JMEE
Journal of Marketing and Emerging Economics
| e-ISSN: 2792-4009 | www.openaccessjournals.eu | Volume: 3 Issue: 3

Methods of Accrual of Depreciation of Fixed Assets and its Impact on the Costs of the Enterprise

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Abstract

This article discusses the issues of depreciation on fixed assets. In particular, the residual value of fixed assets, the determination of the useful life for the purposes of depreciation, depreciation methods, and the choice of the optimal depreciation method for the enterprise were studied.

Keywords: *fixed assets, initial cost, depreciation, depreciation methods, depreciation rate, amount of accumulated depreciation.*

Introduction. In the conditions of modernization of the economy of our country, investors and other interested users are increasingly willing to receive accurate and reliable information about the value of the company's property.

The share of fixed assets owned by enterprises engaged in production activities is significant, and the issues of determining their initial cost, registration, their subsequent assessment, and depreciation are of particular importance.

Main part.

Depreciation of fixed assets is charged from the first day of the month following the month in which the object is included in fixed assets in accordance with national accounting standards. No. 5 "Fixed assets". According to NAS No. 5 "Fixed assets", fixed assets can be depreciated in the following ways:

- straight-line depreciation.
- depreciation in proportion to the volume of work performed (production method).
- a way to reduce the balance using a double rate of depreciation;
- sum of years method (cumulative method).

Suppose a company bought a car for 100,000,000 soums and the term of use is set for 5 years. The liquidation price is set by the company in the amount of 10,000,000 soums. The company estimated the car's mileage at 100,000 kilometers.

Let's look at the impact of depreciation methods on the company's cost of this car.

1. Single rate depreciation method (straight-line). In this method, to calculate the amount of annual depreciation of a fixed asset, it is calculated by dividing the initial cost of the fixed asset by its useful life, minus the salvage value.

In our example, the residual value of the fixed asset is not indicated. Therefore, the initial cost of a fixed asset is determined by dividing UZS 100,000,000 by the useful life of 5 years.

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$$\text{Amount of depreciation per year} = \frac{\text{Initial cost of fixed assets} - \text{The cost of terminating a fixed asset}}{\text{Useful life}} =$$

$$= \frac{100\,000\,000 \text{ soums} - 10\,000\,000}{5 \text{ years}} = 18\,000\,000 \text{ soums / years}$$

With the straight-line method of depreciation, depreciation is charged from 18,000,000 UZS per year of the useful life of the fixed asset.

2. Depreciation is charged in proportion to the volume of work performed (production method). Assume that the mileage of a car during its useful life is:

Of the year	Mileage, km
1- year	25 000
2- years	30 000
3- years	15 000
4- years	20 000
5- years	10 000

Depreciation under the unit of production method of fixed assets is calculated as the sum of depreciation charges divided by the expected working volume of the fixed asset after deducting the salvage value from the original cost of the fixed asset.

The amount of depreciation corresponding to 1 kilometer of the main vehicle run is calculated as follows:

$$\text{The amount of depreciation per unit of work} = \frac{\text{Initial cost of fixed assets} - \text{The cost of terminating a fixed asset}}{\text{Expected workload}} =$$

$$= \frac{100\,000\,000 \text{ soums} - 10\,000\,000}{100\,000 \text{ km}} = 900 \text{ soums/km}$$

The amount of depreciation accrued on fixed assets by years is as follows:

The amount of depreciation accrued under the production method of depreciation for fixed assets depends on the level of use of the fixed asset. If the fixed asset is used intensively during the year, the accrued depreciation amount is higher, if less is used, the depreciation amount is lower.

Table 1 Accrual of depreciation by the production method on fixed assets

	Initial value	Mileage, km	Amount of annual depreciation, sum	Accumulated depreciation	Balance value
On the date of purchase	100 000 000	-	-	-	100 000 000
By the end of 1 year	100 000 000	25 000	22 500 000	22 500 000	77 500 000

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By the end of 2 years	100 000 000	30 000	27 000 000	49 500 000	50 500 000
By the end of 3 years	100 000 000	15 000	13 500 000	63 000 000	37 000 000
By the end of 4 years	100 000 000	20 000	18 000 000	81 000 000	19 000 000
By the end of 5 years	100 000 000	10 000	9 000 000	90 000 000	10 000 000

3. Way to reduce the balance with a double rate of depreciation. In this method, the depreciation rate used in the single rate depreciation method is multiplied by two. In our example, the fixed asset depreciation rate is 20% (100%: 5 years). Therefore, the annual depreciation under the declining balance method with double the depreciation rate is 40% (20% x 2).

Table 2 Calculation of depreciation of fixed assets using the double depreciation method

	At the beginning of the reporting period	Amount of annual depreciation, sum	Accumulated depreciation	Balance at the end of the reporting period
On the date of purchase	100 000 000	-	-	100 000 000
1 year	100 000 000	40 000 000	40 000 000	60 000 000
2 years	60 000 000	24 000 000	64 000 000	36 000 000
3 years	36 000 000	14 400 000	78 400 000	21 600 000
4 years	21 600 000	8 640 000	87 040 000	12 960 000
5 years	12 960 000	2 960 000	90 000 000	10 000 000

Depreciation of fixed assets is thus greater in the early years and less in later years.

4. Calculation of depreciation by the annual sum (increasing) method. In this method, the annual depreciation rate is determined as the proportion of the depreciable amount remaining until the end of the depreciation period. Divide the number of full years before the end of the depreciation charge by the sum of the serial numbers of the years that make up the depreciation period, defined as (1+2+3+4+5 = 15 yoki *((5+1)/2)*5)*).

With the sum of years method (cumulative method), the annual amount of depreciation is determined based on the ratio of the depreciable cost of fixed assets and the number of years remaining until the end of the useful life of the object in the numerator, and the sum of the number of years of useful life of the object in the denominator.

Table 3 Depreciation of fixed assets using the sum of years method

	Initial value	Amount of annual depreciation, sum	Accumulated depreciation	Balance at the end of the reporting period
On the date of purchase	100 000 000	-	-	100 000 000
1 year	100 000 000	90 000 000 x 5/15 = 30 000 000	30000000	70 000 000
2 years	100 000 000	90 000 000 x 4/15 = 24 000 000	54000000	46 000 000
3 years	100 000 000	90 000 000 x 3/15 = 18 000 000	72000000	28 000 000

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4 years	100 000 000	90 000 000 x 2/15 = 12 000 000	84000000	16 000 000
5 years	100 000 000	90 000 000 x 1/15 = 6 000 000	90000000	10 000 000

In this method, the calculated depreciation amount is greater in the first years and less in subsequent years, similar to the declining balance method using double the depreciation rate.

Conclusion.

Based on the study of legal documents and practice data on depreciation of fixed assets, the following conclusions were drawn:

1. Currently, it is widely used in practice due to the simplicity of the depreciation method. But this method always follows the principle of matching costs and income, that is, regardless of the amount of income received from the use of the fixed asset, it is depreciated evenly over its useful life.
2. The method of accruing depreciation in proportion to the volume of production allows you to implement the principle of accounting due to the fact that depreciation is charged in proportion to the level of use of the fixed asset.
3. One of the general disadvantages of accruing depreciation using accelerated (using a double depreciation rate, accumulative) methods is that the balance (residual) value of an item of fixed assets sharply exceeds market values.
4. The use of accelerated methods for calculating the depreciation of fixed assets is advisable in cases where the operating network of the enterprise requires the use of modern technologies and constant updating.

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