

The Ministry of Education of Azerbaijan Republic

PP&E IN ACCOUNTING AND REPORTING: PROBLEMS AND PERSPECTIVES

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JUNE 2019

Acknowledgements

Initially, I would like to express my great appreciation to The Ministry of Education of Azerbaijan Republic for the creation of “SABAH” groups to support individual and professional development of Azerbaijani youth and train highly qualified professionals who meet the requirements of The International Labour Market.

Subsequently, I want to thank our faculty dean PhD. Aida Guliyeva for her assistance and great motivation throughout our education period.

I would like to express my deepest gratitude to my supervisor Abdulkerim Sadigov from whom I have obtained a great deal of care, patience, enthusiasm and support while I was working on this project and also whose expertise and guidance were invaluable for helping me to choose the right direction to complete my dissertation successfully.

Moreover, I want to extend my sincere thanks to the experts - PhD Elsevar Ibadov, Mr. Ali Abbasov, Associate Professor Firudin Sultanov, PhD Tahmasib Huseynov, Associate Professor Agamir Asgarov, Mr. Nasimi Nuriyev and Mr. Samir Musayev for their assistance in my project.

And finally, I am also thankful to my family and friends who have always been encouraging me during my life for their indispensable support.

ABSTRACT

The main goal of choosing Property, Plant and Equipment as the topic of this thesis was making researches and analyzing the current situation related with the implementation of IAS 16 within the organizations in the Republic of Azerbaijan.

Chapter 1 consists of the theoretical base of the Property, Plant and Equipment. How the PPE should be accounted for in accordance with the 16th standard, how the costs and profits associated with it should be recognized, which costs should be taken into account in the calculation. PPE has been described for a period of erosion, identification of the method used to identify wear, and the identification of all aspects of PPE, as defined in its official Standard.

Chapter 2 deals with case studies on how this Standard applies to an enterprise in the Republic of Azerbaijan.

And the third part of the thesis is based on expert opinions. Problems have been identified and were accessible with this method and the process required for their solution has been explained by experts.

Key words: IAS 16; PPE: Property, Plant and Equipment; Financial accounting; Tax reporting; Depreciation

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INTRODUCTION

The principle goal of bookkeeping in Azerbaijan amid the Soviet Union administration was to consent to the prerequisites of measurable and expense specialists. The circumstance was the equivalent after freedom for quite a while. The change into market economy required receiving new bookkeeping ideas and standards as per advertise economy necessities. To be progressively explicit, the bookkeeping framework carefully received the ideas of recorded cost show to report fixed resources and did not gauge arrangements for dubious receivables or out of date inventories. There was no should be mindful to banks or financial specialists for the execution. Uniform Chart of Accounts was built up so as to control the bookkeeping framework midway. The essential capacity of bookkeeping was to record the real information important to evaluate plan accomplishments.

According to the Accounting Law of Azerbaijan Republic, the fundamental goal of government guideline of bookkeeping is to get ready and actualize the National Accounting Standards (NAS) for benefit and not-for-profit associations dependent on IFRS and International Accounting Standards (IAS).

When applying this Standard for the first time, an entity may choose the most recent measurement value of that Standard at the date of transition or at the date preceding it to determine the value of an item of property, plant and equipment. It should be that condition that earlier revision was based on existing legislation governing the accounting of the Republic of Azerbaijan.

This Standard applies after the date determined by the Ministry of Finance of the Republic of Azerbaijan.

The term property, plant and equipment is utilized to depict unmistakable resources that are long haul in nature and are procured for use in activities. These benefits for the most part incorporate such things as structures, apparatus, furniture, land and vehicles. Different expressions for this class of advantages

incorporate plant resources and fixed resources. Things of PPE are commonly recognized from current resources on the grounds that fixed resources are not effectively changed over into money. Property, plant and gear is introduced in the budget reports on the monetary record as a noncurrent resource. Furthermore, sums spent to obtain fixed resources and sums got from the manner of fixed resources are incorporated on the salary statement as increases or misfortunes and on the announcement of money streams as contributing inflows or surges.

Numerous issues and questions emerge amid the way toward representing things of PPE, including deciding an advantage's helpful life, which deterioration strategy to utilize and how to represent weakness of long haul resources. Among the most significant of these issues is choosing at which add up to esteem such things - at their verifiable cost, which is the cost initially paid, or at reasonable esteem, which could be one of a few measurements that mirror the present estimation of the benefit. The inquiry regarding the "cost" of things of PPE keeps on being bantered among bookkeeping specialists and standard setters. Given the normal union of the world's real bookkeeping standard setters, understanding the revaluation approach is progressively significant, as more organizations are probably going to actualize this strategy as it turns out to be generally acknowledged. This paper indicates to enable per users to pick up understanding into the complexities of the revaluation approach, both at a calculated dimension and in the specialized, utilization of the strategy.

CHAPTER 1. THEORITICAL BASES OF IAS 16: PROPERTY, PLANT AND EQUIPMENT

1.1 Recognition of Property, Plant and Equipment

IAS 16 – Property, Plant and Equipment (after PP&E) sketches the accounting management for greatest kinds of property, plant and equipment which is at first estimated at its expense, then estimated either utilizing an expense or revaluation surplus or depreciated with the goal that its depreciable sum is assigned on a deliberate premise in excess of its useful life. In 2003 (December), IAS 16 was republished and relates to yearly periods commencing on or once 1 January 2005. The main goal of IAS 16 is to stipulate the accounting management for Property, Plant and Equipment (PP&E), hence when shareholders use financial statements they are able to collect information about an entity's investment in its PP&E. The significant worries in representing PP&E are the distinguishing proof of the assets, the acknowledgment of their book value, going with depreciation charges and furthermore impairment losses identified with them. This Standard is directed in accounting of PP&E with the exception of if there is a requirement of a various accounting treatment by another Standard. IAS 16 cannot put on to:

- PP&E sorted as captured for exchange concurrence with IAS 5.
- Natural resources deal with extra agricultural movement in comparison with the bearer plants (IAS 41). However the Standard is applied to carrier plants, it does not relate to the harvest on bearer vegetation. The conveyor plant is a current herb that: is utilized in the generation or supply of horticultural produce; is relied upon to tolerate produce for more than one period; and has a remote probability of being sold as farming produce, aside from coincidental piece deals.

- The affirmation and estimation of examination and evaluation assets (IAS 6).
- Crystal rights and mineral funds like oil, natural gas or comparable non-renewable assets.

In any case, IAS 16 applies to PP&E accustomed to create or keep up the benefits depicted above. A substance utilizing the cost model for venture property as per IAS 40 Investment Property will utilize the cost model in IAS 16 for possessed speculation property.

- ✓ This standard applies to PP&E used to create or keep up the last three classifications of assets. [IAS 16.3]
- ✓ The cost model similarly relates to savings property characterized to using the cost model in IAS 40 Investment Property. [IAS 16.5]
- ✓ This standard relates to bearer plants yet it doesn't have any significant bearing to the produce on carrier plants. [IAS 16.3]

This standard provides a great proportion of definitions.

Property, plant and equipment - tangible assets which:

- are seized for usage in the creation or supply of merchandise or administrations, for rental to other people, or for managerial purposes
- are relied upon to be utilized amid more than one period

Cost is the measure of money or money counterparts paid or the reasonable estimation of the other thought given to gain a benefit at the season of its procurement or development.

The depreciable amount - expense of asset, or other sum substituted for cost, less its leftover esteem.

Depreciation is the precise allowance of the depreciable measure of a benefit over its valuable life.

Residual value is the disposable sum which the substance expects to get for an asset toward the finish of its valuable life in the wake of deducting the normal expenses of transfer.

Entity specific value is existing estimation of the money streams an enterprise expects to emerge from the proceeding with utilization of an asset and from its transfer toward the finish of its valuable life, or expects to acquire when settling an obligation. [IAS 16.6]

Fair value is the value that would be acquired to trade an asset or compensated to move a liability in a systematic exchange between market members at the estimation date. [IFRS 13]

Carrying amount is sum at which an asset is perceived in the announcement of money related position in the wake of deducting any gathered depreciation and collected hindrance misfortunes. [IAS 16.6]

Impairment loss is sum by which the conveying measure of an asset surpasses its recoverable sum. [IAS 16.6]

Recoverable amount - greater of a benefit's reasonable esteem less expenses to sell and its incentive being used.

Useful life is characterized as the time throughout which an asset is required to be accessible for use by the company; or the quantity of generation or comparative units expected to be gotten from the asset by a substance.

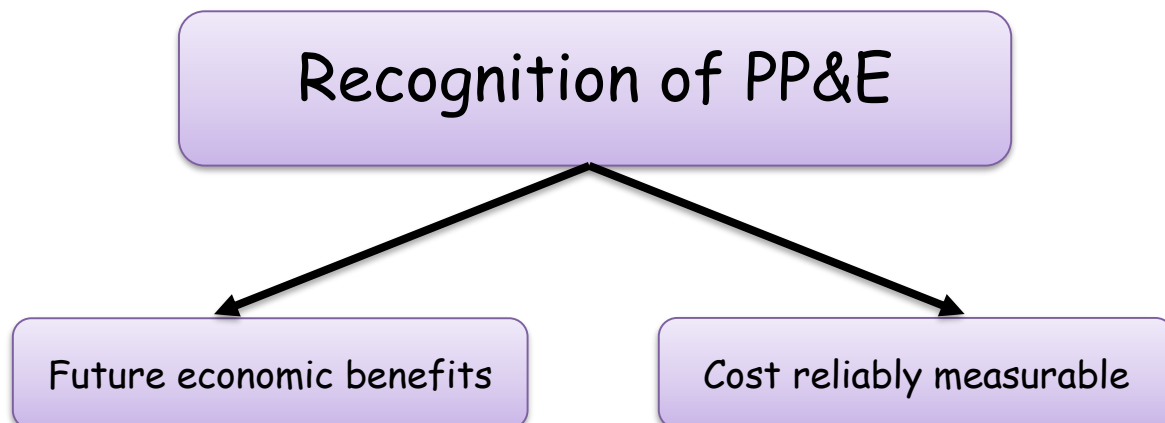
Things of PP&E ought to be perceived as resources when it is likely that:
[IAS 16.7]

- It is plausible that the future monetary assets related with the benefit will stream to the substance, and
- The charge of the asset is able to be estimated consistently.

These acknowledgment criteria apply to consequent consumption just as expenses acquired at first. There are no different criteria for perceiving consequent consumption.

PP&E can add up to considerable sums in budget reports, influencing the introduction of the organization's money related position and the gainfulness of the element, through depreciation and furthermore if an asset is wrongly named a cost and assumed to P/L. [IAS 16.7]

Figure 1. Recognition of PP&E



- ✓ Future economic benefits. The level of sureness joined to the stream of future monetary assets must be surveyed. This ought to be founded on the proof accessible at the date of beginning acknowledgment (more often than not the date of procurement). The element ought to be guaranteed that it will get the prizes appended to the asset and it will cause the related dangers, which will possibly for the most part be the situation when the prizes and dangers have really gone to the element. Up to that point, the asset ought not to be perceived.
- ✓ Cost estimated reliably. It is commonly simple to gauge the expense of an asset as the exchange sum on buy, for example what was paid for it. Self-built resources can likewise be estimated effectively by including the price tag of all the constituent parts (work, material and so forth) paid to outer gatherings. [IAS 16.10]

More often than not resources will be distinguished exclusively, however this won't be the situation for littler things, for example, devices which are at times delegated stock and discounted as a cost.

