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The Problems in development of accounting of an entity's investment expenses

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Abstract

Problems in development of accounting of an entity's investment expenses Investment activity is the one of main business activities and expenses incurred to realize these investment projects is determinant of investment evaluation. Thus developing accounting of investment expenses can reduce problems with tax bodies . Within study different sources such as scientific research, books and other verified internet resources have been used to provide data. The purpose of the study is to develop theoretical guidelines and practical recommendations aimed at improving the audit function of economic subdivisions. To achieve this goal, the following tasks have been solved in the research work:

-Investigating the investment activity of industrial enterprises and investigating the features of audit organization;

- Evaluating the existing rules for reflecting the financial performance of the indicators characterizing the investment activity and its improvement;
- improvement of accounting and audit of investment activity.

The results obtained based on the research have been widely used in the accounting for investment activity of business entities, in the accounting, auditing and evaluation of the investment condition of business entities. Thus creating a more effective system of accounting and audit of investment activity, improving the quality of analytical work on management service, will enable efficient management decisions to improve the effectiveness of investment activities.

Contents

Introduction

After our economy gained its independence, we established our new economy with the principle of market economy. In last 20 years Azerbaijan's economy developed, flourished and attracted many investors, businesspersons to invest in our industry and service fields of economy. Investment activities are one of the most difficult and risky type of business activities. Its results have great influence in development of entrepreneurship. Today investors and financial managers facing different decision-making problems. One of them where, how to invest and how to take them into record.

In present time investments play important role in enforcing changes in structure of economy, ensuring sustainable development growth of economy, implementation modern scientific and technological achievements and promotion of qualitative producing process.

Almost every states`,entitiy`s activity is related to investment activity. Almost every day investment issues is solving at the entities. Restrictions on resources and the steady development of their demand require society to seek ways to attract external and internal resources.Integration into the world economy contributes to the globalaziation of the national economy, which in turn creates the basis of international economic relations. Economic reforms in Azerbaijan require improvement of the practice of attracting foreign and domestic capital to the country's economy and its analysis and further stabilization of the investment climate.

As it known, Azerbaijan has established certain standards to regulate these type of activities based on International Financial Reporting Standards (IFRS) and implemented them in accountancy process of companies until 2010. From this point of view, the role and value of investment principles increased on financial and economic activity of enterprises. Accounting, audit and analysis of investments have become one of the most actual issues of today`s.

CHAPTER I. INVESTMENT EXPENSES CONCEPT AND ITS ECONOMIC BASICS

1.1 Investments and their economic essence and classification

One of the main and vital resources of each national economy is investment. Using this tool allows the company to upgrade its production, renovate the structure of the economy, increase the number of existing jobs, increase the employment level, provide the market with cheap and high quality products, and increase the competitiveness of domestic product manufacturers which ultimately leads to improve the country's reputation in international affairs and the standard of living of the population. Investment can be short-term and long-term in various sectors of the economy in order to ensure future income. However, the concept of “investment” has long been included in the terms of world science, and in the national economic literature, "investment" was termed "capital investment" for a long time. In other words, the term "investment" was defined in very narrow meaning: It was understood as the sum of expenses in the form of long-term capital investments in industry, construction, agriculture, transport, trade and other spheres of economic activity. Because long-term funding`s aim is due to capital restoration, the term "investment" is often defined as capital investment. Such approach to investment is incorrect, because long-term assets cannot operate normally in the same way as they are isolated from the current period. In this regard, the definition of "investment" is understood as incurred expenses to main and turnover capital in order to earn income because of required by international standards.

However, often the concepts of investment and capital investment are identifiable. But, capital investment is one of the best ways to invest in funds to generate income. It should be noted that capital investment is the main block of the investment complex and replacement of fixed assets, which is within a certain period reflects a certain indicator of the economic situation. Sometimes capital investment is not enough to substitute the required capital, it is possible to speak about the state of stagnation and crisis of production.

The terms of "investment" refers to the returns of any economic, environmental and social impact that eventually results as an economic effect.

According to the Law of the Republic of Azerbaijan on Investment Activity,investment is understood as a set of practical actions on investment activity, investment incentive. Investments are mainly focused on the material, financial and innovation sectors of the economy. In the material section of the economy, it is necessary to distinguish the following directions of investments: investments in main assets, investment in real estate, investments in other financial assets. According to the object of investment investment is divided in two parts ;real investments(modernization of the existing material and technical base, increase of production capacity, adoption of new products and technologies, building of buildings and structures) and financial investments (long-term securities, long-term joint ventures to ensure the realization of the products and etc.). Any property in all sectors of the economy may be the object of investment activity, as well as management accounting and audit, including circulation assets, securities, cash money deposits, intellectual property, other property assets and as well as property rights. Investment activity can be financed by investor's own material and intellectual resources, financial resources, savings and attracted funds, foreign investment and other sources.

Development in market economy requires to improve competition among entities on the other hand during dynamic changing economy it requires warrant sustainability and stability. As a whole society`s and its different entities` development rely on reproduction of material resources which ensure improvement of national output and income. One of main tools for this improvement are investments. Main aim in investment activity is establishing strategic important industrial spheres and related to this service spheres especially improving social infrastructure and as a result gaining proper profit. Therefore, properties, property rights, shares, bonds, main funds, trade securities and all fields related to economy are object of investment activity.

When realizing investment activity managers, directors face problems about choosing the most profitable way. For that reason, during the process of investment policy development investment`s current and perspective direction should be determined.

Conformance with investment environment investment divided into real and financial, capital generating and portfolio types

Investments help the company's dynamic business operations and to solve the following issues;

• Expansion of enterprise activity as a result of acquisition of enterprise financial and material resources,

• The acquisition of new activities,

• Obtaining new knowledge in business.

The investment activity of an entity depends on a certain level of state policy. State with its own behavior can stop and boost these activities. Despite of market economy have lots of positive effect, it is unable to manage social problems, society and investment activities. Market economy does not ensure income equality, protecting labor rights. Businesses don`t have intention to invest in project that is necessary for government and public at the same time don`t have profitability. Market economy doesn`t help to solve actual problems.

Today when developing entity`s investment policy should be followed below principles;

- Substantiate investment by economic aspect
- Accounting of inflation and risky factors
- During funding investment choosing more reliable and cheaper methods
- Investment policy should have aim to perform entity`s strategic plan and focusing on financial stability of entity
- Formation of optimal structure of real and portfolio investment

The main indicators of the payback period of investment projects and ratio of revenue to cost. For evaluating investment`s effectiveness there are some indicators and ratios can be used.

It is getting clear that investing is a method of asset movements to maintain or increase the value of assets and to achieve income or to achieve social, environmental and economic benefits. However, free cash flow is not an investment yet. The value of the money can be "melted" by the inflation, and they could not provide any income. On the contrary, if we put that cash on accounts in the bank, in the production area or in the increase of the educational and cultural level of some employers, the effectiveness of the production will increase and will have the opportunity to earn income. In this case, they can be classified as investment, as this investment guarantees revenue.

There is no need to prove that the increase in investment will increase the national income. That is why investment activity assessment and strengthening should be at the attention of the state.

It is necessary to distinguish and recognize the objects and subjects of investment.

Objects of investment are:

- Securities;
- Main funds, circulating assets newly created and improved in all areas;
- Purposeful monetary investments;
- Scientific and technical products, other objects of property;
- Property rights and intellectual property rights.

Subjects of investment:

- Investors;
- Contractors;
- Those using investment objects;
- Suppliers of commodities, equipment and project products;
- Banks, insurance companies and intermediary organizations.

Investment objects and subjects, by organizing investment activity, create the investment market and investment goods.

The investment market is characterized by the offers of investors and demand of potential buyers to this investment. In other words, the investor wants to earn an income by investing in financial assets, commodity and property rights. But in the investment market, who demand investment faces problems such as - how much, how long to expect from investing gain revenues.

