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Procedure And Importance Of Valuing Assets And Liabilities At Fair Value

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Abstract: The article discusses valuation and its importance, fair value, the need to value assets and liabilities at fair value, the primary market and the market of interest in determining fair value, specific factors for fair value valuation, valuation methods used, the fair value hierarchy of source data divided into three levels, and the importance of a fair reflection of the financial position of an enterprise in decision-making by investors and managers.

Keywords: Valuation, assets, liabilities, fair value, market, valuation methods, source data.

Introduction: In today's digital economy, the reliability, timeliness, and transparency of financial reporting are essential. For users of accounting information, it is important to prepare the necessary information in a timely and high-quality manner, correctly record accounting objects based on accounting standards, correctly evaluate them in terms of value, and fairly reflect their results in financial statements. The correct valuation of an enterprise's assets and liabilities based on the requirements of accounting standards is a key factor in the transparent reflection of information in financial statements.

From this point of view, the fair value measurement of assets and liabilities is one of the main factors in making important decisions for users of financial information. The concept of fair value is based on market mechanisms and serves to reflect the real financial position of the enterprise.

IFRS 13 “Fair Value Measurement” standard establishes a single methodological approach to determining the fair value of assets and liabilities. The purpose of this article is to reveal the theoretical foundations of measuring assets and liabilities at fair value and analyze its practical significance.

LITERATURE ANALYSIS

Valuation is one of the main methods of accounting for accounting objects. As a result of valuation, the assets, liabilities, capital, income and expenses of the enterprise are reflected in the form of value.

In the scientific literature of N.B. Abdusalomova, monetary valuation in accounting is defined as “Accounting is a system of comprehensive and direct observation of the movement of economic funds and processes occurring in economic entities, based on certain documents, and their valuation in money in a generalized manner” (1; 6 p).

In his scientific literature, S.N. Toshnazarov expressed the following thoughts on the importance of monetary reflection and evaluation in accounting: “The traditional procedure of financial accounting and reporting is understood as the most effective sequence of measuring, evaluating, recording and reporting economic transactions and events measured in money” (2; 168 p).

In the scientific literature of K. B. Urazov, valuation is defined as “Valuation is a method of expressing the value of an enterprise’s assets in money” (3; 37 p).

According to N. Toshmamatov, assets, liabilities and obligations are reflected in accounting in monetary terms. For this, they are evaluated in terms of value. Measuring accounting objects in money depends on the operation of the law of value, an example of which is accounting in soums and kopecks (4; 39 p).

R.O. Kholbekov defines valuation as one of the elements of the accounting method as follows: “One of the elements of the accounting method is valuation, the importance of which is great even on an economic scale. Valuation is a method of reflecting economic assets, liabilities and economic processes in monetary units” (5; 27 p).

According to Yu. A. Babayev, monetary valuation is the expression of assets, liabilities and business transactions in money to obtain generalized information for the current period for the entire organization (6; 38 p).

I.V. Goman's definition is “Valuation is a method of measuring the assets of an organization, their resources and liabilities in money” (7; 7 p).

N. N. Kireenko in his scientific literature expresses the following thoughts on the importance of valuation. The measurement and description of the economic assets of an organization is carried out using various units of measurement (physical, labor), but the main one in accounting is money. Accounting valuation is a method of measuring the value of accounting objects. It allows you to reflect all economic assets and their sources, economic transactions and accounting processes in monetary terms. The purpose of valuation is to determine the true value of the completed economic event (8; 80 p).

V. E. Kerimov, defining accounting, notes that the property, obligations and movements of organizations are assessed in monetary terms. Accounting is an organized system of collecting, recording and summarizing information in monetary terms about the property, obligations and movements of organizations through continuous, comprehensive and documentary recording of all business transactions. (9; 14 p).

Recognition and valuation of accounting objects are carried out based on the requirements of accounting standards.

In his scientific literature, S.N. Toshnazarov emphasized that accounting standards determine the procedure for recognizing and evaluating accounting objects, the application of principles and rules, and minimum requirements for the content and composition of information in financial statements (10; 36 p).

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability) (11; 4 p)

METHODOLOGY

The study used systematic analysis, selection of accounting methods leading to a solution to the research problem, determination of the most appropriate types of valuation based on a comparative comparison of the requirements of national standards and IFRS for fair valuation of assets and liabilities, assessment of its impact on the financial position of the enterprise, and other methods. The research examined approaches to determining fair value based on the requirements of IFRS 13.

DISCUSSION

Valuation of assets and liabilities at fair value is an important source of information for investors, creditors and other interested parties. Since valuation based on historical (initial) value cannot fully reflect inflation, changes in market conditions and differences in the real value of assets. Fair value, on the other hand, provides more accurate financial indicators, taking into account market conditions. In addition, fair value valuation plays an important role in assessing the efficiency of using the assets of the enterprise.

Valuation of liabilities at fair value is also of great practical importance. In particular, the valuation of financial liabilities taking into account market interest rates and risk factors shows the true debt burden of the enterprise. This is of great importance in analyzing financial stability and solvency.

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement refers to the amount that an asset or liability would exchange in an orderly transaction between market participants at the measurement date based on current market conditions.

