

DIRECTIONS FOR IMPROVING THE INTANGIBLE ASSETS ACCOUNTING AND AUDIT SYSTEM IN AZERBAIJAN

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Abstract. Improving the intangible assets accounting and audit system in Azerbaijan is of great importance in accordance with the requirements of the modern economy. Although the process of adaptation to International Accounting Standards continues, there are a number of shortcomings in the system. Correct valuation and accounting of intangible assets plays a key role in determining the market value of companies. Therefore, the main attention in improving the system should be focused on harmonizing national legislation with international standards, improving the professional training of accountants and applying modern technologies.

Keywords: asset, valuation, standard, audit, accounting, reporting, finance.

Introduction. Intangible assets in the economy are one of the main components of the competitive advantage and market value of companies. As a result of the formation of the knowledge economy and the digitalization process, the importance of intangible assets has increased even more. These assets play an important role in the formation of the market value of the enterprise, in increasing its innovation potential and in implementing a long-term development strategy. The correct assessment, accounting and audit of intangible assets have become one of the main issues of the modern accounting and audit system.

In the context of the diversification of the economy, the development of the non-oil sector and digital transformation processes in the Republic of Azerbaijan, the improvement of accounting and audit procedures related to the management of intangible assets is of particular relevance. Deficiencies in the existing regulatory and legal framework and practice lead to the application of different approaches to issues such as recognition, assessment and reflection in reports of intangible assets. This, in turn, reduces the comparability and transparency of financial statements.

The nature and characteristics of intangible assets. Intangible assets are assets that do not have a physical form, but bring economic benefits to the enterprise over a long period of time. Intangible assets are characterized in national and international standards as identifiable, non-monetary assets that do not have physical substance and are under the control of the enterprise. According to International Accounting Standards (IAS), the following main characteristics are taken into account for the recognition of intangible assets:

- ✓ Identifiability (the ability of the asset to be sold, transferred, licensed, leased or exchanged separately);
- ✓ Control (the ability of the company to obtain economic benefits and limit the access of others to these benefits);
- ✓ Expectation of future economic benefits (the potential of the asset to generate income, cost savings or other economic benefits) [8].

The classification of intangible assets serves to better understand their nature and correctly reflect them in the accounting system. The legislation of the Republic of Azerbaijan and international standards define the classification of intangible assets according to various criteria.

Intangible assets are divided into acquired and internally generated assets by origin. Acquired assets are intangible assets acquired by an enterprise from external sources through purchase, exchange or other methods. Internally generated assets are intangible assets created by the enterprise using its own resources.

Intangible assets by their functional purpose include intellectual property rights, technological assets, organizational assets, customer and market assets. Intellectual property rights include patents, copyrights and trademarks. Technological assets include software, databases and "know-how", organizational assets include licenses, franchises and rights of use, and customer and market assets include customer lists and relationships.

Intangible assets are divided into assets with finite and indefinite useful lives based on their useful lives. Assets with finite useful lives are assets that provide economic benefits to the enterprise for a specified period of time. Assets with indefinite useful lives are assets that do not have a specific useful life.

For accounting and reporting purposes, the correct classification of intangible assets is necessary for their recognition, measurement and reflection in financial statements.

Current status of accounting for intangible assets in Azerbaijan. The regulatory and legal framework for accounting for intangible assets in the Republic of Azerbaijan is mainly the Law of the Republic of Azerbaijan "On Accounting", the Tax Code, International Accounting Standards and the "Chart of Accounts for Enterprise Accounting and Instructions for its Application" of the Ministry of Finance of the Republic of Azerbaijan.

According to the Law "On Accounting" adopted in 2018, the National Accounting Standards in the country have lost their force and the application of new International Accounting Standards has begun. Publicly important institutions and large business entities

apply International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards for Small and Medium-sized Enterprises (IFRS). Accounting for intangible assets is mainly regulated by International Accounting Standard - 38 "Intangible Assets". These standards determine the rules for recognizing, measuring, amortizing and presenting intangible assets in financial statements.

The process of recognizing and measuring intangible assets in Azerbaijan is being developed in line with international standards. According to the current legislation, certain criteria are applied for recognizing intangible assets. According to the IAS 38 "Intangible Assets" standard and the relevant regulatory acts adopted in Azerbaijan, a resource must meet the specified conditions for recognition as an intangible asset. These conditions include the probability that the asset will bring future economic benefits to the enterprise, the objective assessment of the value of the asset, the ability of the asset to be identified, and the right of the enterprise to control the asset.

