FEATURES OF DEVELOPING ACCOUNTING POLICIES FOR TANGIBLE ASSETS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

(MHXS asosida hisob siyosatining moddiy aktivlarga oid qismlarini shakllantirish xususiyatlari)

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Abstract: *The transition to International Financial Reporting Standards (IFRS) requires entities to develop accounting policies that ensure transparent and reliable financial reporting. A key area in this process is the formation of accounting policies for tangible assets (property, plant and equipment), as they represent a significant portion of total assets and influence financial results. This study examines the specific features of developing accounting policies for tangible assets under IFRS. The analysis focuses on recognition criteria, initial and subsequent measurement, selection between the cost and revaluation models, depreciation methods, determination of useful life and residual value, component accounting, and impairment in accordance with IAS 16, IAS 36, and IAS 23. The results show that IFRS-based policies for tangible assets are principle-based, flexible, and require professional judgment and enhanced disclosures, improving the quality and comparability of financial statements.*

Key words: *Accounting policy; Financial reporting; Reliability; IFRS; Transparency; Audit; Policy disclosure*

Introduction

The globalization of economic relations and the integration of capital markets have significantly increased the demand for transparent, reliable, and comparable financial information. In this context, the adoption of International Financial Reporting Standards (IFRS) has become an important step toward improving the quality of financial reporting and enhancing investor confidence. Research shows that IFRS implementation improves the relevance, comparability, and usefulness of financial statements for decision-making (Barth et al., 2008; Daske et al., 2008).

Within the IFRS framework, tangible assets, or property, plant and equipment (PPE), represent one of the most significant components of an entity's asset structure. These assets form the material and technical base of business operations and often account for a substantial share of total assets, particularly in industrial and capital-intensive sectors (Herrmann et al., 2006). Therefore, the accuracy of their recognition, measurement, and disclosure has a direct impact on financial performance indicators and the overall reliability of financial reporting.

The accounting treatment of tangible assets under IFRS is primarily regulated by IAS 16 "Property, Plant and Equipment", which establishes principles for recognition, initial and subsequent measurement, depreciation, impairment, and disclosure (IFRS Foundation, 2022). A distinctive feature of IFRS is its principle-based approach, which requires entities to apply professional judgment when developing accounting policies. In the case of tangible assets, this includes key policy choices such

as the selection between the cost model and the revaluation model, determination of useful lives and residual values, application of component depreciation, and capitalization of borrowing costs (IAS 23).

Previous studies emphasize that the use of fair value and revaluation models can improve the informativeness of financial statements, but at the same time increases measurement uncertainty and requires qualified professional expertise (Christensen & Nikolaev, 2013; Hitz, 2007). In addition, impairment testing in accordance with IAS 36 plays an important role in ensuring that assets are not carried at amounts exceeding their recoverable value.

Despite the advantages of flexibility and improved information quality, the development of accounting policies for tangible assets under IFRS is associated with practical challenges, including fair value estimation difficulties, increased disclosure requirements, and the need for effective internal control systems. Therefore, the formation of accounting policies for tangible assets in accordance with IFRS requires a systematic and professionally grounded approach.

Another important aspect of accounting policy formation for tangible assets under IFRS is the requirement to reflect the economic substance of transactions rather than their legal form. This principle increases the analytical value of financial information and allows users to better assess the efficiency of asset utilization. Studies indicate that IFRS-based measurement approaches, particularly those involving fair value and regular reassessment of useful lives, contribute to more timely recognition of changes in asset value and economic performance (Penman, 2007; Barth, 2014).

The selection of subsequent measurement models for property, plant and equipment represents one of the most critical policy decisions. While the cost model ensures stability and simplicity, the revaluation model enhances the relevance of financial information by reflecting current market conditions. Empirical research shows that companies operating in environments with developed capital markets are more likely to apply revaluation in order to improve the informational content of financial statements and reduce information asymmetry between management and investors (Brown et al., 1992; Christensen & Nikolaev, 2013).

In addition, IFRS requires regular review of key accounting estimates related to tangible assets, including useful life, residual value, and depreciation method. This requirement distinguishes IFRS from more rule-based accounting systems and ensures that depreciation reflects the actual pattern of economic benefits consumed by the entity. The application of component accounting further improves accuracy by allowing significant parts of an asset with different useful lives to be depreciated separately (IASB, 2022; Wüstemann & Kierzek, 2005).