Investment classification is different because there is not a single typological criterion. For investment classification financial sources, trends and goals are taken into account. In various economic literature investment have following types;

- direct investments are those investments that directly affect the production, production and distribution of capital funds, as well as enhancing control over the entity and extending the entity's operations;

-Financial (Portfolio) Investments - Long-term investments in equity, bonds and other securities issued by public or private companies, as well as capital transfers to banks (cash flows, bank deposits) which have contributions to various types of financial assets. Financial investments can be fictitious and productive. Fictitious financial investments are used to buy previously issued stocks and bonds. These investments do not provide additional resources for the development of production.

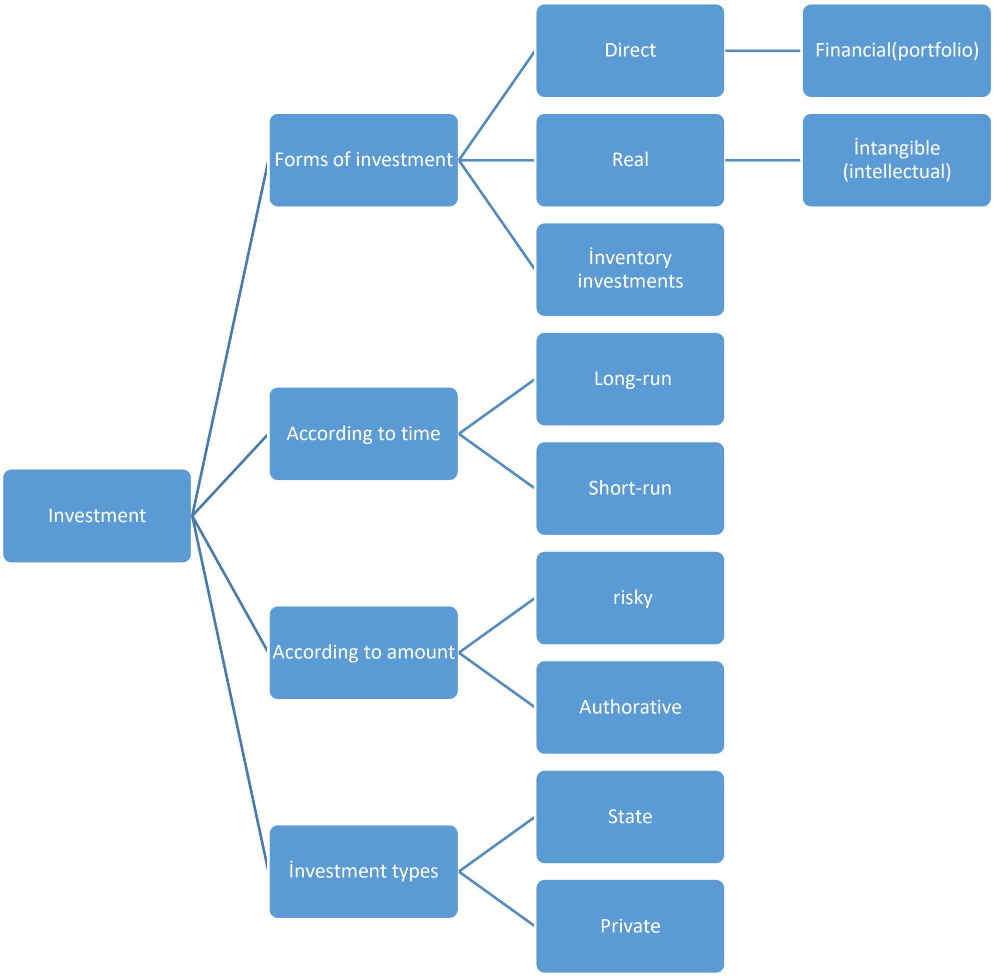
- Material (real) investments - long-term contributions to material production, material and financial activities;

- Intangible investments (intellectual) – İnvestments on the training of personnel in the entity, the exchange of experiences, licensing and investment in joint research;

-Induction investments are investment in the acquisition and production of society's demand for relevant commodities and services;

- Investments in inventory – main and auxiliary materials, ready and incomplete products or production volumes, increase of the enterprise's warehouse resources, including accumulated reserves in excess of the actual sales volume;

Such classification of investments is incomplete. The following figure1 shows the types of investment criteria. Such classification allows not only to see the difference between investment types, but also to identify the relationships between them, and help to see the technological and socio-economic structure of investments;



According to financial sources, investments are divided into several types:

- Special investments are depreciation deductions, funds acquired from the sale of assets, equity instruments;

- Loans - bonds, bank and budget loans;

-leasing investments in the form of leasing, operating and financing;

- Investment funds -separate from national and local budgets,;

- International investments, loans extended by the World Bank, European Bank for Reconstruction and Development, investments made through international funds;

According to the risk level, investments are classified as in graph. Depending on the nature of the investment, investments can also be classified:

- Accepted Investments (property, right of ownership of land and natural resources);

- Finance investments (cash, participation rights in other enterprises, debt liabilities);

- Non-material investments (experience and knowledge of experts, patent, copyright, etc.)

1.2 Investment policy and its elements

Entity`s investment policy is set with some factors. Among these factors, the most important ones are; forms of ownership, stage of enterprise life cycle, type of economic activity, strategic priorities and technical level of production, financial and economic situation. . During development of investment policy investment`s specific directions are defined. Depending on factors mentioned above they may be; basic and auxiliary production, innovation, staff preparation, professional development of them, labour protection, environmental protection and so on.

The distribution of financial resources becomes increasingly important in commercial enterprises in modern times. That is why, in microeconomic level importance of investment policy increased recently. Business` investment policy means complex measures to ensure financial stability of business in the short and long run and ensure that borrowing and other resources invested. It can be concluded that investment policy is an integral part of the overall financial strategy of a company and chooses the most effective way to enlarge and renew its production potential.

Firstly, entity`s investment policy identify investment priorities accordance with investment objects. In the modern era, the followings should be taken into account in justifying the entity's investment policy:

• The type, scope and quality of the products (in accordance with the entity's investment policy);

• Sequence of implementation of investment projects;

• Staff`s professionalism level, its production technology and the superiority of equipment, technical and economic security of the organization;

• One-off costs for the implementation of investment projects, as well as capital investments, construction and installation costs, scientific research and development-oriented (construction) works and acquisition of intangible assets;

• Current operating costs of the entity,

• Fixed and variable expenses of the entity;

• Taxes and other mandatory payments;

• Revenue from sales of products and sales of products

Investment is mostly about risk and expected return. No one likes to risk and it is better the higher an investment’s expected return. There are two types of investment strategies in accordance with observation used in textbook descriptions of investment proses; Inefficient strategies and efficient strategies. Risks those are not rewarded adequately with higher expected returns are incurred in inefficient strategies. The maximum possible expected return for a given degree of risk is provided in efficient strategies.

A most important job for financial advisor is to prevent entity to use inefficient strategies. This is important pursuit. It request measures of risks and expected returns for individuals, currencies and industries.

It also requires correlation estimates to indicate which investments can act together or separately. By using short horizons expected return and risk are calculated. But most of manager, financial analyzers and director of entity concern about long term outcome of investment. In order to make a meaningful choice between reasonable investment strategies, each investor must see the implications on each of his/her wants and desires. For investor it vital to know how much they gain from their investing funds, assets investment gains for each year?

It doesn`t seem real to answer these questions definitively with a single number. Nevertheless, estimating chances that exceeding predefined amount from investment should not be hard for financial advisor to answer. The possibility of surpassing a high goal are higher (good), but the possibility of surpassing a low goal is lower (bad)in aggressive strategy.

With a help of projections investors can calculate most reasonable levels of saving and consumption for accumulated wealth. For increasing chances of extending future economic goals it is better to have higher level of savings and unlike lower level of spending. A professional financial advisor can give advice on making saving and spending decisions to client by using projection.

The methods of finding effective strategies and predicting their outcome derived from the financial economic field known as portfolio theory. This theory specifies methods to be used after having an advisor's good estimates of security risks, returns and correlations. Capital market theory answer how estimates are obtained and what ought to be their characteristics. More specifically capital market theory relates the relationships between assets and the expected returns, risks, and correlations.