Real segments or extra parts, be that as it may, ought to be perceived as PP&E. [IAS 16.8]

For huge and particular things, an evidently single resource ought to be separated into its composite parts. This happens where the distinctive parts have diverse helpful lives and diverse depreciation rates are connected to each part, for instance an air ship, in which the body and motors are isolated because of having diverse valuable lives. [IAS 16.13]

Wellbeing and ecological equipment. These things might be fundamental for the substance to acquire future monetary assets from its different resources. Thus they are perceived as resources. Anyway the first resources in addition to the wellbeing gear ought to be investigated for disability. [IAS 16.11]

Indirect costs at initial measurement: Items of PP&E might be procured for security or natural reasons. The securing of such PP&E, in spite of the fact that not straightforwardly expanding the future financial assets of a specific existing thing of PP&E, might be vital for a substance to get the future monetary assets from its different resources. Such things of PP&E meet all requirements for acknowledgment as resources since they empower an element to get future financial assets from related resources in abundance of what could be determined had those things not been obtained.

Indirect costs at subsequent measurement:

- Day to day overhauling: An element does not perceive in the conveying measure of a thing of PP&E the expenses of the everyday adjusting of the thing. The motivation behind these consumptions is frequently portrayed with respect to the 'repairs and maintenance' are principally the expenses of work, consumables and may incorporate the expense of little parts. These expenses are expensed through P&L.

- Replacement parts: Parts of certain things of PP&E may require substitution at standard intervals or obtained to make a less as often as possible repeating substitution, an element perceives in the conveying measure of a thing of PP&E the expense of supplanting some portion of such a thing when, that cost is acquired given that the acknowledgment criteria are met.
- Major reviews: Costs caused for real investigations for deficiencies paying little heed to whether parts of the thing are supplanted are perceived to the conveying measure of the thing of PP&E. Any remaining conveying measure of the expense of the past review (as particular from physical parts) is derecognized. This happens paying little respect to whether the expense of the past review was distinguished in the exchange in which the thing was gained or built

1.2 Initial Measurement of PP&E

Measurement at recognition: A thing of PP&E that fits the bill for acknowledgment as an asset will be estimated at its expense. The expense of a thing of PP&E is the money value proportionate at the acknowledgment date. On the off chance that installment is conceded past ordinary credit terms, the distinction between the money value proportional and the absolute installment is perceived as enthusiasm over the time of credit except if such premium is perceived in the conveying measure of the thing as per IAS 23. The expense of a thing of PP&E contains:

- a) Its price tag, including import obligations and non-refundable buy charges, in the wake of deducting exchange limits and discounts.
- b) Any expenses straightforwardly owing to conveying the asset for the area and condition important for it to be equipped for working in the way proposed by the board. For instance, expenses of worker benefits (as

characterized in IAS 19) emerging straightforwardly from the development or procurement of the thing of PP&E; expenses of site arrangement; starting conveyance and taking care of costs; establishment and get together costs; expenses of testing whether the asset is working legitimately, subsequent to deducting the net continues from selling any things created while conveying the resource for that area and condition, (for example, tests delivered when testing hardware); and expert charges.

- c) The underlying appraisal of the expenses of disassembling and expelling the thing and reestablishing the site on which it is found, the commitment for which an element brings about either when the thing is obtained or as an outcome of having utilized the thing in a specific period for resolutions other than to deliver inventories throughout the given period.

Instances of costs that are not expenses of a thing of PP&E are: expenses of opening another office; expenses of presenting another item or administration (counting expenses of publicizing and special exercises); expenses of directing business in another area or with another class of client (counting expenses of staff preparing); and organization and other general overhead costs; accidental tasks may happen previously or amid the development or advancement exercises and as coincidental activities are not important to convey a thing to the area and condition fundamental for it to be fit for working in the way proposed by the board, the salary and related costs of accidental activities are perceived in P&L.

A thing of PP&E ought to at first be recorded at expense. [IAS 16.15] Cost incorporates all costs important to convey the asset for working condition for its planned use. This would incorporate its unique price tag as well as expenses of site readiness, conveyance and taking care of, establishment, related proficient charges for designers and engineers, and the evaluated expense of destroying and evacuating the asset and re-establishing the site (IAS 37). [IAS 16.16-17]

In the event that installment for a thing of PP&E is conceded, enthusiasm at a market rate must be perceived or credited. [IAS 16.23]

In the event that an asset is gained in return for another benefit (regardless of whether comparable or unique in nature), the cost will be estimated at the reasonable esteem except if:

- a) The trade exchange needs business substance or
- b) The reasonable estimation of neither the benefit got nor the benefit surrendered is dependably quantifiable.

On the off chance that the obtained thing isn't estimated at reasonable esteem, its expense is estimated at the conveying measure of the asset surrendered. [IAS 16.24]

Asset exchange. IAS 16 determines that trade of things of PP&E, paying little mind to whether the benefits are comparable, are estimated at reasonable esteem, except if the trade exchange needs business substance or the reasonable estimation of neither of the benefits traded can be estimated dependably. On the off chance that the procured thing isn't estimated at reasonable esteem, its expense is estimated at the conveying measure of the benefit surrendered. [IAS 16.24]

Cash price equivalent. The expense of a thing of PP&E is the money value proportionate at the acknowledgment date. On the off chance that installment is conceded past typical credit terms, the distinction between the money value equal and the complete installment is perceived as enthusiasm over the time of credit except if such intrigue is promoted as per IAS 23 Borrowing Expenses.

To determine whether a trade exchange has business substance, the element explicit esteem of the part of the substance's activities influenced by the exchange will reflect post-charge money streams. The consequence of these investigations might be clear without an element performing point by point estimations.

The reasonable estimation of a benefit is dependably quantifiable if:

- the fluctuation in the scope of sensible reasonable esteem estimations isn't critical for that benefit; or

- the probabilities of the different gauges inside the range can be sensibly surveyed and utilized when estimating reasonable esteem.

In the event that a substance can gauge dependably the reasonable estimation of either the benefit got or the asset surrendered, at that point the reasonable estimation of the asset surrendered is utilized to quantify the expense of the benefit got except if the reasonable estimation of the benefit got is all the more obviously clear.

The conveying measure of a thing of PP&E might be decreased by government gives as per IAS 20.

1.3 Subsequent Measurement after Recognition.

A company will pick either the cost or the revaluation models show as its bookkeeping strategy and will apply that arrangement to a whole class of PP&E.

The standard offers two conceivable treatments here, basically a decision between keeping an asset recorded at expense or revaluing it to reasonable esteem.

- Cost model. Convey the benefit at its cost less depreciation and any collected debilitation misfortune.
- Revaluation model. Convey the asset at a revalued sum, being its reasonable incentive at the date of the revaluation less any ensuing collected depreciation and consequent amassed disability misfortunes. The amended IAS 16 clarifies that the revaluation demonstrate is accessible just if the reasonable estimation of the thing can be estimated reliably.[IAS 16.29–30]

The cost model is utilized as a bookkeeping approach to report conveying a measure of PP&E (fixed resources) in a critical position sheet. It requires an asset for be conveyed at its underlying expense (likewise alluded to as authentic cost) minus any collected depreciation. However, some bookkeeping gauges

permit recuperation of impairment losses perceived previously, the revaluation of assets isn't permitted.

Under IFRS, bookkeeping of property, plant, and gear is treated as per IAS 16. It permits utilization of the cost or revaluation models show as bookkeeping approach, applying it to the whole class of PP&E.

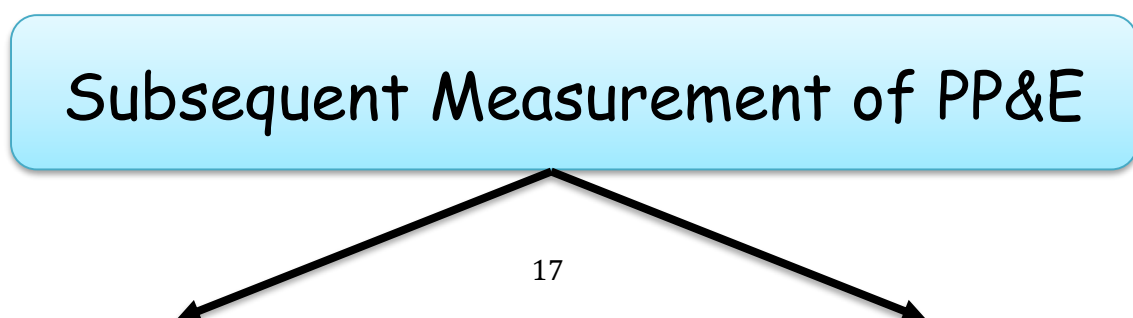
US GAAP and IFRS, both require a thing of PP&E to be estimated at its expense. It incorporates acquiring value, limits, custom obligations, transportation costs, establishment and get together costs, proficient expenses, and some other straightforwardly inferable expenses.

