AMERICAN JOURNAL OF BUSINESS MANAGEMENT
ISSN: 2996-5098 (online) | ResearchBib (IF) = 9.618 IMPACT FACTOR
Volume-3| Issue-5| 2025 Published: |30-05-2025|

IMPROVING THE ACCOUNTING OF FINANCIAL OBLIGATIONS

https://doi.org/10.5281/zenodo.15359589

R.U.Xolpulotov[1]

Annotation

The article examines the procedure for accounting, accounting, writing off and reflecting financial obligations in economic entities and draws conclusions.

Key words

Financial liability, private equity, stock, option, convertible bond .

The Law of the Republic of Uzbekistan "On the Securities Market" dated June 3, 2015[1], the Law of the Republic of Uzbekistan "On Limited Liability and Additional Liability Companies" dated December 6, 2001[2], Coordination and control of the Securities Market under the State Property Committee of the Republic of Uzbekistan The right to issue and place bonds was also granted to limited liability companies starting from July 22, 2020, by making appropriate amendments and additions to the order of the Securities Exchange Center "On approval of the rules for state registration of securities issuance and issuance of securities" [3] registered on August 30, 2009.

This financial lever becomes a real alternative to a bank loan. This creates the need to take the accounting of financial instruments to a new level in accounting practice.

The diversity and complexity of financial instruments in financial markets around the world has grown dramatically in recent years. The issue of financial instruments is a problem in accounting practice, and therefore the wide use of international standards is desirable. International standards include IAS 32 "Financial Instruments: Presentation"[4], IFRS 7 "Financial Instruments: Disclosures"[5] and IFRS 9 "Financial Instruments". Standards [6] determine accounting, accounting, derecognition and disclosure of financial instruments.

Financial liabilities are examples of operating payables, bonds, redeemable preferred shares.

Recognition of financial liabilities is recognized at the initial or fair value of the financial liabilities. It is usually found by subtracting the costs incurred to issue the liability from the net amount received. Further assessment of financial obligations.

[1] Xolpulotov Rustam Uktamovich, Assistent of the Department of Accounting, Tashkent State University of Economics, Tashkent, Uzbekistan x.oktamovich@tsue.uz ORCID: 0009-0003-6662-1715

AMERICAN JOURNAL OF BUSINESS MANAGEMENT
ISSN: 2996-5098 (online) | ResearchBib (IF) = 9.618 IMPACT FACTOR
Volume-3| Issue-5| 2025 Published: |30-05-2025|

Financial liabilities are amortized considered at value.

Depreciated value is calculated as follows:

Nominal value + interest calculated at the effective rate - interest paid.

The interest calculated at the effective interest rate differs from the interest paid if there are additional debt costs such as repayment charges, issuance costs or discounts. An example of such obligations is a deep discount bond.

One of the most common types of financial obligations is a convertible bond:

- issued with a large discount from the nominal value ;
- the interest rate is much lower than the market rate ;

The initial value of the bonds is the net proceeds from the issue. Total finance charges are calculated over the life of the instrument to obtain a constant periodic interest rate . The constant periodic interest rate (also called the effective rate) is calculated in the same way as the internal rate of return. These bonds, like financial liabilities, are accounted for at amortized cost.

Issuing convertible bonds is a common type of bond issue today. In this case, the company issues bonds (debt instruments) that can be converted into shares. The bondholder has the opportunity to buy the company's shares cheaply, because the terms of the conversion usually give the buyer a lot of benefits. Even if the owner chooses to cash the shares, the deal can still be attractive. At maturity, the party buying the bonds exchanges the bonds and then sells the shares in the market for a profit.

However, in exchange for this potential return, the bondholder must accept an interest rate that is usually below the market rate and will have to wait some time before receiving the shares that make up the bulk of the proceeds.

complex financial instrument include:

- financial responsibility (debt component);
- another element of capital (shared capital is exchanged for shares).

They should be shown separately in the financial statements. Based on these considerations, we will consider accounting, accounting and derecognition based on international standards.