Undoubtedly, an efficient market price can be determined as the price that reflects the best possible predictions about the opportunities for future alternatives. Some Investors who thinks market is efficient adopt passive investing strategies, these strategies called so since there are low turnover and have incentive to track market. On the other hand, those who suppose that they could make better prediction than who adopt passive investing strategies. Majority of investors fall from highly passive to highly active. But investors who decide on highly active strategies almost incurred higher expenses to search for securities may or may not be mispriced.

Best portfolio for a investors will include all globally available marketable securities .We can give example to this type of market portfolio 1 % off all shares of Google stock,1% of each type of ventures issued by USA government.

There are different types of investment strategies distinguish in term of expected risk and returns. Present day the equity ratio is high representatively to selected strategy. Current revenue gained from invested assets are reinvested, thus it contribute towards the capital gains.

Globalization and its initial results indicate that, in 21th century investment flows play important role in dynamic development of world economy. Investments fulfill the task of creating an important structure and it is not difficult to see, investment policy plays a leading role in the formation of the prospective economic structure. Concentration of capital investments, the use of various sources of funding to address more vital and urgent regional problems is one of the key elements of the structural investment policy. Attitude towards foreign investors is shaped under the influence of numerous and varied factors. However, the current economic reality in the world has arguments about the intensification of the integrative relationships, particularly in the context of capital flows. Thus, the presence of foreign companies brings the country the most modern technology and appropriate management skills. It also makes it easier to enter the foreign market, increases employment and leads to the development of local production. At present, one of the features of investment processes is that investments for production and commercial activities are not just investments, but also investments towards to scientific and technical innovation achievements and non-waste technologies that perform environmentally friendly. It is not coincidence that investment policy is based on the most important achievements of science and technology. That is why attracting investments is considered to be one of the most important directions of general government policy. Economic security and prosperity of our country are largely related to the oil sector, and the development of this sector is provided by great foreign investment. Large financial investments in the oil sector will be financed through extraction of rich hydrocarbon resources. Of course, this field is capable more than repayment of investments. However, the claim to implement policy at the expense of natural resources does not always justify itself. The important factors that slow down this include:

Gaps in the legal system that minimizes credit risk in the investment market

Financial resources deficit and so on.

İnvestment policy focused on investment policy which implies that income stability and the investment does not depend on the processes in the investment market. Investment risk management, or, more precisely, the implementation of their downturn measures is an important element of investment policy.

The transitional economy is characterized by the fact that the investment environment is riskier. However, factors such as cheap natural resources and labor force in these countries attract foreign investors. In oil industry have more risk of financing and implementation of projects. Investors In developed countries estimates each project from risk-profit ratio and if proportion is in favor of profit the investment project realized. While reviewing the criteria for evaluating investment projects, of course, particular attention is paid to the nature and classification of risk. There is a need to investigate the urgency and scale of the problem, the structure and nature of the risk in the investment process. Risk indicators and conditions vary from country to country. This indicates the need for a differential approach to the problem. Prestigious international organizations prefer the following classifications during risk monitoring: technical, political, economic and financial risks. In some sources, commercial risks are also grouped separately.

Technical risk - is typical for contributions to a particular facility in the presence of mineral raw material base.

Political risk-is used while evaluating political stability in business environment of country. Minimizing the financial risks in investment processes requires that the investment policy to be scientifically justified and adequate.

Economic risk- as is known, is calculated based on prices, inflation, demand and supply, and so on. The investment policy should provide a critical approach to the methodology and outcome of those predictions.

Political, economic and financial risk indicators have been named as socio-economic risks. Socio-economic risks classified as following;

1. Very high risk is
2. Medium high risk
3. The moderate risk is
4. Low risk

5. Very low risk

Sources of financing for investment are divided into two parts specific debts and budget fund. Depending on the funding sources, investment is divided into centralized and non-centralized investments. Centralized investment is mainly funded from the budget. Particularly, it focuses on the development of inter-industry production, new construction. The non-centralized investment is made at the expense of special funds and bank loans. Specific sources of investment financing:

- allocation of profit for this purpose;
- funds used in issue of shares;
- use of internal resources from rental construction;
- Depreciation deductions for basic production assets;
- profit from sales old and unnecessary fixed assets, and so on.

The most substantial source of investment financing sources is amortization. Entity`s special fund is the main source of payment of expenses related to renew fixed assets. . These funds are accumulated in the form of depreciation deductions throughout the whole useful life of the fund. Depreciation deductions are the major part of the entity's own financial resources. Amortization is the expression of physical and moral erosion of funds. Amortization is the expression of physical and moral wear of funds. Depreciation is made for the purpose of full replacement of fixed assets when their useful life finishes. Part of the revenue from the sale of goods (in the amount of depreciation deductions) is included into the amortization fund. Amortization fund is formed by depreciation deductions from major production assets and is the cash inflow to the restoration of obsolete fixed assets and the acquisition of new fixed assets. Depreciation charge is included into production costs (cost value) of the product. The entity is responsible to collect amortization charges. In this respect, an entity should deduct that amount from the sale proceeds to the depreciation fund. The amount of annual depreciation deductions depends on the value of the fixed assets. Amortization is calculated monthly, it is constant and continuous.

The investment activity of an entity depends on a certain level of state policy. State with its own behavior can stop and boost these activities. Despite of market economy have lots of positive effect, it is unable to manage social problems, society and investment activities. Market economy does not ensure income equality, protecting labour rights. Businesses don`t have intention to invest in project that is necessary for government and public at the same time don`t have profitability. Market economy doesn`t help to solve actual problems.

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The main indicators of the payback period of investment projects and ratio of revenue to cost. For evaluating investment`s effectiveness there are some indicators and ratios can be used.

It is advisable to develop an enterprise's investment policy and assess possible risks. The effects of commercial risks (different types of construction, manufacturing, marketing, credit and currency risks) evaluation base on reduction of expected returns on investment and investment effectiveness. Protection of investors against non-commercial risks (natural disasters, civil conflict, changes in the economic policy of the state) may be provided by obtaining state guarantees or insuring investments. Investment attractiveness has vital role in maintaining stable and continuing development of our economy for a long time. To further development of investment climate within the country is one the main objectives to provide necessary quality and quantity of investments. Here actions on following directions will be made:

- to promote corporate management and preserve personal property;

- to establish more favorable competitive climate for all entities not depending on nature of property;

- to expand role of state to maintain durable legal-normative regime;

- to develop information system of investors on entities to analyze and choose investment objects;

- to give further guides towards improvement process of present day institutional infrastructure maintaining favorable transformation of deposits to investments;

- to improve information provision of business, to harmonize the statistics with international standards;

State investments policy Main directions

Main priorities of the state investment policy are as following:

- to stimulate investment flow for the non-oil sector and development of region;

-to optimize investment diversification among regions;

Promoting the social direction of investment activities in the country, first and foremost investing in human capital, infrastructure;

- to preserve full state investment policy transparency;

- to promoting future economic security in the country;

- to promote country`s defense capability.

Main directions of the policy on special investments

- to continue measures to encourage investment attractions of the business entities of Azerbaijan;

- to enhance the foreign trade regime in order to bring modern technological equipment to Azerbaijan for the technologically reconstruction of companies;

- Directing domestic investments and foreign investment in export-driven areas;

- Promoting the procedure of foreign direct investment in services;

- To strengthen the accounting and auditing process in accordance with international standards.

1.3 Implementation of IFRS and investment expenses accounting

There are some standards to deal with long term assets one of them is 16th.Principle point of sixteenth standard is to decide bookkeeping behavior for PPE and this is broadly applied in all organizations . PPE protecting is gone for use in the generation or administration effort, using for rental to other and for managerial commitments. For this standard, the PPE is used in more than one period. Primary issues IAS 16 concerned are acknowledgment of PPE deciding during and after appreciation.

IAS 16 thinks about that if the expense of PPE is introduced as an advantage:

- Probability of that future benefit related with resources stream to organization
- Expenses of thing can be assessed dependably

This acknowledgment guideline will at first be connected to all expenses brought about after securing of a PPE to be procured and displaced them. A few things of PPE might be significant for procurement of security reasons. In spite of the fact that they do not straightforwardly raise the future advantages, they might be unavoidable.

Use of PPE may request substitution at certain time interims. For instance, changing levels of vehicle. In such cases, an organization discounts more seasoned parts' conveying sum and perceive costs of new parts in conveying measure of PPE thing.