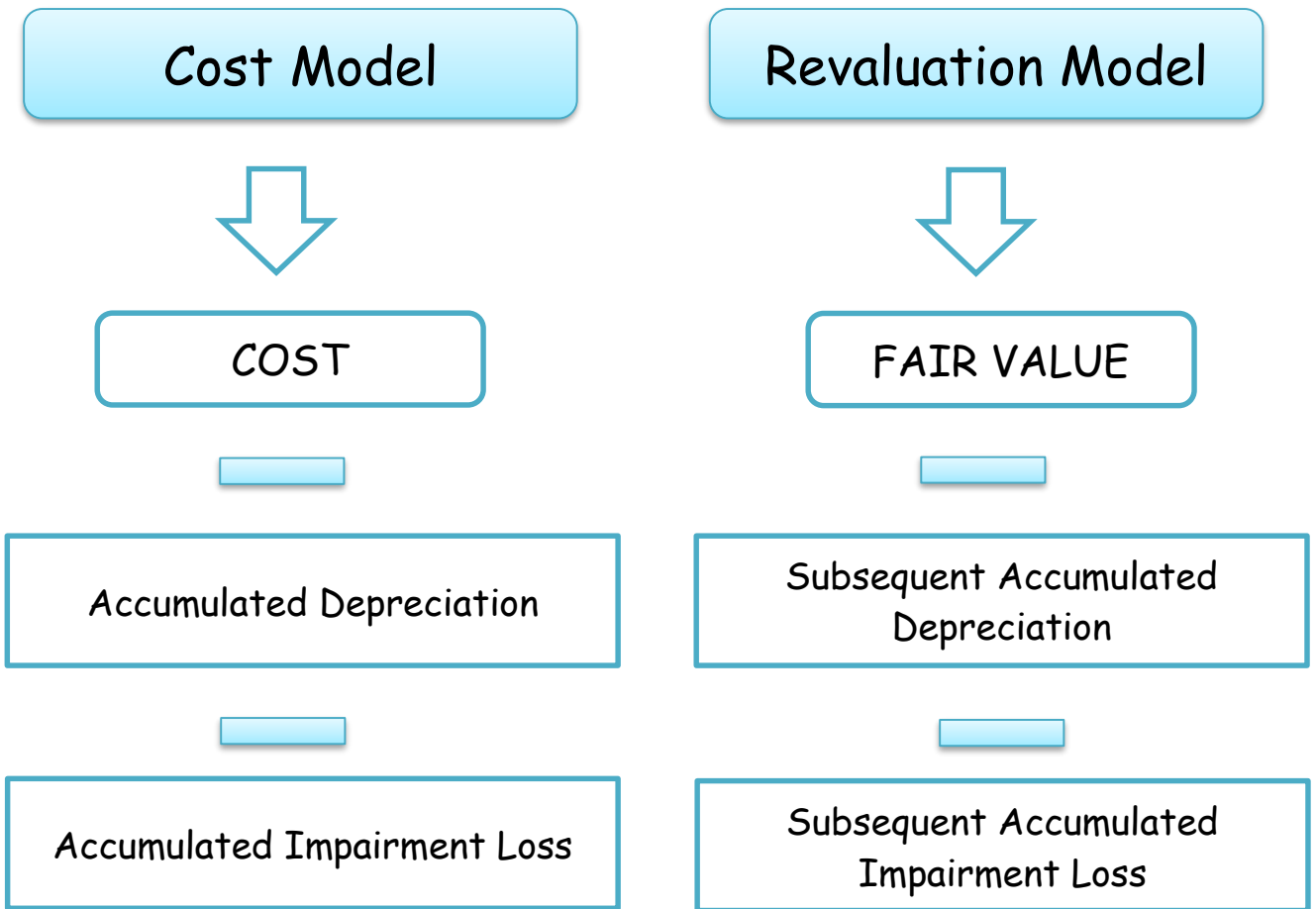
US GAAP expects substances to utilize the cost model as bookkeeping strategy for property, plant, and gear. The revaluation demonstrate is denied. Fixed resources under US GAAP are accounted for to be determined sheet at their underlying cost minus any collected depreciation and hindrance misfortunes, yet the inversion of losses perceived in the past is precluded.

Revaluation model. The market estimation of land and structures for the most part speaks to reasonable esteem, expecting existing use and line of business. Such valuations are generally done by expertly qualified valuers.

On account of PP&E reasonable esteem can likewise be taken as market esteem. Where a market esteem isn't accessible, be that as it may, devalued substitution cost ought to be utilized. There might be no market esteem where sorts of plant and hardware are sold just once in a while or in light of their specific nature (for example, they would typically just be sold as a feature of a continuous business).

Figure 2. Subsequent Measurement of PP&E





The recurrence of valuation relies upon the unpredictability of the reasonable estimations of individual things of PP&E. The more unstable the reasonable esteem, the more as often as possible revaluations ought to be done. Where the present reasonable esteem is altogether different from the conveying esteem then a revaluation ought to be done.

In particular, when a thing of PP&E is revalued, the entire class of assets for which it has a place ought to be revalued.

Every one of the things inside a class ought to be revalued in the meantime, to anticipate particular revaluation of specific resources and to abstain from uncovering a blend of expenses and qualities from various dates in the fiscal reports. A moving premise of revaluation is permitted if the revaluations are

stayed up with the latest and the revaluation of the entire class is finished in a brief timeframe.

By what method should any expansion in esteem be dealt with when a revaluation happens? The charge will be the expansion in incentive in the announcement of budgetary position, yet shouldn't something be said about the credit? IAS 16 requires the increment to be credited to a revaluation overflow (for example, part of proprietors' value), except if the expansion is switching a past decline which was perceived as a cost. To the degree that this balance is made, the expansion is perceived as pay; any overabundance is then taken to the revaluation overflow. [IAS 16.31–36]

After acknowledgment as a benefit, a thing of PP&E whose reasonable esteem can be estimated dependably will be conveyed at a revalued sum, being its reasonable incentive at the date of the revaluation less any consequent aggregated depreciation and resulting amassed hindrance misfortunes.

Revaluations will be made with adequate consistency to guarantee that the conveying sum does not contrast physically from that which would be resolved utilizing reasonable incentive toward the finish of the detailing time frame.

At the point when a thing of PP&E is revalued, the conveying measure of that asset is acclimated to the revalued sum. At the date of the revaluation, the asset is treated in one of the accompanying ways:

- The gross conveying sum is balanced in a way that is steady with the revaluation of the conveying measure of the benefit. The gross conveying sum might be rehashed by reference to recognizable market information or it might be repeated proportionately to the adjustment in the conveying sum.

The gathered depreciation at the date of the revaluation is acclimated to break even with the contrast between the gross conveying sum and the carrying measure of the asset in the wake of considering collected impedance misfortunes; or

- The amassed depreciation is eliminated against the gross conveying measure of the asset.

1.4 Depreciation of PP&E

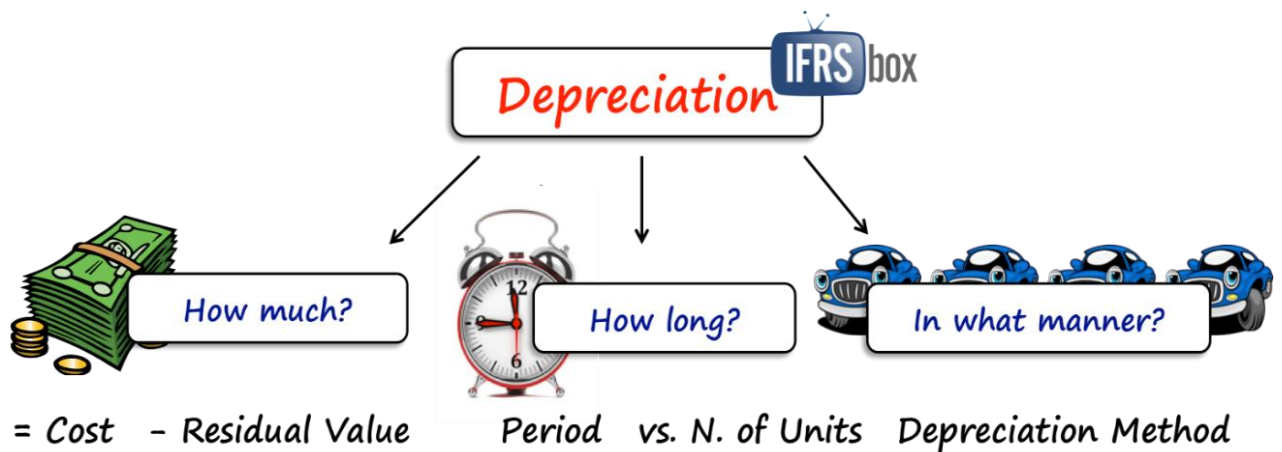
IAS 16 states:

- The depreciable amount of a thing of PP&E ought to be allotted on an orderly premise over its useful life.
 - The depreciation technique utilized ought to mirror the example in which the asset's financial assets are devoured by the company.
 - The depreciation charge for every period ought to be perceived as a cost except if it is incorporated into the conveying measure of another asset.
- [IAS 16.48]

Land and structures are managed independently notwithstanding when they are gained together in light of the fact that land typically has a boundless life and is in this way not depreciated. Interestingly structures do have a restricted life and must be devalued. Any expansion in the estimation of arrive on which a structure is standing will have no effect on the assurance of the structure's useful life. [IAS 16.58]

A survey of the valuable existence of PP&E ought to be done at any rate at each budgetary year end and the depreciation charge for the present and future periods ought to be balanced if desires have changed altogether from past assessments. Changes will be changes in bookkeeping gauges and are represented tentatively as acclimations to future depreciation. [IAS 16.51]

Figure 3. Depreciation of PP&E



Depreciation strategy: Depreciation technique is essentially IN WHAT WAY, IN WHAT MEANS you will depreciate. The depreciation technique utilized will mirror the example in which the asset's future financial assets are relied upon to be devoured by the element. A company may choose from assortment of depreciation strategies, for example, straight-line technique, reducing balance strategy and the units of creation techniques.

Chosen technique will be surveyed at any rate toward the finish of each budgetary year. In the event that there is an adjustment in the normal example of benefit's utilization, at that point the depreciation strategy will be changed and be represented as an adjustment in a bookkeeping gauge in accordance with IAS 8 (no rehashing of past periods).

Depreciation will be perceived in P&L except if it is promoted into the conveying measure of another asset (for instance, inventories, or another thing of PP&E).

Each piece of a thing of PP&E with a cost that is critical in connection to the absolute expense of the thing will be devalued independently. For instance, air ship inside expense may be depreciated independently from the rest of the plane expense.

On the off chance that an asset's life stretches out over more than one bookkeeping period, it procures benefits over more than one period. It is a non-

current resource.

Except for land, each non-current resource in the end wears out after some time. Machines, autos and different vehicles, apparatuses and fittings, and even structures don't keep going forever. At the point when a business secures a non-current resource, it will have some thought regarding to what extent its helpful life will be, and it may choose how to manage it.

- Keep on utilizing the non-current resource until it turns out to be totally exhausted, pointless, and useless.
- Sell off the non-current resource toward the finish of its valuable life, either by offering it as a second-hand thing or as scrap.

Since a non-current resource has an expense, and a constrained helpful life, and its esteem in the long run decays, it pursues that a charge ought to be made in benefit or misfortune to mirror the utilization that is made of the asset by the business. This charge is called depreciation. Depreciable resources are resources which:

- Are relied upon to be utilized amid more than one bookkeeping period
- Have a constrained valuable life
- Are held by a substance for use in the creation or supply of products and ventures, for rental to others, or for managerial purposes

One method for characterizing depreciation is to portray it as methods for spreading the expense of a non-current resource over its valuable life, thus coordinating the expense against the full-time frame amid which it acquires benefits for the business. Depreciation charges are a case of the use of the accumulation presumption to figure benefits.

There are circumstances where, over a period, a benefit has expanded in esteem, for example, its present esteem is more prominent than the conveying an incentive in the budget summaries. You may imagine that in such circumstances

it would not be important to depreciate the asset. The standard states, in any case, this is insignificant, and that depreciation should in any case be charged to each bookkeeping period, in view of the depreciable sum, independent of an ascent in esteem. [IAS 16. 52]

A company is required to start depreciating a thing of PP&E when it is accessible for use and to keep devaluing it until it is derecognized regardless of whether it is inert amid the period. [IAS 16. 55]

The evaluation of valuable life requires judgment dependent on past involvement with comparative resources or classes of benefit. At the point when a totally new kind of asset is gained (for example, through innovative headway or through use in creating a fresh out of the box new item or administration) it is as yet important to assess valuable life, despite the fact that the activity will be considerably more troublesome.

