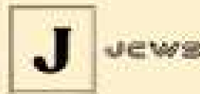
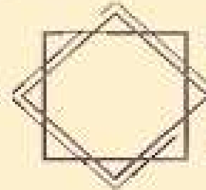
ISSN:
3030-3311

# JCWS

Volume|3
Issue|1
January
2025




# JOURNAL OF CONTEMPORARY WORLD STUDIES

https://bestjournalup.com/index.php/jcws

VOLUME | 3 ISSUE | 1 |JANUARY | 2025

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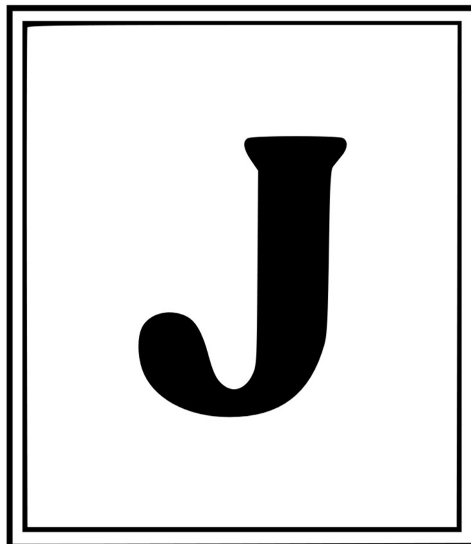
*ISSN: 3030-3311*



JCWS

Thursday January 16 2025

# ACCOUNTING FOR INTANGIBLE ASSETS AND FEATURES OF THEIR DEPRECIATION IN BUSINESS ENTITIES

ISSN: 3030-3311

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**Annotation**: This article studies the definition, classification and accounting for intangible assets, focusing on the features of their depreciation and amortization. It examines various methods used in accounting for intangible assets in accordance with international and national accounting standards, highlights the difficulties and complexities that arise in practice. The study also provides an understanding of the impact of amortization of intangible assets on financial statements and makes recommendations for improving accounting in business entities to better reflect the true value of intangible assets.

**Keywords:** Intangible assets, depreciation, amortization, business entities, accounting, financial reporting, accounting standards, economic value, asset management.

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**Introduction.** In our country, in the rapidly developing small business and entrepreneurial activity, intangible assets have become a central part of the accounting and valuation of economic entities. The main document that strictly defines the procedures for accounting, valuation and accounting of intangible assets in our country is the National Accounting Standard (NAS) No. 7 "On Intangible Assets", approved by Order No. 35 of the Minister of Finance of the Republic of Uzbekistan.

Accounting for intangible assets is becoming increasingly important in the modern business environment, where such assets play a decisive role in the valuation and financial activities of economic entities. Accounting for intangible assets, in particular, their depreciation or amortization, presents its own difficulties. Unlike tangible assets, which typically lose value over time due to physical wear and tear, intangible assets can become obsolete due to changes in market conditions, obsolescence, or the expiration of their legal protection. This paper examines the complexities of accounting for intangible assets, with particular attention to the amortization characteristics of these assets in business entities.

The purpose of this study is to review intangible assets in accounting, analyze existing standards, accounting practices, and amortization methods. In addition, the article is aimed at assessing the impact of amortization of intangible assets on the financial statements of business entities and making recommendations for improving accounting to better determine their economic value.

## Definition and classification of intangible assets.

International Financial Reporting Standard No. 38 "Intangible Assets" defines an intangible asset as follows.

"**An intangible asset** is an identifiable non-monetary asset that does not have tangible substance".

Organizations often incur expenses or incur liabilities to acquire, develop, maintain or improve intangible resources, such as scientific or technical knowledge, the design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including trade names and printing rights).

According to IAS 7, intangible assets are defined as follows: "**Intangible assets** are assets that are held by an entity for use in the production, supply, service or sale of goods over a long period of time, or for administrative and "an identifiable asset that is held to perform other functions and does not have tangible substance."

Intangible assets are defined as non-monetary assets that do not have physical substance but that provide long-term value to an organization. These assets include intellectual property such as patents, trademarks, copyrights, and goodwill, as well as other assets such as brand recognition, software, and customer relationships. Despite their lack of physical substance, intangible assets are a key component of the valuation and financial stability of businesses and contribute significantly to their competitive advantage.

The definition of an intangible asset requires that an intangible asset be identifiable in order to be distinguished from goodwill. Goodwill recognized in a business combination represents the future economic benefits to be derived from other assets acquired in a business combination, An asset that is not individually identifiable and is not separately recognized. Future economic benefits may arise from the combination of identifiable assets acquired or from assets that do not meet the criteria for recognition in the financial statements on a stand-alone basis (3).

**Classification of Intangible Assets.**

Intangible assets can be divided into two broad categories:

❖ Finite-lived intangible assets: These assets have a finite useful life and are amortized over that period. For example, patents, copyrights, and franchises. Amortization for finite-lived intangible assets helps spread their cost over their expected useful lives, reflecting the decline in value as they age or become less useful.