Estimation under IAS16 is made at plant, property and gear cost. Cost of PPE Items comprise of followings:

- Purchase cost of PPE things
- Any costs legitimately identified with conveying resource for appropriate spot and condition for making it prepared to work under administration goals.

We incorporate establishment, conveyance gathering and so on costs to this At acknowledgment date PPE things cost is money value proportionate. There are two kinds of bookkeeping model for PPE;

- Cost model
- This model notes that organization perceive estimation of advantage as following

Carrying estimation of asset=Cost – Accumulated deterioration – Accumulated weakness misfortunes.

In revaluation model substance, perceive resource at revalued sum.

Revalued amount=Fair esteem short amassed deterioration less collected debilitation misfortunes.

The consequence of organization's revaluation strategy could influence conveying measure of advantage in two different ways;

• It can increment conveying amount. If there is increment the substance will demonstrate it on their other thorough salary explanation in transformation excess.

• It can lessen conveying amount. If there is decline the organization will remember it in its benefit or misfortune.

The one of main standards for investment is 40 th standard. A lot of clerks guess that PPE is the fundamental standard to deal with dependable resources accounting anyway it isn't .right .the facts confirm that standard is associated on a huge segment of long haul assets. It doesn't give any methods the just a solitary one regulating all. There are not heaps of various standards managing long-standing assets, 40th is one of these rules.

40th Accounting standard Investment Property gives accounting treatment and disclosure of property. This could be building, land held for evident goals, for instance, gain rentals and so on.

The explanation behind the property is noteworthy because component long-lasting property any of purposed referenced can't be assigned an property;

- For creation or supply of items for organizations,
- For administrative purposes, or
- For bargain in the standard course of business.

If resource utilizing durable evident asset for legitimate and creation purposes, by then should apply İAS 16 and İAS 2 inventories.

Venture property's assertion rules are identical to express in IAS 16 for PPE.

Theory of property is seen as a favorable position just followings happen;

Likelihood of future money related focal points related to the thing stream to a substance is high

IAS 40 as obvious from İAS 16 will be assessed by cost, including trade cost. Sticker price and any inferable expenses, for instance, legal or capable charges, property charges are fused to cost of the property. In any case, we could reject start-up expenses is that as it might, if there ought to emerge an event of these start-up expenses are directly related to hypothesis property, by the substance can join them yet can avoid any ordinary start-up expenses.

- Operating hardships
- Abnormal abuse of material, work or various resources achieved at advancement

Under this model, component sees speculation property estimation at the itemizing date. The sensible regard is described under the standard IFRS 13, an expansion or setback coming about due to re-estimation to reasonable esteem will be seen.

A portion of the time, the reasonable esteem is not constantly quantifiable after the first affirmation. This can happen in phenomenal conditions and for this circumstance, IAS 40 endorses to figure your theory property at cost, if it's not yet finished and is being worked on and to find out your property using cost model, if it's done.

The cost model is the second option for coming about the estimation of the property. In cost model component convey asset at its cost less any joined cheapening and any accumulated incapacitation loses. Inside use of plunge of property component should consider important life and downgrading whole, methodology and time of the property.

The derecognition controls in IAS 40 resemble the standards in IAS 16.

You can derecognize your property on the following condition

- When a component doesn't expect any property's future money related favourable position and adventure property is pulled back

The substance needs to choose increment or setback on exchange as a change between:

- Net exchange proceeds, and
- Asset's passing on the entirety.

Expansion or misfortune on move is seen in advantage or incident.

There are a few contrasts somewhere in the range of sixteenth and 40th standard. Practically entire elements put some cash in resources, which are non - current resources. The non - current resources bookkeeping is subject of the concerned convention. Sixteenth and 40th standard normally take after with each other and this substance share some common techniques. By the by, the 16Th standard gives the primary regard for treat premise the advantages that work in business movement. Be that as it may, for 40th standard, at that point this is fundamental to hold resources for rental and capital commitment. This is the fundamental varieties between them. Summarily in following diagram contrasts between them appeared;

IAS 40 VS IAS 16

IAS 16 Evaluate non-current assets that consumed for business activity	IAS 40 evaluate assets which is held capital appreciation and rented
Property under development or advancement for future usage	
Property under development or advance ment for future usage was previously managed by IAS 16	Property under development or advance ment for future usage is currently by IAS 40

In spite of the fact that there is variety somewhere in the range of sixteenth and 40th standard, we should bear in yet mind that for these principles complete and share decided bookkeeping treatment, for example, with the following acknowledgment of benefits of significant worth, amortization and transfer. To alter which standard to utilization of it relies upon for which purposes the element use resources for directing ordinary business movement or likewise with the methods for bringing a venture revenue.

While substance represent İAS 40 to theirs generally, they make some basic mistakes. In following, there are some normal mistakes that show up in utilization of İAS 40 bookkeeping of asset.

- Entity use property as PPE despite the fact that speculation property for the most part contain structures or land leased to occupants. This could be perceived under İAS 16 if there isn't İAS 40. Incorrectly bookkeeping of assets result in falsely recognizing fair value movements in other comprehensive income instead of profit and loss statement

- Assuming resource kept for rental as investment property despite the fact that they not structures nor land.
- Assuming land with unclear future use as stock rather than venture property. Element can consider land as a venture property it hasn't agreed to what purposes to apply it.
- There a few resources which organization use for double purposed. Proprietor additionally use resources mostly venture property and halfway PPE. Anyway meaning of their propose to recongnize them totally or nothing.

CHAPTER II. FORMATION OF INVESTMENT EXPENSES ACCOUNTING, ITS IMPLEMENTATION PROBLEMS

2.1 Accounting of Investment expenses

All entities engaged in financing, investing and operating activities. All of these activities tied to each other.

Financing activities main aim is to bring finance and finding funds to begin and operate a business. Companies get financing sources through the financial market by borrowing and issuing shares of the entity. When a company borrows, that amount is written down to balance sheet as a liability and increase amount of it. Amount of legal convent to payable debt according to borrowing agreement is a liability. When an entity borrow money from a supplier the liability named account payable. In such condition, the entity promise to repay the debt with terms of the agreement signed with suppliers or vendors. If the amount of debt is not high, the vendors and supplier require the entity to pay their debt within short time.

The entity could also borrow by issuing bonds. Bond is given to investors, interested parties and requires payment with interest. Face value is the amount of bond and would be paid several years in future. For this reason, bonds are kind of long term financing. Interest on bonds could be semiannually and others get it as dividends. Bond obligations represent as bonds payable and any interest of bond reported as interest payable.

Many companies borrow by the emission of notes payable. Amount of borrowing plus interest due to this create notes payable. Notes payable resemble with bond payable but note payable can be issued in short and long-term basis. Entity`s operation may be financing by issuing shares of owners, these could be in various forms of shares of stock. Such as common stock, capital stock etc. Common stock is a basic type of stocks. Investors are referred to as stakeholder who has purchased those stocks.

It is different between creditors and shareholder. After entity gain profits firstly they pay debts of creditors only after they satisfied then stockholders have rights get their shares. Creditors and stockholders have claim over assets. Creditors naturally get their payments with interest due to the agreed repayment plan. However, stockholder doesn’t have right for regular payments but most companies distribute earnings to them annually. These earning of stockholders is called dividends.

Investing activities and financing activities have dense ties. Financing activities are about to find resources to begin business and operation but investing activities is about to find opportunities to make company everlasting.in short, financing considers borrowing money but investing consider giving money. Financing activities enhance the liability and equity of the company, on the other hand, investing activities results in increasing on assets.

Investing activities` main aim is to use the entity`s assets to gain additional assets to begin and operate. There different types of investing activities according to their nature. Entities need asset such as computer, machinery, buildings and etc. and these assets are tangible asset for their physical characteristics. We can reckon Plant property and equipment as long and inventories, cash as short-term assets.

As well as tangible assets, there are intangible assets. Although intangible assets are not as important as tangible but they have an impact on the entity. For example, Apply showed goodwill and intangible asset in the amount of 559 million USD. Entity report intangible assets such as patents, copyrights and goodwill as assets on the statement of financial position. Prepayment of insurance or rent can be referred to as intangible assets are reported as prepaid expenses until they are consumed. In addition, the amount of service, goods company give to other companies and have legal rights to get these payments are reported as account receivable.