The standard additionally calls attention to the physical life of the benefit may be longer than its helpful life to the substance being referred to. One of the fundamental components to be thought about is the physical mileage the benefit is probably going to persevere. This will rely upon different conditions, including the quantity of movements for which the benefit will be utilized, the company's fix and upkeep program, etc. Different elements to be considered incorporate outdated nature (because of innovative advances/upgrades underway/decrease sought after for the item/administration created by the asset) and legitimate confinements, length of a related rent. [IAS 16. 57]

Residual value. By and large the lingering estimation of an asset is probably going to be unimportant. In the event that it is probably going to be of any huge esteem, that esteem must be evaluated at the date of procurement or any resulting revaluation. The measure of lingering quality ought to be assessed dependent on the present circumstance with other comparative resources, utilized similarly, which are currently toward the finish of their helpful lives. Any normal expenses of transfer ought to be counterbalanced against the gross remaining

quality.

Consistency is essential. The depreciation technique chosen ought to be connected reliably from period to period except if adjusted conditions legitimize a change. At the point when the technique is changed, the impact ought to be measured and unveiled and the explanation behind the change ought to be expressed.

Different techniques for assigning depreciation to bookkeeping periods are accessible, yet whichever is picked must be connected reliably to guarantee similarity from period to period. Change of approach isn't permitted essentially in light of the benefit circumstance of the substance.

Company ought to be comfortable with the different acknowledged strategies for distributing depreciation and the significant counts and bookkeeping medications, which are re-examined in inquiries toward the finish of this segment.

1.5 Methods of Depreciation

The need to depreciate non-current resources emerges from the gathering supposition. On the off chance that cash is consumed in acquiring a benefit, at that point the sum exhausted must eventually be charged against benefits. In the event that the benefit is one which adds to a company's income over various bookkeeping periods it is wrong to charge any single period (for example, the period in which the asset was obtained) with the entire of the use. Rather, some technique must be found of spreading the expense of the benefit over its valuable financial life.

This perspective on depreciation as a procedure of distribution of the expense of a benefit more than a few bookkeeping periods is the view embraced by IAS 16. It merits referencing here two basic confusions about the reason and

impacts of depreciation.

- a) It is now and then felt that the conveying measure of a benefit is equivalent to its net feasible esteem and that the object of charging depreciation is to mirror the fall in estimation of an asset over its life. This misguided judgment is the premise of a typical, however wrong, contention which says that freehold properties (state) need not be depreciated in times when property estimations are rising. The facts confirm that recorded cost proclamations of money related position regularly give a deceptive impression when a property's conveying sum is much underneath its reasonable worth, yet in such a case it is available to a business to join a revaluation into its books, or even to set up its records dependent on current expenses. This is a different issue from that of assigning the property's expense over progressive bookkeeping time frames.
- b) Another misguided judgment is that depreciation is given so a benefit can be supplanted toward the finish of its valuable life. This isn't the situation:
 - If there is not any goal of supplanting the benefit, it could then be contended that there is no compelling reason to accommodate any depreciation whatsoever
 - If costs are rising, the substitution cost of the benefit will surpass the measure of depreciation gave

Straight-line Depreciation. The least difficult and most generally utilized technique, straight-line depreciation is determined by taking the buy or obtaining cost of an asset, subtracting the rescue (esteem at which it very well may be sold once the organization no longer needs it) and isolating by the all of beneficial years for which the benefit can sensibly be required to profit the organization (or its valuable life).

Straight-line depreciation creates a consistent depreciation cost. Toward the finish of the useful life of the asset which is represented in a critical position

sheet at its rescue esteem.

This is the motivation behind why numerous organizations keep two arrangements of books. Your assessment balanced premise books depend on what you use to figure your duty reasoning, though your book-balanced premise books depend on what a benefit is worth for inner or outer use (for example demonstrating your benefits to speculators or loan specialists). Contingent upon what resources you're depreciating, you may utilize straight line depreciation for both your duty conclusion and books. Or on the other hand you may utilize distinctive depreciation techniques for your duties and books.

Straight line depreciation is the default technique used to perceive the conveying measure of a fixed resource equally over its valuable life. It is utilized when there is no specific example to the way in which a benefit is to be used after some time. Utilization of the straight-line technique is profoundly suggested, since it is the most straightforward depreciation strategy to ascertain, thus results in couple of computation mistakes. The straight-line count steps are:

1. Decide the underlying expense of the benefit that has been perceived as a fixed resource.
2. Subtract the assessed rescue estimation of the benefit from the sum at which it is recorded on the books.
3. Decide the assessed valuable existence of the asset. It is most effortless to utilize a standard valuable life for each class of assets.
4. Partition the assessed helpful life (in years) into 1 to touch base at the straight-line depreciation rate.
5. Duplicate the depreciation rate by the asset cost (less rescue esteem).

Declining Balance is one of the three depreciation strategies that notice in IAS 16. This enables organizations to discount their assets quicker in prior years than the straight-line depreciation strategy and to discount a littler sum in the later years. The significant asset of utilizing this technique is the expense shield it

gives. Organizations with a huge taxation rate may get a kick out of the chance to utilize the quickened depreciation strategy, regardless of whether it decreases the pay appeared on the budget summary.

This depreciation technique is well known for discounting gear that may be supplanted before the finish of its helpful life on the off chance that it winds up out of date (PCs, for instance). This sort of depreciation strategy is said to be high charged at the principal time frame, and after that along these lines diminish. This is on the grounds that the charging rate is applying to the Net Book Value of Assets and the Net Book Value of Assets is diminish every now and then subsequent to charging depreciation. In any case, how? Indeed, reducing balance depreciation technique is simply one more word to called declining equalization or twofold declining parity. That is the motivation behind why these two technique did not make reference to in the standard IAS 16.

Unit-of-Production Depreciation. This strategy accommodates depreciation by methods for a fixed rate for each unit of creation. Under this strategy, one should initially decide the expense per one creation unit and after that increase that cost per unit with the all number of units the organization delivered inside a bookkeeping period to decide its depreciation cost.

Under the units of creation technique, the measure of depreciation charged to cost shifts in direct extent to the measure of benefit use. In this manner, a business may charge more depreciation in periods when there is more resource utilization, and less depreciation in periods when there is less use. It is the most exact technique for charging depreciation, since this strategy is connected to the real mileage on resources. Be that as it may, it additionally necessitates that somebody track resource utilization, which implies that its utilization is commonly restricted to progressively costly resources. Additionally, you should almost certainly gauge absolute use over the life of the benefit so as to infer the measure of depreciation to perceive in each bookkeeping period.

The unit of generation technique is a strategy for depreciation the

estimation of a benefit after some time. It winds up helpful when a benefit's esteem is all the more firmly identified with the quantity of units it produces than the quantity of years it is being used. This technique results in more prominent reasonings being taken for depreciation in years when the benefit is intensely utilized.

Depreciation cost for a given year is determined by partitioning the first expense of the hardware less its rescue esteem, by the normal number of units the benefit should deliver given its valuable life. At that point, increase that remainder by the quantity of units utilized amid the present year. Pursue these means to figure depreciation under the units of creation technique:

1. Gauge the complete number of long stretches of use of the asset, or the all number of units to be delivered by it over its helpful life.
2. Subtract any evaluated rescue an incentive from the promoted expense of the benefit, and separation the absolute assessed utilization or generation from this net depreciable expense. This yields the depreciation cost every hour of utilization or unit of generation.
3. Increase the quantity of long stretches of use or units of real generation by the depreciation cost every hour or unit, which results in the absolute depreciation cost for the bookkeeping time frame.

1.6 Derecognition of PP&E

A weakness misfortune ought to be treated similarly as a revaluation decline, for instance, the reduction ought to be perceived as a cost. In any case, a revaluation reduction (or debilitation misfortune) ought to be charged straightforwardly against any related revaluation surplus to the degree that the diminishing does not surpass the sum held in the revaluation surplus in regard of that equivalent resource.

An inversion of a debilitation misfortune ought to be treated similarly as a revaluation increment, for example, a revaluation increment ought to be perceived as salary to the degree that it turns around a revaluation decline or a hindrance loss of a similar resource recently perceived as a cost. (IAS 16: para. 63)

Here, IAS 16 alludes to another standard, IAS 36 Impairment of Assets that recommends rules for looking into the conveying measure of benefits, deciding their recoverable sum and disability misfortune, perceiving and switching weakness misfortune and that's just the beginning.

IAS 16 expresses that pay from outsiders for things of PP&E that were weakened, lost or surrendered will be incorporated into benefit or misfortune when the remuneration winds up receivable. For instance, guarantee for pay of harm on protected property from insurance agency is perceived to benefit or misfortune when insurance agency acknowledges guarantee, shuts the case and consents to redress (or after whatever technique is concurred in the protection contract).

To decide if a thing of PP&E is impeded, an element applies IAS 36 Impairment of Assets. That Standard clarifies how a substance surveys the conveying measure of its assets, how it decides the recoverable measure of a benefit, and when it perceives, or turns around the acknowledgment of, a disability misfortune. Pay from outsiders for things of PP&E that were debilitated, lost or surrendered will be incorporated into benefit or misfortune when the pay winds up receivable.

1.7 Disclosure of PP&E

A bookkeeping strategy note ought to unveil the valuation bases utilized for deciding the sums at which depreciable resources are expressed, alongside the

other bookkeeping strategies. IAS 16 additionally requires the accompanying to be revealed for each real class of depreciable resource.

- Depreciation strategies utilized
- Useful lives or the depreciation rates utilized
- Absolute depreciation dispensed for the period
- Net measure of depreciable resources and related aggregated depreciation

[IAS 16.73– 78]

The fiscal reports will likewise uncover:

- The presence and measures of confinements on title, and PP&E vowed as security for liabilities;
- The measure of uses perceived in the conveying measure of a thing of PP&E over the span of its development;
- The measure of legally binding duties for the obtaining of PP&E; and
- In the event that it isn't revealed independently in the announcement of complete pay, the measure of remuneration from outsiders for things of PP&E that were hindered, lost or on the other hand surrendered that is incorporated into benefit or misfortune.

If things of PP&E are expressed at revalued sums, the accompanying will be revealed notwithstanding the exposures required by IFRS 13 Fair Value Measurement:

- The successful date of the revaluation;
- Regardless of whether a free value was included;
- For each revalued class of PP&E the conveying sum that would have been perceived had the assets been conveyed under the cost model; and
- The revaluation excess, showing the change for the period and any limitations on the appropriation of the parity to investors.

Clients of budget summaries may likewise locate the accompanying data significant to their requirements:

- The conveying measure of incidentally inert PP&E
- The gross conveying measure of any completely devalued PP&E that is still being used;
- The conveying measure of PP&E resigned from dynamic use and not delegated held available to be purchased; and
- When the cost model is utilized, the reasonable estimation of PP&E when this is substantially not quite the same as the conveying sum.

