

# Practice Aspects for Rent Accounting in Uzbekistan

Olimjon Mamatovich Kuljanov

Ph.D, Associate Professor of the "Accounting" Department of Tashkent State University of Economics,  
Tashkent, Uzbekistan

**Abstract.** In this article have been investigated theoretical-organizational and legal foundations leasing operations, the accounting procedure for rent in economic entities in Uzbekistan, as well as the possible manifestation of errors and advantages in it. In addition, disclosed are methods for the efficient registration of leases.

**Keywords:** Economics, rent, renting, accounting, financial reporting, tax reporting, statistics.

## 1. INTRODUCTION

Rent expense refers to the total cost of using rental property for each reporting period. It is typically among the largest expenses that companies report. Only two expenses are usually larger than rental expense: cost of goods sold (COGS) and compensation (wages) expense.

The gradual development of the economy requires the modernization of the main means and technological updating in the enterprises. To a large extent, this depends on the correct accounting of the main tools and their wear and tear and the optimal organization of the audit conducted on them. It can be explained that the implementation of national standards in this system determines a new procedure for accounting of these types of assets in enterprises.

The fact that rental companies are offering new secondary rental services, which are convenient and beneficial in every way for enterprises, small businesses and private enterprises, clearly shows that the sector is promising. Therefore, the development of rent will continue to serve our development. In the conditions of the transition to market relations, relying on the existing legislative privileges in Uzbekistan, the use of the rental mechanism in the republic allows to accelerate the activity of enterprises and organizations, and to increase the size of their long-term assets. Secondly, the widespread use of leasing practices by commercial banks and leasing companies creates advantages in the competitive environment of the market economy. At the same time, in the conditions of limited financial resources, it helps to update the machines and equipment of economic entities, i.e. means of production, on the basis of saving money, in a short period of time [1]. Renting is one of the most convenient opportunities for economic entities with high demand for financial resources.

As a result of the expansion and development of lease relations, on the basis of providing enterprises with new equipment, first of all, on the basis of market saturation, the growth of the country's gross domestic product, and the expansion of production of products in the economic entity established on the basis of lease, the tax revenues of the economy they help to provide funds for the development of science and technology in all fields.

In developed countries, rent is considered as a separate type of business. It solves a number of important tasks for producers and consumers of rental products, as well as for financial intermediaries engaged in this type of business. In the conditions of fierce competition for domestic and foreign markets, not only the technical characteristics of the equipment, but also the financial conditions imposed on the consumers of this equipment, as well as additional services, are becoming more and more important.

## 2. LITERATURE REVIEW

Since the beginning of 2019, a total of 130,000 lease contracts have been concluded. 52 thousand 668 of them belong to natural persons. The peculiarity is that more than 22,000 of these contracts were registered in the city of Tashkent.

The specific aspects of lease accounting transactions have been studied by a number of foreign and domestic economic scientists and researchers. Including, foreign economists Accounting, Organizations and Society/An International Journal Devoted to the Behavioral, Organizational & Social Aspects of Accounting [7, 8], International Financial Leasing The Essence of The Financial Leasing [9] and our own economists and researchers.

As we mentioned above, from January 1, 2019, the requirement for mandatory notarization of real estate rental contracts was canceled and the procedure for mandatory registration in the state tax service bodies was established.

According to the press service of the State Tax Committee, legal entities and individuals who want to lease real estate must enter into a bilateral lease agreement when renting residential or non-residential property owned by them on the basis of property rights, and the contract must be submitted to the state tax service authorities. must be taken

into account.

There are two ways to register a lease agreement with the tax authorities:

- Through the interactive services of the State Tax Committee on the website MY.SOLIQU.UZ "Accounting of lease agreements".
- Permanent residence of an individual is carried out by visiting state tax inspections at the place of state registration of a legal entity and submitting a questionnaire in the prescribed form.

The following documents are attached to the questionnaire in order to register the lease agreement with the tax authorities:

1. Lease agreement;
2. Document confirming the identity of a natural person or head of a legal entity.
3. No fees are charged by the tax authorities for recording the contract.

### 3. ANALYSIS AND RESULTS

Fixed assets received under a long-term lease agreement are debited to account 0300-"Fixed assets received under a financial lease agreement" which is the balance account of the lessee. In this case, the fixed assets provided under the long-term lease agreement are considered as part of the fixed assets of the lessor as before.

While studying transactions for renting non-residential premises and real estate by legal entities and individuals, as a result of the research, the minimum rental rates for non-residential premises for 2019 are 2.2 times on average, and 1.4 times for motor vehicles. times increased [2].

In this way, the tax burden on income from property rental will increase significantly. These incomes, which should not be less than the amounts calculated based on the minimum rates of rent, are subject to 12% State Taxation.

Table 1: Financial lease features

Composition of relations	Approach to implementation
Rental property	The landlord buys the property for rent, not for private use.
Tenant's right	The buyer selects the property and the seller.
Relations on the return of property	The lessee pays the difference in the value of the property agreed in the contract for a certain period (the difference between the liquidation value of the property and the stipulated residual value)
Duration of lease agreements	Physical wear and tear on property over the long term (seasonal, etc.)
Lessor's risk	In case of damage to the object of financial lease, it will be transferred to the buyer after signing the certificate for its acceptance.
Tenant's warranty	Ensuring the fixed residual value of the property at the end of the contract period

So, the amount of the national income tax, which is invested in the income from the rental of a 100 sq.m. apartment in Tashkent, should be at least 120,000 soums per month ((10,000 soums x 100 sq.m.) x 12%). If a passenger car is rented, the sum of JSHDS should be at least 57.6 thousand soums per month (480 thousand soums x 12%).