In the National Accounting framework, the investment costs are recorded in the account of "Capitalization of Intangible Assets", "Capitalization of Plant, Property and Equipment Costs".

It is designed to obtain sub-accounts that reflect the cost of land areas, the intended use of nature, the fixed assets purchased, the intangible assets purchased, the costs of young and large animals as well as scientific research, experimental structure and technology studies. Actual costs for the construction and purchase of related facilities have been accounted for by "Capitalization of capital expenditures on buildings, plants and equipment". The amount of capital gain on fixed assets and non-current assets is reflected as remaining in accounts Capitalization of Intangible Assets, Capitalization of Plant, Property and Equipment Costs. These accounts are recognized for each item constructed or purchased. Establishing an analytical account should provide information on construction, reconstruction, excavation, equipment installation and other costs associated with a cost estimation of capital construction.

Long-term investments are recognized in "Long-term investments", "Other long-term investments", "Investments in associates", "Investments in joint ventures", “Increased earnings (equity) accounts. For these accounts, it is appropriate to open shares, securities, grants issued and other sub accounts. Short-term investments are recognized in "Investment securities held-to-maturity", "Short-term security investments" accounts. The initial price of the property, plant and equipment, intangible assets and other assets is deducted from the "Capitalization costs of Intangible Assets", Capitalization of property, plant and equipment costs," Plant, property and Equipment - Value", "Intangible Assets - Value" accounts.
Financial investments are reflected in the debit of accounts that have long-term and short-term financial investments in correspondence with the respective accounts credit ("Bank Accounts", "Material Reserves" and other accounts). Financial investments are deducted from credit of `Other operation cost` account. in our opinion, analytical accounting of long-term and short-term financial Investments should be made on the basis of their types and types of instruments, as well as information on financial transactions.

The following accounting records are used for reflecting the installed equipment and construction;

Dt-Plant Property and equipment`s cost capitalization

Cr-Long-term payables on construction contracts and Short-term payables on construction contracts

The following double entries are made to repay debts;

Dt- Long-term payables on construction contracts and Short-term payables on construction contracts

Cr- Bank account

If there is a deduction on payment in accordance with the contract, the entries will be as following:

Dt- Long-term payables on construction contracts and Short-term payables on construction contracts

Cr-Long-term receivables on construction contracts and Short-term receivables on construction contracts

Expenses after finished work are reflected in the following record:

Dt- Sales

Cr-Operation expenses

Dt- Plant Property and equipment`s expenses capitalization

Cr- Sales

Investment accordance with managerial accounting

The results of the investment project are also considered in investment management accounting. The managers made a decision based on the information provided by the management accounting. In our opinion, such an outcome is justified by the fact that the selection of an investment project and the outcome of its implementation are reflected in managerial accounting.

The management of the entity's investment activity is related to the investing activities of the enterprise, the preparation and implementation of investment projects. In other words, the entity clarifies the extent to which the project, which is the basis for long or short term investments, is predictive and effective for the enterprise.

Investment projects cover various strategic issues: acquisition of fixed assets, intangible assets, acquisition of new types of goods, services, restructuring and modernization of the enterprise, change of location or location of the enterprise, etc.

In the process of investing the main functions of managerial accounting in the indicated directions should be:

-choosing the optimal investment project for each specific case;

Carrying out of control over investment objects and preparation of data for making operative decisions in this area;

-control over the availability and flow of funding sources of investment;

-identification and assessment of future costs and outlays on investments.

Considering that investing in shares of any company is often determined by the ability of the company to generate net cash inflows, it is clear that the payment indicator is important in the selection of investment projects and the adoption of strategic investment decisions.

The short repayment period reduces the risk of investment projects, making them more attractive. However, it would be a mistake to accept the payment period indicator as to the most important indicator for selecting investment projects. This indicator, in many respects, has positive and negative sides, and the payment indicator does not take into account all net cash inflows associated with investments, and the amount of cash flows that only during payment is used in the calculation. This does not allow comparing costs and results for the entire investment project.

Actual accounting information about the inputs and outputs of responsibility centres is collected and reported in Responsibility Accounting.

It is based on information relating to inputs and outputs. The resources used in an organization are physical in nature like amounts of resources consumed, hours of labour, etc., are called inputs. They are changed into a common indicator and expressed in monetary terms called “expenses”, for the purpose of managerial control. In a similar way, outputs are based on cost and income data.

Responsibility Accounting must be intended to suit the present structure of the organization. Responsibility should be coupled with authority. There should be certain organization structure, which determines the responsibility of managers. Each manager`s performance is evaluated in terms of such factors.

Responsibility accounting importance lies in responsibility centres. Responsibility centres are controlled by managers who are responsible for the activities of that centre. The responsibility centres are classified as follows:

- 1) Cost Centres,

Cost centres are responsible only for incurred expenses (the inputs and not outputs that are measured in terms of money). Cost centre records only incurred costs

2) Profit Centres

Profit centres are responsible for both costs (inputs) and revenues (outputs).
3) Investment Centres.
Investment Centre is responsible for investment assets as well as costs and revenues. Investment centre` the performance is determined not by profits alone. Investment centre`s manager is always interested to produce a satisfactory return. Investment centres` manager evaluates the performance of investment activity by the help of return on investment (ROI).
Investment centres may be considered as distinct entities where the manager are charged with the overall responsibility of inputs, outputs and investment.
İnvestment expenses under managerial accounting
None of the entity can survive without making long-term strategic decisions nor operate normal business operations. The similarity between investment projects is that they initially require a great number of expenses. Finishing this project takes a lot of time for that reason mostly their results and expenses overlap each other. Investments are vital for business entities and invested areas` environment. Long-term investment likewise current decisions evaluated for certain criteria. Selection of right evaluation criteria is important because during the realization of the investment project in most cases entity borrows a great amount of money.
Followings are vital to the function of managerial accounting of investments;
-Determining future results and expenses and evaluation of them,
-Choosing an optimal investment project for each certain circumstance,
-Under definite classifications recording investment expenses in time, full and precisely,
-Arranging monitoring activity over investment objects and making operative decisions,
-Monitoring over financing fund of investment.
Preparing long term investment decisions to require a specialist from different types of professions. İn this area, firstly, opinion of financial analyzers is necessary because the main requirement for realizing investment projects is the financing of them. When evaluating short term investments it is appropriate to compare current

expenses with current results. In reality, it defines how or which investment get resulted. How over it is not always right to evaluate long term investment by their financial results.

We use the following formula to define profit rate of investment:

Prate=Pa/İe

Prate –Profit rate

Pa-Amount of investment profit

İe –İnvestment expenses

While comparing various investment project, investors mostly choose investment project, which has greater profit rate among alternatives. If there are no alternatives then investors` decisions could be reasonable if its profit rate is not lower than average profit rate.

2.2 Evaluation methods for Investment expenses

First if all when entity wants to invest in something it should take into account amount of investment expenses which has great impact on company`s future income generating activity. Investment expenses mostly require high amount of money to initiate the business activity. For avoiding  large quantities of investment projects` loss entities should evaluate investment project before to initiate it. Evaluating entity`s investment project is very crucial for company. There are various ways to evaluate company`s investment project.

<u>Urgency method</u>

Mostly within the life of a business concern, a specially selected choice is required in regard of a investment expenses. For example, if a piece of machine quits working prompting total break-down and interruption in the manufacturing procedure, it will be advocated to replace it quickly by new one even without contrasting the expense and future benefit. Any choice on investment expenses based on urgency ought to be taken just on the off chance that it is completely justified. In practice of our country`s business entities use this method

Pay back method

This is otherwise called 'result and pay out' strategy. This strategy is applied to decide the quantity of years in which the capital use is waiting to pay for itself. This strategy prescribe as far as timeframe, the connection between money inflow and aggregate sum of investment. In practice of our country`s business entities use this method mostly because it is easy to implement entity and it show reasonable results to investors and entities.