CHAPTER 2. EMPIRICAL RESEARCH

2.1 Case Study as a Research Method

Despite the fact that contextual analysis techniques remain a questionable way to deal with information accumulation, they are broadly perceived in numerous sociology contemplates particularly when top to bottom clarifications

of asocial conduct are looked for after. Contextual analysis inquire about, through reports of past examinations, permits the investigation and comprehension of complex issues. It very well may be viewed as a strong research strategy especially when all encompassing, top to bottom examination is required. Perceived as a device in numerous sociology thinks about, the job of contextual investigation technique in research turns out to be increasingly noticeable when issues with respect to training humanism and community based issues (for example, destitution, joblessness, illicit drug use, absence of education, and so forth) were raised. One reason for the acknowledgment of contextual analysis as an examination technique is that scientists were ending up increasingly worried about the constraints of quantitative techniques in giving comprehensive and top to bottom clarifications of the social and conduct issues being referred to.

There are a number of advantages in using case studies. First, the examination of the data is most often conducted within the context of its use, that is, within the situation in which the activity takes place. A case study might be interested, for example, in the process by which a subject comprehends an authentic text. To explore the strategies the reader uses, the researcher must observe the subject within her environment, such as reading in classroom or reading for leisure. This would contrast with experiment, for instance, which deliberately isolates a phenomenon from its context, focusing on a limited number of variables.

Second, variations in terms of intrinsic, instrumental and collective approaches to case studies allow for both quantitative and qualitative analyses of the data. Some longitudinal studies of individual subjects, for instance, rely on qualitative data from journal writings which give descriptive accounts of behaviour. On the other hand, there are also a number of case studies which seek evidence from both numerical and categorical responses of individual subjects.

Third, the detailed qualitative accounts often produced in case studies not only help to explore or describe the data in real-life environment, but also help to

explain the complexities of real life situations which may not be captured through experimental or survey research. A case study of reading strategies used by an individual subject, for instance, can give access to not only the numerical information concerning the strategies used, but also the reasons for strategy use, and how the strategies are used in relation to other strategies. As reading behaviours involve complex cognitive processes, each reading strategy cannot be examined in isolation but rather in relation to other strategies.

Case 1. Measurement at Initial Recognition

Based on chapter 1 of this thesis it is noticeable that a company will quantify a thing of PP&E at initial measurement at its expense. The salary and related costs of coincidental activities amid development or advancement of a thing of PP&E are perceived in P/L if those tasks are not important to convey the thing to its expected area and working condition.

On 1 July 20X5, Gilan Holding acquired a thing of machine for 1,200,000 AZN, including 100,000 AZN refundable buying tax charges. The price tag was subsidized by raising a credit of 1,210,000 AZN (counting 10,000 AZN loan raising expenses). The credit is verified against the machine.

In July 20X5 the Holding brought about expenses of 40,000 AZN in transporting the machine to the Holding's site and 200,000 AZN in introducing the machine at the site. Toward the finish of the machine's 10-year useful life the Holding is required to disassemble the machine and re-establish the land whereupon the industrial facility is assembled. The present estimation of the expense of disassembling the machine and re-establishing nature is assessed to be 200,000 AZN. In July 20X5 the Holding's specialist caused the accompanying expenses in altering the machine with the goal that it can deliver the items made by the substance:

- Labor cost – 130,000 AZN
- Material cost – 110,000 AZN
- Depreciation of machine and plant used to play out the adjustments – 30,000 AZN

In July 20X5 the Holding’s creation staff were prepared in how to work the new thing of machine. Preparing costs included:

- A specialist instructor’s cost– 14,000 AZN
- Labor cost – 6,000 AZN

In August 20X5 the Holding’s generation group tried the gear and the building group made further adjustments important to get the machine to work as planned by the executives. The accompanying expenses were brought about in the testing stage:

- Labor cost – 22,000 AZN
- Material cost, overall of 6,000 AZN recuperated from the clearance of the rejected yield – 42,000 AZN
- Depreciation of machine and plant used to play out the alterations – 10,000 AZN

The Machine was prepared for use on 1 September 20X5. Nonetheless, due to low starting request levels the element brought about lost 46,000 AZN on working the machine throughout September. From that point the machine worked beneficially.

Calculate the cost of machine at initial measurement.

Table 1

| <i>Characterization</i> | <i>Explanation for an action</i> | <i>AZN</i> |
|-------------------------|----------------------------------|------------|
|-------------------------|----------------------------------|------------|

| | | |
|------------------------------------|--|------------------|
| Price of purchase | Price of purchase (1,200,000 AZN) - Refundable tax charges (100,000 AZN) | 1,100,000 |
| Loan raising expense | Included in liability measurement | - |
| Costs of transportation | Direct attributable expenses | 40,000 |
| Costs of installment | Direct attributable expenses | 200,000 |
| Costs of restoring the environment | The commitment to destroy and reestablish the environment emerged from the establishment of the machine | 200,000 |
| Costs of establishment | Labour costs (130,000 AZN) + Material costs (110,000 AZN) + Depreciation (30,000 AZN) | 270,000 |
| Costs of preparing staff | P/L account (expense). The machine was capable of operating by executives without incurring the preparation costs. | - |
| Costs of examination | Labour costs (22,000 AZN) + Material costs (overall of 6,000 AZN recuperated from the clearance of the rejected yield) + Depreciation (10,000 AZN) | 74,000 |
| Loss on operating | P/L account (expense) | - |
| Borrowing costs | P/L account (expense) | - |
| Cost of Machine | | 1,884,000 |

Case 2. Measurement after Recognition

On 1 June 20X6, Gilan Holding procured a plant for 1,000,000 AZN. The board assesses the plan's useful life as five years estimated from the date of securing. Besides, it appraises the remaining estimation of the plant as 200,000 AZN.

The executives make a decision about that the straight-line strategy reflects the example in which it hopes to expend the plant's future monetary advantages.

At 31 May 20X7 the plant was harmed and its recoverable sum was

evaluated as 600,000 AZN.

Calculate the plant's carrying amount on 31 May 20X7.

Table 2

| <i>Characterization</i> | <i>Explanation for an action</i> | <i>AZN</i> |
|---|--|----------------|
| Price of purchase | Cost | 1,000,000 |
| Salvage value | Calculated by executives | -200,000 |
| Depreciable amount | Purchase price - Salvage value | 800,000 |
| Depreciation (annual) | Depreciable amount (800,000 AZN) / Useful life (5 years) | -160,000 |
| Carrying amount | Price of purchase (1,000,000 AZN) - Depreciation (160,000 AZN) | 840,000 |
| Impairment | Carrying amount (840,000 AZN) - Fair value - Costs to sell (600,000 AZN) | -240,000 |
| Carrying amount after impairment | Fair value - Costs to sell | 600,000 |

Case 3. Revaluation Model

In the event that a benefit's conveying sum is expanded thus of a revaluation:

- The expansion will be perceived in other exhaustive salary and amassed in value under the heading of revaluation excess; or
- The expansion will be perceived in P&L to the degree that it turns around a revaluation reduction of a similar resource recently perceived in P&L.

Gilan Holding has an element of land approved in its records at 6,500 AZN. Before three years a collapse in land prices directed the holding to decrease the carrying value from 7,500 AZN. It was booked as an expense in income statement (profit or loss). There is a rush in property values in the existing year, whereas,

and the property is currently merit 10,000 AZN. Calculation and report of the revaluation for the current year will be:

The double entry is:

| | | |
|-----|-------------------------------|----------|
| Dr. | Asset (balance sheet or SOFP) | 3500 AZN |
| Cr. | Income statement or P/L | 1000 AZN |
| | Revaluation surplus | 1500 AZN |

*It is mandatory to mention that the credit to readjustment surplus will be appeared ‘other comprehensive income’.

There is a further confusion when a revalued resource is being depreciated. As we have seen, an upward revaluation implies that the depreciation charge will increment. Regularly, a revaluation surplus is possibly acknowledged when the benefit is sold, yet when it is being devalued, some portion of that surplus is being acknowledged as the asset is utilized. The measure of the surplus acknowledged is the contrast between depreciation charged on the revalued sum and the (lower) depreciation which would have been charged on the benefit's unique expense. This sum can be exchanged to held (for example, acknowledged) income yet NOT through P&L.

If we solely swap curved the example specified above about Gilan Holding. Assume that the original charge was \$7,500, revalued uphill to \$10,000 three years before, however, it has now dropped to \$6,500. Calculation and report of the reduction in charge for the current year will be:

The double entry is:

| | | |
|-----|-------------------------------|----------|
| Dr. | Revaluation surplus | 2500 AZN |
| | Income statement or P/L | 1000 AZN |
| Cr. | Asset (balance sheet or SOFP) | 3500 AZN |

Case 4. Straight-line Depreciation Method

When determined, depreciation cost is recorded in the bookkeeping records as a charge to the depreciation business ledger and a worthy representative for the amassed depreciation account. Collected depreciation is a contra resource account, which implies that it is matched with and lessens the fixed resource account.

Gilan Holding obtained a machine for 1,000,000 AZN that will have an expected valuable existence of 3 years. The organization additionally evaluates that in five years, the organization will most likely offer it for 100,000 AZN for scrap parts. With utilization of the straight line;

$$\text{Depreciation expence per year} = \frac{(\text{Net value of asset} - \text{Residual value})}{\text{Expected useful life}}$$

$$\begin{aligned} \text{Depreciation expence per year} &= \frac{1,000,000 \text{ AZN} - 100,000 \text{ AZN}}{3 \text{ years}} \\ &= 300,000 \end{aligned}$$

The Holding will choose the depreciation strategy that mirrors the example in which it hopes to expend the asset's future financial advantages. The conceivable depreciation techniques incorporate the straight-line strategy, the reducing balance strategy and a technique dependent on use, for example, the units of production technique.

The depreciation technique utilized is certainly not a free decision. The devaluation technique picked is what best matches the advantages. Besides, this probably won't be a similar strategy as took into account charge purposes.

Case 5. Declining Balance Method

For declining balance, the depreciation charge is equivalent to net book esteem less remaining worth and duplicate it with the depreciation rate that you give. Depreciation rate is the rate that we accommodate resources. For instance, in the event that you gave the depreciation rate to office fabricate sum 5%. That mean, you expect in fact the estimation of the manufacture ought to lessen 5%.

Gilan Holding obtained a machine for 1,000,000 AZN that will have an expected valuable existence of 3 years. The organization additionally evaluates that in five years, the organization will most likely offer it for 100,000 AZN for scrap parts. The rate of depreciation is 50%. With utilization of the declining balance;

Depreciation expense

= (Net value of asset – Residual value)

× Rate of Depreciation

Year 1: $(1,000,000 \text{ AZN} - 100,000 \text{ AZN}) \times 50\% = 450,000 \text{ AZN}$

Year 2: $(550,000 \text{ AZN} - 100,000 \text{ AZN}) \times 50\% = 225,000 \text{ AZN}$

Year 3: $(325,000 \text{ AZN} - 100,000 \text{ AZN}) \times 50\% = 112,500 \text{ AZN}$

Case 6. Unit of Production Method

It isn't practical to utilize the units of creation technique if the subsequent data isn't utilized by the per-users of an organization's budget summaries. Along these lines, the expense related with the making of progressively exact depreciation data may not end up being assets on the off chance that it doesn't prompt explicit activities.