❖ Intangible assets with no definite useful life: These assets have an indefinite useful life. Goodwill is the most prominent example of this category because it represents the excess of the fair value of the identifiable assets and liabilities paid to acquire them over the fair value of the assets. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually.

The classification of intangible assets is crucial to determining how they are treated in financial statements. Depending on whether an asset is finite or indefinite, it is treated differently for amortization, impairment testing, and reporting purposes.

**Accounting for intangible assets.** Accounting for intangible assets involves recognizing, measuring, and reporting intangible assets in a manner that reflects their economic value in accordance with accounting standards. International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) provide guidance on dealing with intangible assets.

**Initial recognition and measurement.** Accounting standards require that intangible assets be recognized when they are identifiable, controlled by the entity, and are expected to generate future economic benefits. After initial recognition, intangible assets are measured at cost, which includes the purchase price and any directly attributable costs of preparing the asset for its intended use.

For example, costs associated with securing a patent or registering a trademark are capitalized, while ongoing costs associated with protecting or supporting these rights are usually recognized as

expenses. The difficulty in accounting for intangible assets often arises in measuring them, since these assets do not have a physical form and, in many cases, do not have a reliable market value.

**Subsequent measurement.** After initial recognition, intangible assets can be measured using either the cost model or the revaluation model:

❖ ***Cost model:*** Under this model, intangible assets are measured at cost less any accumulated amortization and impairment losses. This is the approach most commonly used for most intangible assets, especially those with finite useful lives.

❖ ***Revaluation model:*** This model allows intangible assets to be recorded at their revalued amount, i.e. their fair market value at the date of the revaluation. This approach is typically used for intangible assets that have an active market, such as certain is protected for trademarks of the type. The increase or decrease in revaluation is reflected in the financial statements.

The decision to use one model over another depends on the nature of the asset and the accounting policies of the company. However, revaluation is rarely used for intangible assets because there is usually no active market for most types of intangible assets.

**Amortization of intangible assets.** Amortization is the process of allocating the cost of an intangible asset over its useful life. For intangible assets with a finite life, the cost is usually amortized systematically using straight-line depreciation. This process helps companies match the cost of an asset to the revenue it generates.

The amortization period of an intangible asset depends on its expected useful life, which may be determined based on legal, regulatory or contractual factors, as well as economic considerations. If the life of an intangible asset is indefinite, no amortization is required. Instead, these assets are tested for impairment annually or whenever there is an indication that their value has decreased.

One of the central directions in studying the characteristic accounting and economic features of non-amortizable intangible assets is to highlight the fundamental aspects of their analysis.

Financial analysts criticize intangible assets because of the peculiar nature of their valuation. In fact, many analysts associate "intangibility" with risk. It is clear that when assessing the value of such assets for an enterprise, caution and a full understanding of their nature are required. In Western practice, it is intangible assets that constitute the indivisible property of the organization, so to speak, the indivisible capital, and are often formed at a much lower cost than other assets. In addition, an increase in the share of intangible assets in the fixed capital of an organization may indirectly indicate that the organization has chosen an innovative strategy aimed at increasing the competitive advantages of developing its business, and intangible assets are taken into account. as one of the tools of corporate governance in this organization.

One of the central directions in the study of the characteristic accounting and economic properties of non-depreciable intangible assets is to highlight the fundamental aspects of their analysis. Financial analysts criticize them because of the specific nature of the valuation of intangible assets. In fact, many analysts associate "intangibility" with risk. It is clear that when assessing the value of such assets for an enterprise, caution and a full understanding of their nature are required. In Western practice, it is intangible assets that constitute the indivisible property of the organization, so to speak, the indivisible capital, and are often formed at a much lower cost than other assets. In addition, an increase in the share of intangible assets in the fixed capital of an organization may indirectly indicate that the organization has chosen an innovative strategy aimed at increasing the competitive advantages of developing its business, and that intangible assets are taken into account in this organization as one of the tools of corporate governance. Since changes in the value of a company are assessed by the market and, accordingly, affect the market capitalization indicator, changes in the market capitalization indicator of a company can be

considered as an indicator of changes in the value of the company. Therefore, in the process: management! The market capitalization indicator, reduced by the value of goodwill, can be taken as an indicator, the change in which corresponds to the change in the value of goodwill of the enterprise. At the same time, the net asset value was adjusted for the value of unfinished construction, which requires large investments and has no real prospect of sale on the open market (3).

**Conclusions and recommendations.** Based on the above, we can conclude that intangible assets are assets that do not have a tangible form. For example, these assets, which include intellectual property, brand value, goodwill and software, do not have a physical form, but make a significant contribution to the economic success of business entities. As business entities continue to rely heavily on intangible assets in their activities, the correct accounting of these objects will be crucial for ensuring transparent financial reporting and effective decision-making.

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