are definite or indefinite, and if definite, their useful lives or amortization rates applied;
- b) Amortization methods applied for intangible assets with finite useful lives;
- c) Gross carrying amounts and accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
- d) Line items in the statement of comprehensive income in which amortization is included;
- e) A reconciliation of the carrying amount at the beginning and end of the reporting period.

In conclusion, the disclosure of information on intangible assets in corporate financial statements must be clear, reliable, and understandable. This enhances the confidence of users in the financial statements and ultimately contributes to increasing the flow of investment.

CONCLUSION

In our opinion, this procedure:

Firstly, ensures methodological consistency with the “Statement of Profit or Loss and Other Comprehensive Income” prepared in accordance with IFRS requirements;

Secondly, in the future, instead of the current item “Profit (loss) from main activities” in the financial reporting structure, it would be appropriate to introduce a section titled “Operating profit (loss)” in line with international requirements, where the data from the proposed account “Losses from asset impairment” should be consolidated;

Thirdly, the presentation of intangible assets in financial statements ensures the completeness of information about them, contributing to the reliability and credibility of financial data. As a result, this will provide an opportunity to better satisfy the information needs of stakeholders who use financial statements.

Thus, the disclosure of information on existing intangible assets in companies preparing financial statements under NAS contributes to ensuring the completeness and reliability of financial reporting.

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