Depreciation expence

$$= \frac{(\text{Net value of asset} - \text{Residual value})}{\text{Expected poduction capability}} \times \text{Units anually}$$

The depreciation strategy ought to likewise be inspected at any rate at each budgetary year end and, if there has been a noteworthy change in the normal example of monetary assets from those benefits, the technique ought to be changed to suit this changed example. At the point when such an adjustment in depreciation technique happens the change ought to be represented as an adjustment in bookkeeping gauge and the depreciation charge for the present and future periods ought to be balanced. [IAS 16.61]

A company utilizes a thing of apparatus in the generation of dangerous synthetic concoctions. Industry guidelines limit the yield of the machine to 5,000,000 l. after which the machine must be decommissioned, sterilized and reused. The element extends that the yield of the machine will achieve 5,000,000 l. inside 4 years of its obtaining, at which time the machine will be decommissioned.

The unit of production is presumably the most suitable depreciation strategy for the organization for applying in depreciating the machine. This technique mirrors the example in which the company hopes to devour the asset's future monetary advantages. Utilizing this technique 1/1,000,000 of the expense of the machine would be incorporated into the expense of every l. of compound created by the machine. In the event that utilization differed from period to the following, the straight-line technique for devaluation would not mirror the example in which it hopes to devour the machine's future monetary advantages.

Case 7. Gain or Loss on Derecognition

On 30 June 20X6, the Holding expelled its cardboard fabricating machine from generation when the book value of the machine was 36,000 AZN. Nonetheless, expecting that interest for cardboard boxes will increment within a reasonable time-frame the Holding did not discard its equipment. It evaluated the recoverable measure of its equipment as 24,000 AZN and the equipment had a staying useful life of ten years with 15,000 AZN remaining quality.

In December 20X8, the legislature of a locale in which real cardboard assembling contenders work reported critical endowments intended to secure the benefit of that ward's cardboard assembling industry. Thusly, on 31 December 20X8, administration surrendered trust that economic situations would improve to the degree that it could restart the production of boxes. It in this way sold its cardboard box producing equipment for 15,000 AZN on 1 January 20X8, when its book value was 22650 AZN.

On 1 January 20X8, (transfer's date) the Holding must perceive in P/L the 7,650 AZN of the equipment's loss on disposal which comes from:

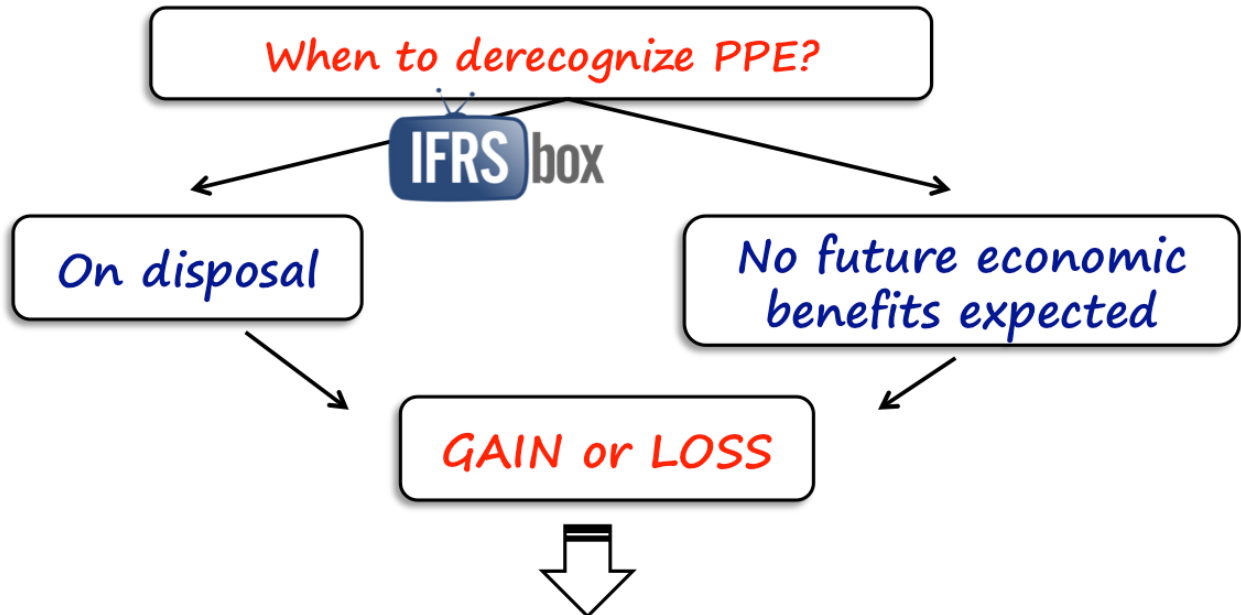
The Book Value of Equipment – Proceeds from Disposal

$$7,650 \text{ AZN} = 22,650 \text{ AZN} - 15,000 \text{ AZN}$$

- * On 30 June 20X6 the equipment was impaired, that is why its book value was diminished by 12,000 AZN (from 36,000 AZN to 24,000 AZN). This was recognized in P/L account as impairment loss on 30 June 20X7.
- * At each ensuing date (for instance, on 30 June 20X8, accepting the Holding does not plan interval reports) the Holding will think about whether the impairment test ought to be achieved.
- * Assuming, there was not any other impairment (or inversion) at 30 June 20X8, the depreciation would be charged in P/L account at 1350 AZN from

1 July 20X7 to 31 December 20X8.

Figure 4. Derecognition of PPE



= Net Disposal Proceeds - Carrying Amount



Depreciable Amount (9,000 AZN) =

Carrying Value on 1 July 20X17 (24,000 AZN)

– Salvage Value (15,000 AZN)

Depreciation per year (900 AZN)

$$= \frac{\text{Depreciable amount (9,000 AZN)}}{\text{Useful Life (10 years)}}$$

$$1350 \text{ AZN} = 900 \text{ AZN} \times \frac{18}{12} \text{ months}$$

CHAPTER 3. EMPIRICAL RESULTS OF EXPERTS' OPINIONS

3.1 Implementation of IAS 16 for Accounting Property, Plant and Equipment in The Republic of Azerbaijan

In the first chapter of this thesis, I have shown the theoretical part of the International Standard 16, and in Part II, how to apply it in accordance with this standard. The point to be tackled here is that in our country, it is currently in compliance with the rules of this standard. Based on my research on this thesis writing, I can say with certainty that currently there are many serious problems

with the registration of land, buildings and equipment at enterprises in Azerbaijan. But where does the source of these problems come from? How long have these problems been in our country? And most importantly, what kind of reforms are being carried out in our country to solve such problems.

To answer all these questions, I first made a survey and decided to carry out an inter-company analysis. But later, I thought, workers could have difficulty expressing their problems in their company. And this would have a negative impact on my outcome, as it would hinder my presence as it was, and inflating could have reduced the effectiveness of the response.

For all of these reasons, I was eventually directed to the experts. Then, I made a questionnaire and I think this approach is a positive aspect. Because, an accountant with several affiliates is more experienced to analyze the situation in Azerbaijan and to produce a total result compared to a single employee working within an organization. I would like to introduce you to the experts who share their valuable ideas with me in the preparation of this research.

3.2 Introduction of Experts

Ph.D Elsevar Ibadov – Vice-Dean of the Faculty of Economics and Management at Baku Engineering University

Mr. Ali Abbasov – Senior Lecturer at Azerbaijan State University of Economics (UNEC)

Associate Professor Firudin Sultanov – Director of the Department of Accounting and Audit at Baku Engineering University

Ph.D Tahmasib Huseynov – Senior Lecturer at Azerbaijan State University of Economics (UNEC)

Associate Professor Agamir Asgarov – Senior Lecturer at Baku Engineering University

Mr. Nasimi Nuriyev – Senior Lecturer at Azerbaijan State University of Economics (UNEC)

Mr. Samir Musayev – Chief Accountant at Baku Engineering University

Question 1: How are the major entities recognizing PPE in their financial statements? Initial Measurement of PPE in Azerbaijan and how it should be calculated?

Ph.D Elsevar Ibadov: I think that the PPE situation in Azerbaijan is better than other standards. Large companies make accounting in accordance with IFRS, but at the same time, tax accounting is also preferred. Most companies that have a large share in the market, but also have smaller turnover, they account PPE related to tax legislation, so that they focus on calculating the correct depreciation charge according to tax requirements. Some companies depreciate only for taxable items, even if they do not specify the residual value of PPE. But no matter how small in number, there are also large companies that are accounting for compliance with IFRS and the 16th standard, but they are, in fact, very few in comparison to other companies.

Associate Professor Agamir Asgarov: Putting aside the theoretical part, I just want to share my experiences with you. I work with several companies and provide them with consulting services. According to a company's financial records, the other is taxable, and in terms of both financial and tax records, and so on. Unfortunately, none of these companies have PPE registered in financial records. For example, having a company that is in the market since 2016 and has a turnover of more than 600,000 manat, this company has everything. The company did not calculate profits at first, and after a long calculation it sold almost all the goods it purchased to almost 2-fold and did not calculate the cost of depreciation. In general, they do not consider it to be an expense. I can not say

the exact exact words about their registration in large companies, but in many businesses it is a very serious problem.

Mr. Nasimi Nuriyev: The cost method is mainly applied to machinery and equipment. In practice, these are more common. It also applies to production equipment. The revaluation model applies primarily to buildings and structures. It is possible to use revaluation as they have longer lifespan and less depreciated. The cost method is more effective in machine and production equipment, because depreciation is faster. In other words, a machine is more exposed to physical and mental depression than building and construction.

Associate Professor Firudin Sultanov: It seems to me that there is no problem in the beginning. Costs for delivering and other costs are taken into account at first. That is, companies that hold financial records in Azerbaijan take this into consideration, but the problem in Azerbaijan is whether or not they have a record. Because some companies do not generally recognize PPE when they start their business. Some companies do not calculate PPE as part of earnings, believing that this is their investment. Those companies, which do not record the PPE are, of course, not less. They do not incorporate the PPE as an initial investment, and ultimately calculate the cost of the goods. As a result of measuring the cost value, the gross profit and margin profit are calculated. According to the current situation, the companies can be divided into 2 groups for accounting of PPE.

1. Companies that take into account the actual PPE, its import, installation and other costs
2. Companies that do not generally account for PPE. In fact, these companies do not want to account for themselves, because they are afraid that earnings will decline. However, this means the death of the company. They show more profit than just what they have, and it is a pleasure to them.

Ph.D Tahmasib Huseynov: Large companies basically state PPE in their report on their financial position. The account can be exercised by the head of the enterprise in the form of capital investment. Or, an entity may purchase equipment at its own expense and is obliged to recognize that amount in accordance with its International Standard 16. At the time of initial recognition, the cost of the acquisition cost and all expenses incurred for its transportation, delivery, installation are recognized together. This is also called the initial cost of that land, plant and equipment. And then, according to the International Standard, at the end of each month, according to the National Standard and tax records, at the end of the year, the depreciation charge is calculated regardless of the date of the month.