Compensation period can be estimated years which revenue is predicts. The main idea is here average revenue from project be adequate to cover incurred expenses inside certain timeframe. It is equal to project by the measure of return per annum in the wake of charging tax assessment but before charging amortization.Pay back period is determined with following formula.

Pay back period = $\frac{Net\ investment}{Cash\ inflow}$

For example ABC entity invested in project 20000 manat and is expected make annual cash income 5000 manat then its pay back period will be like 4(20000/5000)

There are some advantages and dis advantages of using this method. Advantages would be;

- This technique is not hard to apply entity and calculate results
- In accordance with this method, the firm can judge the linkage status of its funds and the risk period related to various projects.
- This method emphasizes early returns and ignores distant returns.

- This method requires less time to evaluate project proposals, thus reducing the cost.
- It is progressively reasonable for future planning in a quickly changing market, since it considers vulnerability in speculation choices.

Disadvantages of this method are followings;

- Rate on capital return is not calculated under this technique
- Technique does not take into record time of happening of inflows that generated by project
- Method does not takes into account of any future income that project generate after payback period
- This method is not reasonable to determine future profit because it can not reckon total cash flow from investment

Net present value method

By economic aspect present value of one manat does not have the same value with manat in 2005.Value of money unit changes with time period because of economic, politic, demographic and other factors make it inevitable of devaluation of money. For this reason investors should be aware and estimate changing in money value and decide to invest or not. Net present value(NPV) method NPV technique is one of the limited income or time balanced strategy. This is commonly viewed as the best technique for assessing investment proposals. If there should arise an occurrence of this technique, money inflows and money surges related with each venture are first worked out. NPV is the contrast between the all out present estimation of future money inflows and the all out present estimation of future money outflow. After calculating NPV we can determine profitability of investment project

In the event that NPV > 0, the venture is beneficial.

In case of NPV < 0, the mission won't be beneficial.

In case of If NPV = 0, it is not certain that entity can invest or not

In case of there are more than one investment option then project with the highest NPV will be realized

There are disadvantages and advantages of NPV method. Advantages are;

- The time value of money is taken into account in this method.
- The cash flows of the project are taken into account at different times
- It is more logical than traditional strategies.
- The utilization of NPV is the most beneficial in perspective on the greatest profit

Disadvantages are

- It is hard to find out the benefit cost with this strategy.
- It is hard to work out particularly the expense of value capital by this technique.
- It isn't relevant without the learning of expense of capital.
- It supports long-run investment projects.
- When ventures with various speculations are thought about, this strategy does not give right outcome.
- This strategy gives various rankings on account of complicated projects in contrast with different techniques.

Net present value method have certain calculation formula to calculate calue which is as following;

$NPV = \sum_{i=0}^{n} \frac{Rt}{(1+i)^t} - cash\ outflow\ within\ period$

In this formula Rt is equal to net cash flow -outflow within period

I is discount rate

t is time periods

Now we show how entity use this method in practice. For example;

Inferno LTD wants to invest in equipment initial investment for this is 10,000.And Inferno`s financial analyzer expect that project generate cash flow of 3500usd, 4000usd, 6000usd, 2000usd respectively 1st 2nd 3rd and 4th years. On 31st of December Inferno sold this equipment for 1000usd. In case of discount rate is 15% net present value for this equipment will be;

Before the calculating NPV we determine PV factors

First year $1/(1+15\%)^1$=0.87

Second year $1/(1+15\%)^2$=0.76

Third year $1/(1+15\%)^3$=0.66

Fourth year $1/(1+15\%)^4$=0.57

We can summarize calculation as below:

YEARS	**FIRST**	**SECOND**	**THIRD**	**FOURTH**
CASH INFLOW	3500	4000	6000	2000
SALVAGE VALUE				1000
TOTAL INFLOW	3500	4000	6000	3000
***PRESENT VALUE FACTORS**	0.87	0.76	0.66	0.57

PRESENT VALUE OF CASHFLOW	3045	3040	3960	1710
TOTAL INFLOW	11755			
-INITIAL EXPENSES	10000			
NET PRESENT VALUE FOR EQUPMENT		1755		

In our case Inferno ltd invest in this equipment because net present value of this is high enough. Although this project is profitable Inferno should select project with the highest NPV.

Internal Rate of Return Method

This technique is additionally called Time Adjusted Return on Investment and sometimes Discounted Rate of Return(ROR). This technique estimates the ROR which income are relied upon to yield on ventures. Internal ROR is characterized as the greatest rate of premium that could be paid for the capital used over the life of project without misfortune on the tasks. This is determined based on the assets used now and again rather than the speculation made toward the start. This strategy consolidates the time estimation of cash in the venture count.

Discounted ROR is determined as follow;

$$C = \frac{F_1}{(1+r)} + \frac{F_2}{(1+r)^2} + \frac{F_3}{(1+r)^3} + \frac{F_n}{(1+r)^n} + \frac{S_n}{(1+r)^n}$$

S = the salvage value of the asset in years,

r = the discounted rate of return.

C = the supply price of the asset.

F = the future cash flows.

2.3 Expert opinions about this subject

For researching this subject we have taken some interviews with professional in this field. Here is some of them;

Kamala Rzayeva

Chief accountant of As insaat LTD

How would you evaluate size of your company?

I would evaluate our company as middle size company because our last year turnover

was 11 million and until 30 million companies are considered as middle sized.

How is your entity`s investment policy?

For macroeconomic reason our company`s investment policy is not so agreeable. One of the main problem for investment of our company is regulatory framework. For example, we have subsidiary entity, its authorized capital is 50000, and we have some documentary problem with executive bodies for getting property rights for land to construct new building. Also getting licenses for water, electricity usage.

How do you reflect investment expenses in your statements?

I would say that we don`t have many investment expenses. If our company would have some investment expenses I would record it in cash flow statement because I suppose that there is section in that statement to record these type of activities.

In your opinion is capital expenditures and investment expenses the same or various?

I would not say that they are not the same things. We last year establish new subsidiary company and which has 50000 authorized capital. We use this capital to improve our company`s business plan or using consulting services from qualified companies. I think that this is capital expenditure but investment expenses are different. Investment expenses are expenses, which incurred to get new machinery equipment. For financing these investment expenses our entity take loan from bank

because mostly amount of these expenses is high enough. In my opinion capital expenditures is used establish new company provide sustain operating activity but main idea of investment expenses is to generate future economic benefit to entity. In our country, although we operate financial accounting but accounting of entity is based on for tax purposes. Because tax authorities require it. In financial accounting we don`t calculate depreciation as tax accounting also there are some expenses tax authorities don`t recognize them as expenses but we recognize in financial accounting.
The most actual thing in our entity`s capital expenditure is interested to show profit in large amount. We operate with foreign companies often we have bigger project abroad than Azerbaijan. We are interested to show profit more for that reason we are construction company our clients and business partners would like corporate with company which have great amount of profit. If entities` profit would be low most client wouldn`t work us because great amount of profit guarantee business operations. And our company do not operate in financial market.
How do you represent investment in your statement for audit and tax purposes?
In tax statements there are punk net profit of current year in financial results. There was different approach before we work here. Accountant before me did not dispose depreciation expenses they were evaluating this from aspect investment. For example, entity purchased equipment with 100000usd value but did not calculate depreciation for it over year. If I gained this value in 2 year, it meant I close this account and do not accumulate depreciation but it was not true because it did not reflect expenses correctly. It have negative aspects on tax accounts but have positive on financial aspect. By this, entity shows its profit high but taxable amount getting low.
I have faced audit of investment expenses mostly in audit`s review.
How do you evaluate investment profitability?
We estimate mostly our investment value with payback value method. Because for implementing other methods we need to use formulas of econometrics and it is more time consuming.

CHAPTER III. METHODOLOGY AND DEVELOPMENT OF ACCOUNTING AND AUDIT OF INVESTMENT EXPENSES

3.1 Audit of investment expenses

Audit is an independent verification of the accounting records of accounting entities engaged in the production and sale of goods, services and business, as well as accounting and financial reporting. An audit involves an independent audit of annual financial statements prepared by economic entities in accordance with the applicable legislation to determine the correct, comprehensive and accurate reflection of assets, liabilities, special purpose and financial results. The basis of the audit is the mutual interest of the state, enterprise management and its owners (depositors, shareholders). In a number of countries, it is understood that audit involves auditing and commenting on its financial statements.