In practice, there are certain difficulties in the field of recognizing and measuring intangible assets. In particular, issues such as recognizing and measuring internally generated intangible assets, correctly distinguishing research and development stages, and capitalizing expenses are complex.

When recognizing intangible assets, the cost principle is applied. After recognition, the enterprise can apply the cost model or the revaluation model. In practice, most enterprises operating in Azerbaijan prefer the cost model. Under this model, an intangible asset is recorded at its original cost, and then shown by deducting accumulated amortization. The application of the revaluation model creates difficulties in the absence of an active market. Thus, there is no active market for most intangible assets, which makes it difficult to determine their fair value.

According to the current legislation in Azerbaijan, amortization is calculated for intangible assets with a limited useful life. Amortization is not calculated for assets with an indefinite useful life, but these assets are tested for impairment at the end of each reporting period. According to the Tax Code, intangible assets are amortized at a rate of 10% per annum. For accounting purposes, amortization is calculated systematically over the useful life of the asset [6, p.69]. In practice, this approach leads to permanent differences between accounting and tax accounting. The straight-line method is mainly used when determining the amount of amortization. Although this method is simple and understandable, it does not fully reflect the ability of some intangible assets to generate economic benefits.

Enterprises operating in Azerbaijan reflect intangible assets in the long-term assets section of the statement of financial position (balance sheet). The notes to the financial statements disclose the movement of intangible assets, depreciation methods, useful lives and other important information. In accounting, intangible assets are recorded in accounts *No. 101 “Intangible assets – value”*, *No. 102 “Accumulated depreciation and impairment losses on intangible assets”* and *No. 103 “Capitalization of costs related to intangible assets”*. Analytical accounting of intangible assets is carried out separately for each asset object.

Current status of intangible asset auditing in Azerbaijan. In Azerbaijan, the audit of intangible assets is carried out in accordance with International Standards on Auditing (ISA) and local regulatory acts. The audit process consists of planning, assessment of the internal control system, substantive testing, evolution of audit evidence and formalization of the results.

When conducting an audit of intangible assets, the auditor mainly pays attention to such key issues as the existence of intangible assets, ownership rights and obligations over them, the accuracy of valuation, correct calculation of depreciation and their correct reflection in financial statements [6, p.43].

The audit of intangible assets requires a complex and systematic approach. In the practice of audit companies operating in Azerbaijan, various procedures are applied in the audit of intangible assets.

During the audit process, the auditor mainly performs three groups of procedures. The first group includes analytical procedures. Within the framework of these procedures, the structure and dynamics of intangible assets are analyzed, the dynamics of depreciation expenses and the efficiency of intangible assets are assessed.

The second group includes basic audit procedures. These procedures are aimed at verifying the existence, ownership of intangible assets and the correctness of their valuation. For this purpose, legal documents are reviewed, the correctness of transactions, the accuracy of depreciation calculations and the correctness of the reflection of assets in financial statements are checked.

The third group includes special procedures applied taking into account the specific characteristics of intangible assets. Within the framework of these procedures, the correctness of the accounting for internally created intangible assets and software, the validity period of intellectual property rights and the process of testing goodwill are checked.

The main problems in the field of auditing intangible assets in Azerbaijan are related to the difficulties in determining fair value due to the limited availability of market data, the unique

nature of intangible assets that complicates their valuation, the diversity in the choice of depreciation methods, the lack of highly qualified specialists in the field of intangible asset valuation, the weak specialization of auditors in specific types of intangible assets, and the limited use of modern technologies for their identification [7, p.26].

Analysis of international experience in accounting, auditing and valuation of intangible assets. International standards in the field of accounting and auditing of intangible assets are constantly being improved. Among the trends observed in international standards in recent years, greater attention is paid to the assessment of the fair value of intangible assets, the expansion of the application of the market approach in determining value, and special attention is paid to the accounting of new types of intangible assets resulting from digital transformation.

Studying and applying international experience in the field of accounting and auditing of intangible assets is of great importance for Azerbaijan. The application of the experience of developed countries in this field can contribute to the improvement of the system by adapting it to local conditions.

In the United States, the income approach is preferred when valuing intangible assets and special valuation methods are widely used. There are special instructions and standards developed for the audit of intangible assets.

In the countries of the European Union, the application of an integrated reporting system, the development of special methods for assessing intellectual capital, and a strategic approach to managing intangible assets attract attention. In Japan, special importance is attached to intellectual property management and a wealth of experience has been formed in the field of activating research and development expenses.

When applying the experience of these countries in Azerbaijan, local economic conditions, legislative framework and professional staff potential should be taken into account.