Mr. Samir Musayev: While all of these are my subjective opinion, I think all of them reflect reality. In general, because of the negative situation in the tax system, companies are not interested in the fact that when they receive the PPE they should be clear and transferred to the balance. This is almost the biggest problem. I have always worked in private businesses and have been working in the public sector for three years. It is almost zero to note that the main assets, their depreciation, and the depreciation are zero because there is no particular interest in both the private sector and the private ownership and the holdings. The reason for this is that tax expense is more interesting than income, it is directed to income and receives interest from the income. Moreover, according to the decision of the Cabinet of Ministers, in the worst case, they calculate profitably. They also know that the cost of documentation is not officially documented, and this is a black accountancy. The last steps are just the same for the range of costs, that is 20% of the total turnover and 20% of the total circulation, and then apply it, as it is organized in the Qafqaz University. In any case, we always recommend that black accounting be revoked and use white accounting. For example, when the company shows costs, the Ministry of Taxes says that you have less expenses and you have a lot of revenue. If the company currently has an asset and uses it, it is

not interested in selling the asset when the asset is received. Because the company has already negotiated with it and sells it unofficially. As a result, the company also provides officially an income from its official revenue, because officially the seller is more heavily tax-off. Thus, when the equipment worth \$ 100,000 is officially purchased, the selling party sells it at \$ 1,300,000. The reason is that when many companies work in black accounting, problems with their work and tax burden are high. These processes have been so recent, but I think that this process will improve as a result of new tax reforms. It looks as if a new white page has been opened and new edits are made on that page. Internal control of the Ministry of Taxes has been strengthened, while privileges to enterprises have been exacerbated, and tax exemptions have been tightened.

Question 2. Which model is used for subsequent measurement of PPE and why? Factors that affect the companies for choosing correct model.

Ph.D Elsevar Ibadov: Only very large companies use a revaluation model regularly. Most companies in Azerbaijan prefer the cost model. If the rate of depreciation and useful life are chosen properly, the cost model will not be considered problematic. The use of the cost model can be continued because the use of the revaluation model is not an easy task. Making the right revaluation and re-defining the market price require additional costs. Whether you need to call a revaluation company or to have a qualified staff, consisting of real professionals. Those who do not receive PPE from abroad regularly or do not have significant PPE value changes, they do not need a revaluation model. There is a need for a revaluation model only when there are special cases, such as the recent devaluation time in Azerbaijan. It is possible to use the cost model, with the exception of using the revaluation model in such cases, because companies in Azerbaijan and the Azerbaijani market are still not fully ready for making

reevaluation every year. Because the employees from the past are always comfortable because they always use the cost model which is based on the historical value. And even if there is a qualified staff, this work is very expensive. If the right methods are chosen, the cost model will never be left behind. To tell the truth, there is not much difference, because this difference is a temporary difference until the equipment is expired. Recently, we called the company for making reevaluation in our company and it was absolutely highway robbery, it cost us a lot.

Mr. Nasimi Nuriyev: Accounting in the Republic of Azerbaijan focuses on more taxes than tax, and tax accounting is more preferable. Financial accounting in enterprises located within Azerbaijan is a little weaker. Because the psychology of our companies is that if I have no problems with tax, or if all of my problems are solved, then my account is straightforward. But this is not the right approach, because first of all the company's financial records should be set up, and then the data should be placed on tax records using the financial records. In our taxation, reevaluation is either not taken into consideration or preferable. Generally, they do not accept neither the income nor the cost of this method. We use a cost model more often. When using Cost model, they recognize income or expense, profit, and loss account. In the Reevaluation model, the same is the case, either income or expense is written in profit or loss account and, in addition, a reserve fund is created. As I mentioned before, the reevaluation model has a more effective effect on buildings and structures. Let's assume that this year's building will cost more than 5 years. Increasing the infrastructure in the area where the building is located gives rise to the value of the area and the price of the building in that building begins to rise. But in the machine and production equipment, this process is exactly the opposite, with depreciation being faster and more morale depreciation. Therefore, when choosing the model, it is necessary to pay more attention to such characteristics.

Associate Professor Firudin Sultanov: The usage of the models varies by each company. Because sometimes there may be problems with the revaluation, but this one is a more effective method. At this time, all financial accounts of the company are once again estimated. If the company reaches its power to do so, revaluation is more suitable. But it is a very difficult process, and the founders cannot understand it well. Also, future depreciation costs that will arise when using this model will also reduce profit. Therefore, companies are not very eager for using this model. But, in my opinion, the revaluation for bigger companies is more accurate and effective. When talking about smaller companies, they are still better at using the cost model. Because these companies have bigger problems that need to be solved before revaluation.

Ph.D Tahmasib Huseynov: The cost model is used during initial measurement, but it is best to use the revaluation model using the fair value model in the future. Because there may be cases of dropping or increasing the value. The choice of method depends on both the market and the entity's accounting policies.

Mr. Samir Musayev: First of all, Azerbaijan should be professional companies for revaluation and their license. They must be regulated by the state. When Qafqaz University was abolished, its movable and immovable property would be given to the state. And for that, I applied to companies. But they are too expensive for doing this. During the revaluation, the market value of the product should be re-examined. Some links were sent for that which was determined by the prices. The Azerbaijani market is small, and there is a need for companies that are fair, decent and professional for the revaluation. The main building of Qafqaz University was built in 2004. If we compare the value of materials in that period, the salaries of employees, the value of the equipment coming from Turkey or elsewhere to the current market, of course, there will be facts that are not clear. Even since 2015, there are significant differences in the tax on the mill. What's interesting is that these companies are so professional that they can take these into account. Because any minor change in the tax is automatically influenced by

the product cost. Therefore, the company itself should be of high quality and its employees should be professional. In the environment where revaluation is unfair, cost model is more appropriate

Mr. Ali Abbasov: As we already familiar, the revaluation model and cost model of PPE measurement can be used interchangeable. Revaluation model is used for the periodic measurement of long-lived assets. In contrast the US GAAP, IFRS allows to use both methods.

In Azerbaijan companies can use either methods as long as they comply within the frames of IFRS. However, using the revaluation method, the company needs to know the fair value at the time of revaluation. Sometimes it is not easy or possible to reflect the fair value. Revaluation method gives possibility the value of a particular assets to be higher than their historical costs. Cost model is a lot more straightforward and easy to follow as the cost of purchase is constant.

Question 3. Which method of depreciation is currently used by most companies and why? Factors that affect companies for choosing correct method

Ph.D Elsevar Ibadov: My subjective opinion is that most decline balances and straight line methods are used in Azerbaijan. In particular, companies that make tax assessments use the declining balance method because the tax is calculated according to the declining balance. Companies are therefore either generally unable to make a financial statement, and may carry it according to the same figures. However, the straight-line method is still more used, but the declination balance is far ahead of it. The choice of the method of depreciation depends on the manager's decision, and all the problems begin here. The financial literacy of the director creates such differences. Therefore, accountants should be stronger and must admit their decisions. Because only the professional accountant simply knows which model is better for the depreciation of equipment. This is a problem for entities in our country.

Associate Professor Agamir Asgarov: Based on tax, the declining balance method is used. In the Tax Code, the standard of interest rate depreciation has been determined. But in reality, management should decide on the use of the goods. Let's assume, for example, that the company has a car and the same company has a gold mining agreement with Dashkesan. For a year, the machine has gone on a dashboard with a distance of 200000 km. At this time, the company will use a diminishing residual method if it wants to keep records properly. That is, how much fatigue should be calculated by the company when the machine is about 200,000 kilometers away. However, what the company does not like is a lot of spending. The cost of the documents is very high, but in fact it is desirable to have at least. However, due to very serious reforms, tax evasion will reach a minimum. Because the Ministry of Taxes has taken serious steps in this regard and it is expected that these problems will be eliminated for at least one year. If the company operates on a long-term basis, it should use more straight-line method. But still, the most important thing in choosing the method is the physical characteristics of the product and its wear. The product unit method can also be used, for example, according to the number of products to be generated during active use. At this time, depreciation according to 1 product will be more effective and accurate. In some of the big companies, for example, all accounts in Veselogl, reflect the reality, no evasion cases are observed.

Mr. Nasimi Nuriyev: Our Tax Code uses two types of depreciation methods: declining balance and straight line method. However, we know that there is a unit of production method in the financial records. This method does not take into account the Tax Code. In fact, I think this is a gap in tax accounting and it should be applied as it is in the financial statements. If the company is engaged in production, then the equipment produced will be depreciated using the production method. Because it is more appropriate and can produce a more effective and accurate result. As you can see from the management accounting section, the method of production allocation, variable and fixed costs in the

structure of expenses is more accurate and has a very positive impact on accounting decisions during management. However, the use of the production method in buildings and structures is a very wrong decision, and, of course, leads to very large negative results. And I think that the Tax Code should recognize the method of production as this method can be used to increase the costs when applying to the production equipment. In flats and buildings, the straight line and the declining balance method are more appropriate

Associate Professor Firudin Sultanov: If you look at tax accounting and financial records separately, they use the declining balance method mostly, but in some companies this method is not enough. For example, if the tax code permits the 20% of amortization expense, the 20% depreciation is only recorded so that the profits are reduced. But in reality, it's just 10% or 15%. The actual degree is reflected in the financial statements. Because you write down your financial records. In the financial records, the life of the equipment is 10 years, while 20% of taxpayers account for it, and try to recover tax so quickly. In this way, the costs are increased and the profit decreases. On the other hand, it must compel 10% of its financial records because they do not want to exaggerate the cost of the liquid. This may cause problems when it is time to sell. For example, when marking 20%, the value is 12 AZN and 10% is 10AZN. Then the sales division puts money on it at 30% and sells it at 13 AZN. But when it comes to 30% of the 12 AZN, the product will be more expensive, which will create in-house problems. Tax accounting and financial records are very important for the company. Therefore, it would be best if both of them were correct. Thus, when the price is determined, it is wrong to look at the tax records, look at the financial records, and find the cost value related with the managerial accounting.

Ph.D Tahmasib Huseynov: According to International Standards, mainly, three depreciation methods are used, and for national accounting, our straight line and declining balance method is used in our country. Production unit is a more

effective method, but in this case, we need to know how much the enterprise can produce exactly for a given period of time.

Mr. Samir Musayev: There are many differences between the Tax Code of the Republic of Azerbaijan and international standards. So, in our companies, we use the declining balance method unequivocally. But this method may sometimes not coincide with the business activity. Because, according to the standard, when choosing a method, the equipment is adapted to the physical characteristics of the equipment. In our companies, however, this approach differs, it related to the taxation. For this, it would be better if there are many similarities between the Code and the Standards. Let's take an example of a programming company. Assume that, the new version of the 3Ds Max, which is available on Space TV, comes almost every year. The parameter of the computer received this year may not coincide with the parameter required for the next year's program. The next year, the computer we are using is useless and needs to get new ones. Now, there are two approaches to the challenge.