The audit has a long history and gives the meaning of "listening" or "listener" in different translations. The appearance of an audit is directly related to the allocation of interests of managing directors (managers, managers) and those who invest money in their activities (owners, stockholders, investors). The latter can not rely on and trust the financial information provided by the directors of their organizations and their subordinate accountants. Frequent bankruptcy of various companies and deception by the management considerably increases the risk of financial investments. The Law "On Auditor" states that audits of audits may be compulsory or voluntary (on the initiative of economic entities). Audit is mandatory, and in other cases, voluntary for economic entities that are required to publish their financial statements in accordance with the legislation, as well as in cases directly stipulated by legislative acts or relevant decisions of the competent state authorities (at their request). Mandatory audit shall be carried out on the instruction of the public authorities only in cases specified in the legislation. The scope of the mandatory audit and the rules of conduct are regulated by the legislation.

Under existing legislation, audit is mandatory for joint-stock companies, foreign investment entities, banks and other credit organizations, insurance organizations, limited liability societies, investment funds, financial-industrial groups.

Additionally, the Civil Code of the Republic of Azerbaijan states that within twelve months, the amount of the balance and the amount higher than the final limit determined by the relevant executive authority should be audited by the auditor for the annual balance, including the attachment.

Initiative (voluntary) audit is carried out on a contractual basis with an auditor (auditor firm) on economic subjective judgment. The nature and extent of such inspection is determined by the customer.

Internal audit is an integral and important element of governance control. Demand for internal audit is due to the fact that senior management does not engage in daily supervision of the activities of the organization and its lower management. the internal audit provides information on this activity and confirms the correctness of managers' reports. Internal audit is mainly needed to prevent loss of resources and make necessary adjustments to the entity.

Outside audit is carried out by auditor's forms and independent auditors on a contractual basis to evaluate the validity of accounting and financial reporting of economic entities. Independent auditor's freedom is determined by legislative and ethical norms.

Internal and external audit complements each other and at the same time differs significantly from each other.

Audit of the business activity provides for a regular analysis of the economic activity of the entity for certain purposes. Audit of economic entities is sometimes referred to as an audit of work or administrative effectiveness. In the audit of the business activity it is envisaged to carry out objective analysis and analysis of certain types of activities.

There are various type of audit;

Finance and Investment Audit

Financial Audit - means audit in a classical understanding, ie to verify the validity of the accounting report.

Investment audit - notification of effective use of investment resources and audit of professional participants in investment activities.

Industrial Audit

Industrial audit is a more difficult concept because it includes financial (and elements of technical audit).

Verification of the value of the products to the elements of the financial audit and the tariffs for the services are justified.

The elements of the technical audit are the control of the safety system, the control system and the applied technical solutions, and equipment status by independent experts.

Personnel Audit

Audit of staff - checking the potential of employees and their employees whether they comply with corporate culture and company values.

PR-Audit

Responsibilities of PR-audit - performance of project obligations, productivity of the allocated funds.

The audit should not be restricted to the monitoring of financial statements, but should also summarize the analyze outcomes of the current situation, provide for future development, and develop realistic proposals for the preparation and application of new models for improving management.

Founders, shareholders, lenders, investors and other interested parties are interested in earning higher profits in return for their capital and, as a result, constantly increase revenues. For this purpose, they want to get reasonable, objective information on the financial position, financial stability and solvency of the entity, and to get reasonable conclusions for current and prospective periods. In order to conduct such an assessment, there is a need to overestimate the appropriateness of the investment in the ratio of the expense of investment and cash flows.

In general, the determination and evaluation of the effectiveness of this or other management decisions is the outcome and final stage of the audit. In this process, it is a generalized picture of the effectiveness of decisions and decrees that the audit authority has adopted in all cases.

The objective of auditing of separate business operations is to evaluate the effectiveness of activity by taking part in their various stages. However, it directly affects the economic outcome, and moreover, it participates in a certain area of economic activity based on the proposals resulting from the audit. His final findings and suggestions are mainly used by a business entity's manager in a practical way to deal with current issues. Evaluation of separate transactions and the effectiveness of these economic transactions is a difficult and complicated procedure to evaluate financial statements and other issues.

It is known that the implementation of investment programs is realized at the expense of various financing sources (own profit, bank loans, etc.).This implies the relationship of investment activity with financial markets. Therefore, in the process of auditing the investment projects, the investment environment and first of all the capital and money market should be researched. İnvestment in the implementation of investment expenses promotes negative cash flows, inflow from certainly realized investment project generates positive cash flows.

For certain periods of time, the amount of negative investment earnings may be higher than the amount of positive cash.

Therefore, the effectiveness of the use of cash resources in the investment program of investment activity audits should be evaluated in the types of funding and types of money circuits.

It is important to obtain accurate and reliable information for the audit and expertise of investment operations and to achieve the ultimate outcome.

Acquisition of this information also creates an appropriate framework for the auditor to apply the necessary strategy and control to conduct audits of investment transactions.

In the context of the market economy, investment activity is considered a decisive tool for extensive reparation. The development of respected business entities cannot be imagined without investment.

It is important to refer to the information in a number of technical documentation for the purpose of clearing investment transactions, identifying the obligations of the parties, and obtaining relevant information about the actual business and service cost. These technical documents could be; funding acts of financial and other movable and immovable property to economic subjects, certificates confirming investment attraction,

Relevant documents on securities acceptance and transfer, bank and cash payments, founding documents, excerpts from the protocols of joint stock companies, promissory notes, bonds, certificates, stocks, standard certificates certifying other securities, shares, standard certificate forms that certify other securities, borrowing agreement contracts.

It is important to refer to the main book and balance information to obtain more accurate and up-to-date information on accounting for investment transactions. In addition to other accounting records, it is important to look at inventory acts and other sources of information confirming the circulation of circulating securities, their periodic movements and cash flows. When audit monitoring documents such as timely and accurate accounting of investments in investment securities, a compilation of accounting records for investment transactions, proper accounting of accounting documents, correct accounting of investment results (income and profit) and other should be the object of this process.

One of the objects of the audit examination is the legal clearance and assessment of dividends and interest received on invested funds. At this stage, the auditor should define the forms of formalities for the dividend acquired from investments.

In other words, dividends and interest rates should be considered in cash or non-cash form. The actual dividends received after that should be confused with the amounts envisaged in the official documents.

One of the investment portfolios should assess whether they comply with the requirements of the Civil Code of the Republic of Azerbaijan and conform to international conventions in the field of expertise of normative legal documents on joint activity. One of the key areas of inspection expertise is the investigation of actual economic transactions on investment. Here, more serious issues should be highlighted by applying the selection method. Thus, the timely relocation of funds and the formalization of official documents, depending on the forms of investment, are of great importance.

More precisely, the auditor should check whether the financial asset or investment assets invested in the investor's disposal are clearly documented and documented.

In many cases, the tangible assets transferred to the investor's disposal are not documented for a long time and the proceeds generated from the activity of the entity are distributed between the parties unofficially. Financial investments can be of two types: cash and cashless. Cash transactions should be confirmed by cash and cash orders, and non-cash transactions should be confirmed by bank statements. The auditor should inspect the first documents (cash flow orders, bank outlays) confirming the transfer of those funds at the time the funds are transferred to the investor.

The final stage of the audit is finalizing audit results. At the last stage, detection of negative cases in investment operations, serious offences in accounting and financial reporting is finalized and evaluated.

When completing the results of auditing expertise, the auditor should also make appropriate recommendations for the targeted investment tools and the efficient use of existing funds. As a rule, the auditor checks the results of more serious violations of law, fraud, demolition, purposeful or unintentional damage caused by this. Conducting audit and expertise on investment incentives should be based on these principles.

It is known that in the context of market economy relations, financial resources and other assets are vital. Negative situations in such circumstances may result in the dismissal or misappropriation of funds. Therefore, any minor shortcomings revealed as a result of audits of investment activity should be found in their final value. Conclusion of audit-expertise results on investment activity should be based on the following principles.