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions and market data may be available. Observable market transactions and market data may not be available for other assets and liabilities. However, the objective of measuring fair value is the same in both cases - to estimate the price in an orderly transaction to sell an asset or transfer a liability that would occur between market participants at the measurement date, based on current market conditions.

In fair value measurement, the transaction to sell an asset or transfer a liability occurs in one of the following markets:

- the principal market for the asset or liability;
- if there is no principal market, the most advantageous market for the asset or liability.

The main market is characterized by the following characteristics:

- the volume of transactions will be the largest;
- the activity of trading will be high;
- the enterprise must have access to this market.

If an entity has access to multiple markets, fair value is determined based on the principal market prices, even if the price is better in another market.

The company has equipment for sale. Let the prices of this equipment in different markets be as follows:

Market	Number of processes by annual sales	Equipment price (million soums)
A	1200	90,0
B	300	93,0

Based on the above information, although the price is higher in market B, market A is considered the main market because the volume of transactions and activity is greater there. Therefore, the fair value is estimated at 90.0 million soums.

If the principal market for an asset or liability cannot be determined, the most advantageous market is selected. The most advantageous market is determined by taking into account the following factors:

- proceeds from the sale of the asset;
- payment for the transfer of the liability;
- transaction costs;
- transportation and other costs associated with the transfer.

Shu omillar inobatga olinganidan so‘ng, qaysi bozorda sof natija yuqori bo‘lsa, o‘sha bozor eng manfaatli bozor deb tan olinadi.

The fair value of assets and liabilities is determined based on primary market data when a primary market exists, and based on the most advantageous market data when a primary market does not exist.

The following markets exist where you can sell your company's assets::

Markets	Asset price (mln. soums)	Transaction costs (million. soums)	Net worth (million soums)
A	150,0	6,0	144,0
B	152,0	4,0	148,0
D	155,0	9,0	146,0

In this case, market B is the most profitable market, since the net value of the sale of assets is the highest, 148.0 million soums.

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the measurement date, based on current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique.

An entity shall estimate the fair value of an asset or liability using assumptions that market participants would use in pricing the asset or liability, assuming that market participants would act in their economic best interests.

An entity should consider the following specific factors when measuring at fair value:

- the characteristics of the asset and liability, the unit of measurement of the measurement object, the condition of the asset, its location, the presence of restrictions on use and other characteristics;
- the principal or most advantageous market for the asset or liability;
- the entity should identify market participants in which it would transact.

An entity should use valuation techniques that maximize the use of observable sources that are appropriate in the circumstances and minimize the use of unobservable sources to estimate fair value.

The objective of using a valuation technique is to estimate the price in an orderly transaction to sell an asset or transfer a liability that would occur between market participants at the valuation date, based on current market conditions. There are three widely used valuation methods: the market approach, the cost approach, and the income approach.

The valuation techniques used in estimating fair value should be applied consistently. The emergence of new markets and data, the unavailability of previously used data, improvements in valuation techniques, and changes in market conditions all lead to changes in the valuation technique or its application. Such changes are appropriate if they result in a measurement that is equal to or as close to fair value as possible in the circumstances.

Valuation techniques used to estimate fair value should maximize the use of reasonably observable sources of data and minimize the use of unobservable sources of data.

If an asset or liability measured at fair value has a bid price and an ask price, in these cases the price within the bid and ask spread that best represents fair value should be used to measure fair value, regardless of whether the source data is categorized within the fair value hierarchy, i.e., Level 1, 2, or 3.

The source data for the valuation methods are derived based on a fair value hierarchy divided into three levels.

Level 1 inputs are quoted prices in active markets (unadjusted) for identical assets or liabilities at the measurement date.

Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable, directly or indirectly, for the asset or liability. This is used when Level 1 inputs are not available.

Level 3 inputs are unobservable inputs for the asset or liability. This is used when Level 1 and Level 2 inputs are not available.

RESULTS

The results of the study showed that the fair value measurement of assets and liabilities is an important factor in increasing the reliability, transparency and relevance of financial reporting information to users. In particular, as a result of the valuation carried out on the basis of the principles set out in IFRS 13 "Fair Value Measurement", the value of assets and liabilities close to market conditions was determined, which more fully reflected their real economic content.

At the same time, the research results showed that it is important to determine the main market or the most advantageous market when determining fair value, and to correctly use the fair value hierarchy, which divides source data into three levels, in the valuation. In cases where market data is insufficient, the need to rely on valuation models and professional judgment increases, which increases the risk of subjectivity. The results of the study showed that fair value measurement provides positive results in better risk assessment in enterprises, increasing the efficiency of asset use, and aligning financial reporting with international standards.

CONCLUSIONS

Valuation of assets and liabilities at fair value based on international financial reporting standards is not only a requirement of accounting practice, but also an important factor for improving financial stability and the international investment climate. Valuation of assets and liabilities at fair value creates an opportunity to reflect the true financial condition of enterprises and increases the competitiveness of enterprises in international markets.

We make the following proposals for the widespread introduction of fair value measurement of assets and liabilities:

1. Develop clear standards and procedures for fair value measurement of assets and liabilities, consistent with international requirements;

2. Develop recommendations on valuation methods and reliance on professional judgment in cases where market data are insufficient for fair value measurement of assets and liabilities;

3. Expand the organization of retraining and advanced training courses on IFRS for accounting staff.

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