The impairment testing mechanism established by IAS 36 also plays a significant role in the accounting policy for tangible assets. It ensures that assets are not carried at amounts exceeding their recoverable value and requires entities to identify both external and internal indicators of value decline. Academic studies highlight that timely impairment recognition improves earnings quality and reduces the risk of asset overstatement, thereby increasing the reliability of financial reporting (Beatty & Weber, 2006; Ramanna & Watts, 2012).

Methods

This study is based on a qualitative research approach using analysis and synthesis of regulatory documents and scientific literature related to accounting for tangible assets under International Financial Reporting Standards (IFRS). The research applies comparative and systematic analysis of key IFRS requirements, particularly those related to the recognition, measurement, depreciation, impairment, and disclosure of property, plant and equipment. In addition, general scientific methods such as logical analysis, classification, and generalization were used to identify the main elements and specific features of forming accounting policies for tangible assets. A review of relevant academic and methodological sources was also conducted to ensure the theoretical validity and consistency of the research conclusions.

Results

1. Recognition criteria for tangible assets

Under IFRS, the recognition of property, plant and equipment (PPE) is based on the principles established by IAS 16. An item of tangible asset is recognized as an asset only if two key conditions are met: (1) it is probable that future economic benefits associated with the item will flow to the entity, and (2) the cost of the item can be measured reliably. These criteria ensure that only economically justified expenditures are capitalized, preventing the overstatement of assets.

In the process of forming accounting policies, entities must determine internal rules that specify the practical application of these criteria. One of the important elements is the establishment of a capitalization threshold based on the materiality principle. Expenditures below the established threshold may be recognized as period expenses, even if they technically meet the definition of an asset. Such an approach simplifies accounting procedures and improves the cost–benefit balance of financial reporting.

Another important aspect of accounting policy is the distinction between capital expenditures and routine maintenance costs. According to IAS 16, costs incurred to maintain an asset in its current operating condition are recognized as expenses, while costs that increase the asset's future economic benefits — such as modernization, reconstruction, or extension of useful life — should be capitalized.

Entities must also define accounting policies for spare parts, major inspections, and replacement of significant components. Major spare parts and standby equipment that are expected to be used for more than one period are recognized as PPE. Similarly, the cost of major inspections or replacements is capitalized if recognition criteria are met, while the carrying amount of the replaced component is derecognized.[1]

Thus, the recognition stage plays a critical role in the formation of accounting policies, as it determines the boundary between current expenses and long-term assets and directly affects financial performance indicators.

2. Initial measurement policy

After recognition, tangible assets are measured at cost. According to IAS 16, the initial cost of an asset includes all expenditures directly attributable to bringing the asset to the location and condition necessary for it to operate as intended by management. The formation of accounting policies should therefore clearly define the composition of capitalized costs and the treatment of related expenditures.

The cost of property, plant and equipment generally consists of the purchase price, import duties and non-refundable

taxes, transportation and handling costs, installation and assembly expenses, and professional fees. At the same time, general administrative costs, staff training expenses, and initial operating losses are not included in the cost and are recognized as expenses of the period.

In cases where an asset is constructed internally, accounting policy should regulate the allocation of direct materials, labor, and a reasonable portion of overhead costs. Special attention should also be given to borrowing costs. In accordance with IAS 23, borrowing costs directly attributable to the acquisition or construction of a qualifying asset must be capitalized until the asset is ready for its intended use.[2]

The initial measurement policy may vary depending on the method of asset acquisition. Table 1 summarizes the main approaches to determining initial cost under IFRS.

Table 1. Initial measurement of tangible assets depending on acquisition method

Acquisition method	Initial measurement basis
Purchase for cash	Purchase price plus directly attributable costs
Deferred payment	Present value of future payments
Self-constructed asset	Direct costs and allocated overheads
Asset acquired through exchange	Fair value of the asset received or given up (if reliably measurable)
Asset acquired through government grant	Measured at cost, with grant accounted separately (IAS 20)

The proper determination of initial cost is essential, as it forms the basis for subsequent depreciation, impairment testing, and financial analysis. Therefore, a well-defined accounting policy at the initial measurement stage ensures consistency, reliability, and comparability of financial information.

3. Subsequent measurement of tangible assets

After initial recognition, an entity must select an accounting policy for the subsequent measurement of property, plant and equipment. IFRS allows the use of either the cost model or the revaluation model, and the selected approach should be applied consistently to an entire class of assets (IAS 16, para. 29).

The cost model is based on historical cost and provides stability and simplicity in accounting. In contrast, the revaluation model reflects the fair value of assets and increases the relevance of financial information, especially in inflationary environments or active markets. However, the revaluation model requires regular professional valuation and additional disclosure.