First of all, deficiencies and shortcomings in this area should be assessed from the legislative point of view. The auditor should first refer to the laws of the Republic of Azerbaijan on investment activity when commenting on the separate violations of the law committed in the investment and ventures. He may then refer to relevant paragraphs of the guidelines and rules developed by the State Committee for Securities under the President of the Republic of Azerbaijan for a more accurate interpretation of the alleged offences, depending on the form of investment.

At the next stage of finalizing audits and expertise results of investment transactions, the targeted and non-targeted distortions in offshore operations, accounting for economic and financial transactions and the proper conduct of accounting records, and the deficiencies in revenue and dividends received as a result of investing should be assessed.

The next stage of finalization of investment-related expertise should be about the status of accounting and reporting on economic transactions conducted in this area. Establishing adequate control over regular inventory of securities, including bonds, bills, checks, treasury bills, bank certificates and other cash flows from enterprises and organizations, is one of the functions of internal audit. When completing audit and expertise work, the general condition of the internal audit of investment and the specific nature of the investment must be assessed and interpreted. Any minor deficiencies in the final stage of probation-examination work can be grouped according to the nature, assignment, and the final act in the registry to the nature of irregularities. The general description of these deficiencies can be summarized in a brief form by reference to the registry.

An auditor may also use test responses when completing an inspection of investments in enterprises and organizations. When generating test questions, it is important to take into account the general specifics of the entity and the specific characteristics of production areas. Testing responses should be organized on each type of investment. The test should cover the amount, purpose, investment, and other related investment needs of enterprises.

3.2 Improvement direction of investment expenses accounting

Long-term investments in point of managerial accounting development there is need to classify and evaluate investment expenses. More important to organize costs accounting is their direct and indirect costs. The criteria for direct investment costs are directly related to the acquisition or construction of the property, and indirect costs are not included in the cost of the item. If an investment is made on a

loan account, the interest expense will increase the value of the investment assets that will be included in the investment costs .For that reason, it would be reasonable to open indirect cost subaccounts. One of the problems in the recording of long-term investment sources is that the circulation of existing accounts does not respond to the question of which sources of funding the organization finances for the investment project.it is suggestible to open balance on each source
There are a numberous of problems in the prosess of investment expenses accounting.

- lack of accounting policies of entities in accordance with relevant legislation;
- Lack of knowledge of the accountant of entity in this area;
- Absence of document circulation schedule approved for prevention of verbal agreement circulation;
- Shortage or inaccuracy of information during the accounting for investments;
- Lack of control over the construction, costs of the entity's management;
- Audit of primaraly confirmed documents by accountant
- Lack of automation of accoutnig process

To overcome these problems, it may be advisable to offer the following to improve the recording of investment expenses:

- An entity's accounting policies cover the specific principles, bases, conditions and rules applied by the entity when preparing and presenting the financial statements. The accounting policy is liberalized through accounting policies, the regulatory framework improves, the entity's accounting policies for the international accounting standards are prepared by the Chief Accountant and approved by the entity's drectors. Therefore, it may be possible to make changes in the business process in accordance with the legislation to include changes in accounting policies that may occur in the business life.

- In order to improve access to the primary information, it is necessary to organize a timetable of document flow in a timely manner in accounting registers and reports. It can increase the productivity of the accountants, strengthen its control functions, increase the level of mechanization and automation of accounting process, as well as ensure the delivery of the original documents to the required executor. Therefore, it would be appropriate to add that case to the accounting policy.
- The investment expenses audit on accounting activity should be strengthened by the head of the enterprise, requiring the head of the enterprise to review the accounting records, investigating the existing statutory acts in this field, and to have additional control over the employees. This approach requires less time to convince management to be able to invest in one or more of the facilities required, making it more cost-effective, and that the employees of the entity are more responsive to improving their discipline.
- One of the problems of investment accounting is the different assessment of them in the accounting and tax accounting. According to the rules, the carrying amount of an investment property in the accounting is higher than the carrying amount tax account. This is due to the fact that the recognition of the costs of intermediary and information consultation, as well as some costs associated with the acquisition of credit interest, registered fees and fees, and investment assets at the level of established standards are recognized as expense in the period covered by the tax legislation, thereby allowing the income tax base significantly decreases. Of course, this approach is more profitable for organizations. Accounting for the purpose of tax accounting purposes and the resulting differences in the formation of different initial values of investment assets increases the accounting function. For avoiding such problems these expenses are not included into cost of investment. The organization breaks the rules of financial

accountability assessment of asset and include such costs in the "Other operating expenses” account.

As a way of solving the mentioned problem, aim sould be strengthen control over verification of the overall cost of the audit as well as the overall cost of the tax audit process. If the initial cost does not include any direct and indirect costs associated with the construction and acquisition of fixed assets, the property tax base decreasing risk increases after commissioning. All of these should be taken into account in the restatement of accounting policies

- At the same time it should be noted that the modification and restoration of the cost of fixed assets, and the expenses that increase the cost of fixed assets allow the control of the formation of expenses arising under long-term investment. However, control over expenditure is provided at the level of more local and specific account registrations as reflected in the information. In this case, the information reflected in the usual registries is inadequate for the intensity of the entity's investment. It simulates circulation information in the integrated registries and conforms to the accumulation and depreciation intensity of the financial transactions. This is evidence that accounting records are associated with economic and economic activity rather than contingent liabilities. It would be more effective to consider such cases in accounting.
- One of the problems that arise in the recording of long-term investment sources is that the circulation of existing accounts does not respond to the question of which source of financing the organization finances the investment project.
- There is a need to critically evaluate the composition of investment expenses and their classification by improving the management accounting of investment projects. The most important issue for the cost accounting is their division into direct and indirect expenses. Studies show that direct

investment expenses are directly related to their acquisition or construction, and indirect expenses are not included in the cost of property cost. If the investment is finances through a loan, interest on the loan used to increase the value of investment assets, which are subject to the indirect investment expenses. Therefore, it is expedient to consider opening the sub-account "Indirect investment expenses".

- It is expedient to make accounting for enterprises in accordance with international accounting standards. Failure to use international standards during globalization can create problems with working with foreign companies so it's important to work in accordance with the requirements of the Law on Accounting.

From the aforementioned, it can be concluded that the effectiveness of the investment accounting is based on the method of grouping and presenting information.

Finally, let's note that at the first opportunity it is necessary to switch to the automated form of accounting from the traditional one. Accounting automation saves time, simplifies business accounting, and reduces errors in accounting records and annual reports. It is necessary to gradually automate accounting. You need to get and use better accounting software.

All this can improve not only the investment, but also the enterprise's overall accounting. At the same time, properly structured and systemized accounting information ensures efficient management of production.

CONCLUSION

In our opinion for developing accounting of investment expenses there should be certain legal obligation and rules which encourage companies to obey international reporting standards. For increasing usage of IFRS financial government bodies should require certain qualifications to operate as accountant.
According with our research application of IFRS is not fully responded by our countries` business entities they mostly prepare these statements for tax authorities. In our country, business entities do not get used to operate in financial markets and this results in our business entities mostly invest in long-term assets and project. It

is not so bad but if financial market developed in our country business entities can easily rise their funds and invest other project in order to generate future cash flow to company.

Throughout the accounting and analysis of long-term investments, the enterprise faces a number of problems. They consist of followings:

- Lack of accounting policies in accordance with relevant legislation
- Lack of accountants` knowledge in this area
- Absence of confirmed document circulation schedule
- Lack of control over investment expenditures by the management
- Inaccurate and unobservable documentation
- Improper calculation of investment risks

A number of suggestions can be considered for the elimination of these problems and making their application practical.

Establishing an accounting policy correctly and improving its accounting system for implementing a long-term investment project.

Organize the schedule of document circulation certified by the enterprise to strengthen the accounting function of the accounting.

It is reasonable to make consider accounting in accordance with international accounting standards.

Perform automation of accounting for investments accounting and analysis, simplify accounting records, and achieve reducing of errors in accounting records and reporting. Getting and using better accounting software

For the efficient use of long-term assets, it is advisable to calculate the investment risk in accordance with the correct methods and rules when analyzing them

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