Directions for improving the accounting and auditing system of intangible assets.

Improving the regulatory and legal framework for improving the accounting and auditing system of intangible assets in Azerbaijan is one of the main directions.

Ensuring full compliance of the legislative framework with international standards should include improving the regulatory framework, especially regarding the accounting of new types of intangible assets, such as digital assets and databases. From a methodological point of view, it is necessary to develop methodological instructions on the valuation, amortization and impairment analysis of intangible assets. At the same time, the focus should be on adapting valuation methods to international standards [6, p.38].

In order to improve audit standards, it is advisable to develop special methodological instructions on the audit of intangible assets and expand the application of international audit standards.

Improving the methodology for recognizing and valuing intangible assets. Improving the processes of recognizing and valuing intangible assets is an important component of the accounting and auditing system. In this regard, it is necessary to clarify the recognition criteria, as well as determine the methods for capitalizing research and development costs. Developing criteria for recognizing digital assets is also of particular importance in the modern era.

In order to improve valuation methods, expanding the application of methods based on the income approach, creating a complete and accurate information base for applying the market approach, and ensuring that all costs are taken into account when applying the cost approach are among the priority issues. Improving the methodology for determining fair value, developing specific valuation methods for types of intangible assets, and substantiating the assumptions used are of great importance.

Improving the audit methodology is of great importance for improving the quality of the audit of intangible assets. Therefore, it is necessary to strengthen risk assessment procedures, expand analytical procedures for intangible assets, and develop special audit approaches for their specific types.

Improving the methodology for assessing the internal control system and conducting a more in-depth audit of intangible asset management processes should also be in the spotlight. Strengthening the audit of information technologies is of particular relevance in modern conditions. Improving the quality of audit evidence for intangible assets, expanding external confirmation procedures, and increasing the application of digital audit technologies are also priority issues in the field of collecting and evaluating audit evidence.

The human factor and information technologies play an important role in improving the accounting and audit system for intangible assets. In the field of strengthening professional training, it is important to improve the educational programs on accounting and auditing of intangible assets in higher education institutions, develop a system of advanced training and certification for accountants and auditors, and strengthen the activities of professional organizations. It is also necessary to create appropriate platforms for studying international experience and adapting it to local conditions.

In the field of expanding the application of information technologies, the application of modern software for accounting and auditing of intangible assets, automation of audit

processes, and support for digital transformation processes are priority issues. As a result of the research conducted, it was determined that the following measures are appropriate to improve the accounting and auditing system of intangible assets in Azerbaijan:

- Expanding the regulatory framework for accounting for new types of intangible assets (digital assets, databases, etc.);
- Developing methodological guidelines for auditing intangible assets;
- Developing specific audit procedures for specific types of intangible assets;
- Developing a system of advanced training and certification for accountants and auditors;
- Implementing training programs to study and apply international experience;
- Implementing modern software for accounting and auditing intangible assets.

Conclusion. Improving the accounting and auditing system for intangible assets is of great importance in terms of increasing the competitiveness of the Azerbaijani economy and ensuring its innovative development. We believe that the implementation of the measures arising from the proposals given earlier can contribute to increasing the efficiency of the accounting and auditing system for intangible assets in Azerbaijan, improving the quality and transparency of financial statements of enterprises, improving the investment climate, and generally contributing to the digital transformation of the country's economy.

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AZƏRBAYCANDA QEYRİ-MADDİ AKTİVLƏRİN UÇOTU VƏ AUDİTİ SİSTEMİNİN TƏKMİLLƏŞDİRİLMƏSİ İSTİQAMƏTLƏRİ

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Xülasə. Azərbaycanca qeyri-maddi aktivlərin uçotu və auditi sisteminin təkmilləşdirilməsi müasir iqtisadiyyatın tələblərinə uyğun olaraq mühüm əhəmiyyət kəsb edir. Mühasibat Uçotunun Beynəlxalq Standartlarına uyğunlaşsada, sistemdə bir sıra çatışmazlıqlar mövcuddur. Qeyri-maddi aktivlərin düzgün qiymətləndirilməsi və uçotu şirkətlərin bazar dəyərinin müəyyənəşdirilməsində əsas rol oynayır. Ona görə də sistemin təkmilləşdirilməsində əsas diqqət milli qanunvericiliyin beynəlxalq standartlara uyğunlaşdırılmasına, mühasiblərin peşəkar hazırlığının yüksəldilməsinə və müasir texnologiyaların tətbiqinə yönəldilməlidir.

Açar sözlər: aktiv, qiymətləndirmə, standart, audit, uçot, hesabat, maliyyə.