Table 2. Comparison of subsequent measurement models under IFRS

Measurement model	Basis of valuation	Advantages	Limitations
Cost model	Historical cost less depreciation and impairment	Simplicity, stability, lower administrative cost	May not reflect current market value

Revaluation model	Fair value less subsequent depreciation	Higher relevance, improved asset transparency	Requires regular valuation, higher cost, estimation uncertainty

The selection of a measurement model represents a key element of accounting policy, as it directly affects asset values, equity, and financial ratios.

4. Depreciation policy

Depreciation represents the systematic allocation of the depreciable amount of an asset over its useful life (IAS 16, para. 6). IFRS requires that the chosen depreciation method reflect the pattern of consumption of the asset's economic benefits.

Entities must determine useful life, residual value, and the depreciation method based on expected usage, physical wear, technological obsolescence, and legal or contractual limits (IAS 16, para. 56). These estimates must be reviewed at least annually and adjusted prospectively if necessary (IAS 16, para. 51).

Table 3. Depreciation methods and their application

A well-designed depreciation policy ensures the relevance and reliability of expense recognition and requires continuous professional judgment.

Method	Characteristics	Suitable for
Straight-line	Equal depreciation expense over useful life	Assets used evenly over time
Reducing balance	Higher depreciation in early years	Assets that lose efficiency quickly
Units of production	Based on actual usage or output	Machinery dependent on production volume

5. Component accounting

IFRS requires that significant parts of an asset with different useful lives be depreciated separately (IAS 16, para. 43). This approach, known as component accounting, improves the accuracy of financial reporting and ensures better matching of costs with economic benefits.

Accounting policy should define materiality criteria for identifying significant components and procedures for their separate recognition and depreciation.

Table 4. Examples of component accounting

Asset	Components	Accounting treatment
Building	Structure, roof, elevators, technical systems	Separate useful lives and depreciation
Aircraft	Engine, airframe, interior equipment	Major components depreciated separately
Industrial equipment	Core unit, replaceable modules	Replacement capitalized, old part derecognized

When a component is replaced, the carrying amount of the previous component must be derecognized, and the new component capitalized if recognition criteria are met (IAS 16, para. 70).

6. Impairment of tangible assets

In addition to depreciation, IFRS requires entities to assess whether property, plant and equipment are carried at amounts exceeding their recoverable value. According to IAS 36, an asset is impaired when its carrying amount exceeds the higher of its fair value less costs of disposal and its value in use (IAS 36, para. 6).

Accounting policy should establish procedures for identifying indicators of impairment and determining the recoverable amount. Indicators may arise from both external and internal sources, including market decline, technological obsolescence, physical damage, or worse-than-expected economic performance.

If impairment is identified, the loss is recognized in profit or loss and reduces the carrying amount of the asset. In certain cases, impairment losses recognized in prior periods may be reversed if the recoverable amount increases (IAS 36, paras. 59–110).

Table 5. Key impairment indicators under IAS 36

Type of indicator	Examples
External indicators	Significant decline in market value, adverse economic or legal changes, increase in market interest rates
Internal indicators	Physical damage, technological obsolescence, lower asset performance, plans to discontinue or restructure operations

The impairment mechanism ensures that assets are not overstated and enhances the reliability of financial reporting.

7. Derecognition of tangible assets

Accounting policy must also define the procedures for derecognition of tangible assets. According to IAS 16, an asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal (IAS 16, para. 67).

The gain or loss arising from derecognition is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss. Such gains should not be classified as revenue but presented as other income or expenses (IAS 16, para. 68).

Common situations leading to derecognition include sale, physical disposal, replacement of major components, or withdrawal from use. Clear accounting policies in this area ensure consistency and prevent misstatement of financial results.

8. Disclosure requirements

IFRS places significant emphasis on transparency and requires entities to disclose detailed information about their accounting policies and the carrying amounts of property, plant and equipment. Disclosure requirements help users understand the measurement basis, estimation assumptions, and changes affecting asset values (IAS 16, para. 73).

Accounting policies should specify the level of detail and structure of disclosures in the financial statements.

Table 6. Main disclosure requirements for property, plant and equipment

Disclosure area	Required information
Measurement basis	Cost model or revaluation model
Depreciation	Methods used, useful lives, residual values
Carrying amounts	Gross carrying amount and accumulated depreciation/impairment
Revaluation	Effective date, independent valuer, revaluation surplus
Impairment	Losses and reversals recognized during the period
Changes	Additions, disposals, transfers, and other movements

Comprehensive disclosure enhances the transparency, comparability, and decision usefulness of financial statements and represents a key element of IFRS-based accounting policy formation.