According to the decision of the President of the Republic of Uzbekistan No. PQ-3741 dated May 25, 2018, the procedure for mandatory registration of lease agreements with tax authorities was established from January 1, 2019. So what is the advantage of the new order [3]?

First, the system of registering real estate lease contracts with tax authorities has been simplified [4]. Now, through the interactive service of the State Tax Committee on the my.saliq.uz electronic tax services portal "Accounting of rental agreements", it is possible to register a rental agreement with the tax authorities at any time of the day. That is, there will be no unnecessary hassles and expenses and long queues [5].

Table 2: Rental rates

№	Type of leased property	An indicator describing the amount of the specified rate	The minimum amount of monthly rent payment rates, in soums		
			Tashkent city	The city of Nukus and cities in regional centers	Other settlements
<b>1</b>	Housing:				
A	Accommodation	For 1 square meter of total area	10 000	6 500	3 000
B	Unsettled place		20 000	13 000	6 000
<b>2</b>	<b>Road transport:</b>				
A	Passenger car (vehicle for transporting passengers and luggage, not counting the driver's seat, no more than 8 vehicles)	For 1 vehicle	480 000		
B	Minibuses, buses and trucks		940 000		

The second convenience is to present a lease agreement concluded between the lessor and the lessee in the prescribed form by visiting the state tax inspections at the place of permanent residence of the individual, state registration of the legal entity and the address of the leased real estate [6].

After the lease agreement is registered, the lessor is provided with a "Notice" of the lease agreement and a payment notice for the payment of income tax calculated for the current year. As a result, it is not required to submit a preliminary declaration on income from the rental of real estate [14].

In the past period of this year, more than 20,000 legal entities and individuals registered their lease contracts with the state tax authorities in Tashkent.

Table 3 Initial Recognition [11]

Lessee: Hamford					
Current GAAP		Proposed GAAP: Finance		Proposed GAAP: Operating	
Def. Initial Direct Costs	\$4,000	Right-of-Use Asset	\$229,002	Right-of-Use Asset	\$229,002
Cash	\$4,000	Lease Liability	\$199,204	Lease Liability	\$199,204
		Cash (to lessor)	\$25,798	Cash (to lessor)	\$25,798
Lease Expense	\$26,162	Cash (to lawyer)	\$4,000	Cash (to lawyer)	\$4,000
Def. Initial Direct Costs	\$364				
Cash	\$25,798				
Lessor: CTF					
Current GAAP		Proposed GAAP: Direct Financing		Proposed GAAP: Operating	
Cash	\$10,798	Cash	\$10,798	Cash	\$10,798
Def. Initial Direct Costs	\$15,000	Lease Receivable	\$289,202	Def. Initial Direct Costs	\$15,000
Rent Revenue	\$25,798	Machinery	\$300,000	Rent Revenue	\$25,798

Note: A Microsoft Excel template of this example, including amortization tables and the entries for the full 11 years of the lease term, is available from the author upon request.

Another question that many people are interested in is what will be the fate of lease agreements concluded before the introduction of the new procedure?

Lease agreements that have not expired (for example, concluded from March 31, 2018 to March 31, 2019) do not lose their validity until the expiration date, and it is not required to re-register these agreements with the state tax authorities [10].

Also, if one year of tax calculated on the income received under the lease agreement has been paid in advance (for example, tax was paid from March 31, 2018 to March 31, 2019) under the lease agreement 7.5% tax is applied to the received income in 2018 and 12% from January 1, 2019.

No fee is charged by the tax authorities for recording the lease agreement.

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#### **4. CONCLUSIONS**

The following conclusions were reached based on the results of the research conducted on the accounting of rental transactions.

The development of rent in Uzbekistan requires not only the generalization of theory and practice, but also a comprehensive analysis of the forms and methods of the organization of rental activities in foreign, especially industrialized countries. According to the opinion of most economists, it was created and developed in the new or the most recent period of history. However, some authors did not pay attention to the features of rent - financial lease, and equated it to ordinary rent. As a result of thinking about rent as an ordinary rent, it leads to the conclusion that the first lease agreement was concluded in BC, and the first lease agreement was written on tablets. .

As an economic form of activity, lease transactions made in the separation of the right to ownership of an asset and the right to use it embody the elements of credit, rent and investment. Rent has a number of advantages compared to other forms of financing that can be obtained by subjects of lease relations.

In our opinion, it is enough to state the obvious advantages of renting and know its disadvantages to conclude that it can be an effective form of investment.

Leasing can solve financing problems, as in this case, up to 100% of the value of the leased asset can be financed. It is also possible to agree on the interest rate recorded in the lease. Leases can be structured as operating leases, which allow the lessee to finance an off-balance sheet statement when debt limits are in place. It is more convenient to rent ready-to-use equipment than to order the preparation of equipment, which has long downtimes. Sometimes there is only a temporary, seasonal or primary need for assets, in which case leasing helps eliminate the inconvenience of owning assets that are always in use. Leasing assets in a short period of time compared to ownership allows the lessee to protect against the obsolescence of new products and high-tech equipment.

Analyzing the favorable conditions for the development of the industry, experts, analysts and commentators assess the prospects of the rental services market of Uzbekistan as bright.

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