- ✓ According to the Civil Code of the Republic of Azerbaijan, this computer, which is not used, should be reduced every year by 25% amortization. in fact, this computer is not used. The cost of the product is reduced to 25% annually, even if it is not used, at a price of 500 AZN. However, the cost of the computer for the 3Ds Max program starts at a range of 4,000 to 5,000 pounds, so this process can take too long. Or, the initial residual value will reach 5% and will be erased afterwards.
- ✓ The standard is different. For example, according to previous experiments, the life of 3Ds Max is 2 years, and after 2 years, new equipment will be required. Therefore, the Standard calculates its depreciation charge for 2 years from its financial statements. In the third year, it will determine the final residual value of the product and determine its market value.

Here again, there are ideas that are justified, that is, the Standard believes that it is real and it should be recorded if any. The taxation does not want another

approach and simply applies a diminishing balance. In fact, the company has purchased 3 new computers for 5 years, but the first and the unused computer still continues to depreciate. This approach is not real.

Mr. Ali Abbasov: Depreciation creates a possibility for companies to capitalize their costs and expense it throughout the life time of it. Straight-line method of depreciation is most widely used method. Due to its simplicity companies tend to use straight-line depreciation more often. This method is easy to follow and generally avoids errors. Also it smoothens the cost through the years dividing the overall amount into equal parts. This method is calculated by subtracting the salvage value from the purchase price and dividing by the forecasted life time of the asset

Question 4. How are the major entities recognizing the gain or loss on derecognition?

Ph.D Elsevar Ibadov: At the time of selling PPE, the carrying amount is less than the net carrying amount. After the sale, I think that the accounting is done normally. The problem is that if the depreciation method has not been set out correctly or it is simply accounted for the tax, and the factuality is not taken into account, then there will be problems with accounting for errors related to first balance, even if the calculation of the gain or loss on subsequent accounting is correct. However, if it was acknowledged in advance, if the price was close to the market value, there would be no problem with selling and would not have exaggerated profit in balance. The main problem in our entities is that the depreciation costs are increased. The reason for doing that is tax evasion. Let's assume that, for example, if the tax legislation permits that till 25% amortization costs will not be taxable amount. Hence, companies will want to show all as 25% depreciation charge even which is less than 25%. At this time costs are rising and at the end, the cost of the equipment will be very low than reality. Thus, at the

time of sale, the market value will be more than real value and in the meantime there will be a great proportion of profit in balance which is not real.

Associate Professor Firudin Sultanov: One approach to providing revenue and loss has been identified in accordance with the Tax Code. On the other hand, some companies typically write down profit and loss. But most people do not usually have PPE records, so their earnings and losses are not written down. How can it be written about the loss of something that is not in the register? And the main problem is that, unfortunately, the companies I am talking about are not smaller ones. All of them are big entities, which do not keep PPE records. And when it sells it sells with profit or loss, but it does not record it in profit or loss. It is just an extra money for him, and it goes and goes. Or it is an additional loss. Because they do not need to write it, they simply report to the Ministry of Taxes. In the course of the audit, the tax records are checked only. It has been so long since then, but then it will be futile. Because earlier, the Ministry of Taxes had only to verify tax and tax records, but now, according to a new resolution issued in 2018, the Ministry of Taxes is now responsible for checking the financial statements prepared according to International Standards. In fact, companies that prepare a financial accounting report are increasingly up to date, and that's a great pleasure. In Azerbaijan, reports should be kept in line with International Standards, and some companies now pay attention to it. Earlier, it was unclear who would check the financial statements. Because financial accounting is needed not only for the state, but also for the company, when making new decisions.

Ph.D Tahmasib Huseynov: If an entity obtains revenue from the sale or revaluation of the equipment, then it will record it as Profit or Loss account. If a loss occurs, it will show it as an expense.

Mr. Ali Abbasov: Revaluation models accounts that carrying amounts are the fair values at the time of revaluation less accumulated depreciation. When impairing long-lived assets, impairment charges causes a decrease in the fair

value of the asset. Under IFRS, losses derived from impairment can be reversed in the future periods. And reversal will be reflected in profit. The gain or loss is calculated by sales minus the carrying amount of asset.

Question 5. What is the main source of all these differences between IAS 16 and reports of entities? How can this problem be solved?

Ph.D Elsevar Ibadov: Generally, IAS 16 is one of the best-applied standards. There is no problem if the depreciation charge is timely and correctly written off in case of presumptive registration. Since the main funds are permanent from the Soviet era, and their records are constantly kept, I think it is still in order. Either they are deleted or are being abolished or used in a different way, for instance, at a cheap price.

Associate Professor Agamir Asgarov: The first step in solving these problems should be solved by the Ministry of Taxes. The tool called the cashback method must be eliminated and the revenue should be determined according to the earnings in the reality rather than the cash amount. Taxes calculate revenues based on earnings, but they can not see what money is in the box. He can only see electronic money, accounts and invoices. However, if the service is over, the company should recognize it as revenue, regardless of whether the money came or not. During the cashback method, the bank does not see the amount, but when it comes to checking in on a plane tax, it can learn the problem or amount in the bank, but the ministry can not see it. Let's assume that the tax audit comes and looks at the bank turnover. He believes in the figures he says to him, whereas the circulation is different. Problems will arise at this time. But if all this is done according to the computational method, implemented through a system, which is always used in the International Standards, then such problems will be resolved slowly and will be eliminated. At the same time, the tax officer will also come to

the conclusion that he / she will examine whether the unit is capable of doing so. The accounting will also reflect the reality at this time. And it is a great pleasure that this year serious reforms are going on in this direction, and I am convinced that this will be a positive result.

Associate Professor Firudin Sultanov: The first solution to this problem is to create tax transparency. They do not register PPE because they are taxed. And financial literacy of founders is a very serious problem. Unfortunately, the financial literacy of the founders is not enough. They even think that registration is unnecessary. It is not just PPE, but generally related to other standards. When there is no financial literacy, each operation seems unnecessary. To solve this, highly-qualified accountants should be employed. And the accountant, who knows all these standards, naturally wants more wages, which is a costly expense for the company. In order to have transparency in taxation, they must recognize what they have received, but they simply do not. Because tax accounting and financial accounting are totally separate approaches. Even if they are recorded in tax accounting, they may not be considered as financial records. For example, the company acquired 10 machines for production, but it has only 4 official documents. At this point, it is a question of how the remaining 6 numbers will be. The money received from these machines is normally the company's money, because it was bought for this company. Depending on the principle of predominance, essentially there are 10 machines. But according to the tax, there are four. The tax will only take into consideration the depreciation of 4 of them, whereas in fact there should be 10 units. So sometimes this does not happen, because payments, for instance, money imports and money exports should be free. Financial accounting does not look at whether it has a document or not. If there are 10 machines, it will re-evaluate it and keep it in non-current assets. Because here is not a document but merely the essence. If any, will be registered. Or this process may be the opposite. Let's assume that the company has 4 units of machines for tax accounting, but in fact it is 3 units. After receiving a number,

he has given it to someone else. The company still writes about this period, but in fact, it currently has 3 units in the company. Thus, it is concluded that the document for tax accounting and the nature of the financial records are crucial. In fact, taxpaying is sometimes important to the substance of the document, but not always. Because it is taxable and the main issue for the country is the collection of taxes. The proper accounting of the essence is the second one.

Ph.D Tahmasib Huseynov: In our local businesses, there are many differences, as taxpayers are mainly accounted for. In order to solve this problem, accounting should be compulsory for the company, and inspections should also be carried out in accordance with accounting reports, but should not be subject to tax records. And, regardless of the size, it is mandatory to publish an audit report in all entities.

Mr. Samir Musayev: In the latter case of tax legislation, small and micro-entrepreneurial enterprises have increased their depreciation rate co-efficiently. For example, think of a micro businessman with a turnover of up to 200,000 AZN. this entrepreneur has 3 units of cars and provides a taxi service to the population. In normal conditions the depreciation of the machine is 25 percent. Depreciation of a car worth 10,000 AZN will be 2,500 AZN. However, it is currently depreciated with 1.5 coefficient in micro-entrepreneurship. In small entrepreneurship, it is allowed to allocate 50% amortization even with 2 coefficients. This is the state's small and micro entrepreneurship support that can multiply costs. The state made such a gesture for their development. In general, the state's recent reform, the introduction of 7-year remuneration for salaries, the liberation of the income tax, and the allocation of the State Social Protection Fund allocations between the workers and the enterprise are a great step. Because small businesses will already pay 200 AZN to 200 AZN. But big businesses, in which salaries are 2,500 AZN, they are hiding. But now in the standard law, for example, it is about 200 AZN, and then 10 percent. but overall, it's not a big deal of 10%. The main thing is that all reports are whitelisted and the company can easily

deliver it to the auditor. If the government already makes such concessions, it is also necessary to change people's approach. And enterprises should look like the state. Extremely good news is that the University of Economics has been contracted as a legal entity.

CONCLUSION

The main goal of IAS 16 is to stipulate the accounting management for Property, Plant and Equipment (PPE), hence when shareholders use financial statements they are able to collect information about an entity's investment in its PPE. The major concerns in accounting for PPE are the identification of the assets, the recognition of their carrying volumes, accompanying depreciation charges and also impairment losses related to them. The usage of bookkeeping parameters in the existing rule on taxes has an unintended influence on the price of the accounting limitations used and identifies the tax payment.

Following these investigations, we concluded that there are significant differences in PPE registration in Azerbaijan. The main reason for these differences is the availability of both financial and tax records, but not much of the financial records during the audit. Because the taxable amount is determined based on the figures shown in the tax book, rather than in the financial statements. Therefore, some companies are not interested in the preparation of International Standard Financial Accounting. The more important they are, the more accurate the tax registration is. According to the prepared questionnaire, we can conclude with the answers we received:

- Most companies use ***Cost Model*** when registering a PPE, because the Revaluation
- Model also requires a lot of expense as well as powerful and skilled professionals.

- The depreciation method is determined by the management and the organization most commonly use the *Declining Balance* method. This method is accepted by the Ministry of Taxes of the Republic of Azerbaijan and is more effective.
- In order to multiply costs, companies reduce and eliminate current assets in circulation. There are two such disadvantages of this process as that:
 1. When investing, the company's assets are mainly considered. When analyzing financial statements, fewer assets may have a negative impact on the shareholder's decision.
 2. When banks give loans to businesses, less assets will automatically reduce the amount of loan they will be given.

A number of admirable steps have recently been taken by the state to address these problems. As a result of the government's positive reform, tax evasion in enterprises is expected to minimize. These are the issues to be solved first of all:

- ✓ To solve problems in the management system. Because all decisions are made first. Establishment of professional staff in enterprises.
- ✓ Properly define division of responsibilities among employees and increase financial literacy of employees working in standards-oriented areas
- ✓ Compliance with International Standard 16 on PPE registration
- ✓ Identification of the place where the Financial Accounting and Tax reporting will be reported to eliminate tax evasion
- ✓ Considering the physical characteristics of the equipment and its rate of amortization, not the calculation of the taxable amount during the depreciation of the equipment

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