Discussion

The results of the study indicate that the formation of accounting policies for tangible assets under IFRS is characterized by a high degree of flexibility and a principle-based approach. Unlike rule-based systems, IFRS does not prescribe detailed procedures for every situation but requires entities to develop policies that reflect the economic substance of transactions and the pattern of future economic benefits. This approach enhances the relevance and decision usefulness of financial information but at the same time increases the role of professional judgment in determining key accounting parameters such as useful life, residual value, impairment indicators, and fair value estimates (IFRS Foundation, 2022).

One of the most significant findings relates to the choice between the cost model and the revaluation model for subsequent measurement. While the cost model provides stability and reduces administrative complexity, the revaluation model improves the relevance of financial statements by reflecting current market conditions. However, practical application of the revaluation model is often limited due to the lack of active markets, the need for independent valuation, and the additional costs associated with regular reassessment. Therefore, in many developing economies and for specialized assets, entities tend to prefer the cost model despite the informational advantages of fair value measurement.

The study also shows that depreciation policy under IFRS represents a dynamic process rather than a fixed accounting procedure. The requirement to review useful lives, residual values, and depreciation methods annually ensures that depreciation reflects actual asset usage and economic conditions. In addition, the application of component accounting significantly improves the accuracy of expense allocation, particularly for complex and capital-intensive assets. However, the implementation of component accounting increases the complexity of asset management systems and requires detailed technical information about asset structure.

Another important aspect is the impairment testing mechanism, which serves as a safeguard against overstatement of asset values. The identification of internal and external impairment indicators requires continuous monitoring of operational performance and market conditions. In practice, impairment testing may involve significant estimation uncertainty, especially when determining value in use and discount rates. As a result, the reliability of impairment assessments largely depends on

the quality of internal controls and the competence of financial specialists.

The findings also highlight several practical challenges associated with the implementation of IFRS-based accounting policies for tangible assets. These include limited availability of qualified valuation professionals, insufficient market data for fair value estimation, and the need for modernization of accounting information systems. In addition, the increased volume of disclosure required by IFRS places additional demands on financial reporting processes and internal documentation.

At the same time, the application of IFRS-based accounting policies provides important benefits. The use of consistent recognition and measurement principles improves comparability of financial statements across entities and periods. Enhanced disclosure requirements increase transparency and reduce information asymmetry between management and external users. As a result, the quality of financial reporting improves, which contributes to greater investor confidence and supports access to international capital markets.

Overall, the formation of accounting policies for tangible assets under IFRS should be viewed not only as a technical accounting task but also as an element of financial management and corporate governance. Effective implementation requires a systematic approach that combines professional judgment, reliable valuation practices, appropriate internal controls, and continuous monitoring of asset performance. Such an approach ensures that financial statements provide a faithful representation of the entity's investment in tangible assets and the economic benefits derived from their use.

Conclusion

The formation of accounting policies for tangible assets under International Financial Reporting Standards represents a critical component of high-quality financial reporting. As tangible assets constitute a significant share of the asset structure in many entities, the selection and consistent application of appropriate recognition, measurement, depreciation, impairment, and disclosure policies directly affect the reliability and usefulness of financial statements.

The results of the study demonstrate that IFRS provides a comprehensive and flexible framework for accounting for property, plant and equipment. The principle-based nature of IFRS allows entities to select accounting approaches that best reflect the economic substance of asset utilization. Key elements of accounting policy formation include the determination of capitalization criteria, the composition of initial cost, the choice between the cost and revaluation models, the selection of depreciation methods, the application of component accounting, and the establishment of procedures for impairment testing and derecognition.

At the same time, the flexibility provided by IFRS increases the importance of professional judgment and internal control systems. The need for fair value measurement, regular reassessment of accounting estimates, and detailed disclosures requires a high level of professional competence and reliable information support. In practice, entities may face challenges related to limited market data, valuation uncertainty, and the complexity of implementing component accounting and impairment procedures.

Despite these challenges, the adoption of IFRS-based accounting policies for

tangible assets provides significant benefits. The use of consistent and economically grounded measurement principles improves the transparency, comparability, and analytical value of financial information. Enhanced disclosure requirements allow users of financial statements to better understand the entity's investment in long-term assets and assess the efficiency of their utilization.

In conclusion, effective formation of accounting policies for tangible assets under IFRS should be based on a systematic approach that integrates professional judgment, reliable valuation methods, appropriate internal controls, and regular review of accounting estimates. Such an approach ensures a faithful representation of the entity's financial position and performance and contributes to strengthening investor confidence and the overall quality of financial reporting.

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