A company issues a convertible bond with a par value of $36,000 and an annual interest rate of 2%. Interest on the bond is paid at the end of each year. The bonds can be converted into 1 common share for every $2.5 bond outstanding at any time until maturity. Alternatively, the bonds will be redeemed at their nominal value after 3 years. The interest rate on similar non-convertible bonds is 9.1%. The discounted value of 1 US dollar at a rate of 2 and 9.1% is as follows:

Year	Nominal rate 2%	Effective interest rate

AMERICAN JOURNAL OF BUSINESS MANAGEMENT
ISSN: 2996-5098 (online) | ResearchBib (IF) = 9.618 IMPACT FACTOR
Volume-3| Issue-5| 2025 Published: |30-05-2025|

		9.1 %
1	0 , 98	0 , 92
2	0 , 96	0 , 84
3	0 , 94	0 , 77

Let's take a look at how the company accounts for the above:

First of all, when issuing a convertible bond, it is necessary to consider what amounts are reflected as a financial obligation and a private equity element . For this, it is necessary to determine the obligation to be paid annually and discount the cash flow at the market rate.

Annual liability = 36,000 * 2% = $720

So, according to the terms, at the end of each year, $720 will be divided and the last 3 years will pay off the principal along with the interest. Now we discount the annual cash flow.

Table 1

Cash flow discounting

Year	**Cash flow $**	**Discount factor 9.1%**	**Current value $**
1	720	0.92	662
2	720	0.84	605
3	36,720 (36,000+720)	0 , 77	28 275
			29 542

Source: author development

Based on the information in the above table, when a convertible bond is issued, the following accounting transfer is given.

When a convertible bond is issued $:

Dt-Cash and their equivalents (MHTH)	36,000
Kt-Bond Payable (MHTH)	29 542
element of Kt-Capital (MHTH)	6 458

We will certainly consider their accounting after the calculation of the primary recognitions at the time of issuance of the convertible bond. For this purpose, the following table is used: Financial costs for convertible bonds and payable bonds are calculated.

Table 2

AMERICAN JOURNAL OF BUSINESS MANAGEMENT
ISSN: 2996-5098 (online) | ResearchBib (IF) = 9.618 IMPACT FACTOR
Volume-3| Issue-5| 2025 Published: |30-05-2025|

Calculation of financial costs and fees on bonds ($)

Year	Bond balance due at the beginning of the year	Financial expenses recognized for the year, 9.1%	Amount paid for the year, 2%	Bond balance due at the end of the year
1	29 542	**2 688**	(720)	**31 510**
2	31 510	**2 867**	(720)	**33 658**
3	33 658	**3 062**	(720)	**36,000**

Source: author development

The amount of financial expenses recognized for the year in the table above and the amount of bonds payable at the end of the year are found by the following formulas:

- Financial expenses recognized for the year = Bond balance due at the beginning of the year * 9.1%;

- Year-end bond balance = Year-end bond balance + Recognized finance costs for the year, 9.1% - Amount paid for the year, 2%.

Based on the information in the above table, the following results are obtained and the accounting transfer is given.

Table 3

Accounting transactions for annual convertible bond settlement and expense recognition $

1 year		2 years		3 years	
Dt-Convertible bond obligation Kt-money	**7 20**	Dt-Convertible bond obligation Kt-money	**7 20**	Dt-Obligation on convertible bond Kt-money	**7 20**
Dt-Convertible bond expenses Kt-Convertible bond obligation	**2 688**	Dt-Convertible bond expenses Kt-Convertible bond obligation	**2 867**	Dt-Convertible bond costs Kt-Convertible bond obligation	**3 062**

Source: author development

After the given annual accounting transfers, other elements of equity and convertible bond liabilities change in the statement of financial position as follows.

AMERICAN JOURNAL OF BUSINESS MANAGEMENT
ISSN: 2996-5098 (online) | ResearchBib (IF) = 9.618 IMPACT FACTOR
Volume-3| Issue-5| 2025 Published: |30-05-2025|

Table 3

Other elements of equity and liabilities on convertible bonds are reflected in the statement of financial position $

Statement of financial position			
Indicators	**1st year by the end of the reporting period**	**2nd year by the end of the reporting period**	**3rd year by the end of the reporting period**
Equity:			
another element of capital	6 458	6 458	6 458
Responsibilities:			
Current liabilities : a on a convertible bond			36,000
Long-term liabilities : on a convertible bond	31 150	33 658	

Source: author development

As can be seen from the table, the other element of the capital will not change until the end of 3 years, the liabilities on the convertible bond will be transferred to the long-term liabilities until the end of 2 years, and from the 3rd year to the current liabilities.

At the end of next year, if the buyer of the convertible bond has three options:

- Can fully recover the debt;

- As specified in the contract, the convertible bond can be exchanged for a fully-fledged share and then receive a dividend;

- According to the contract, a certain part of the debt can be redeemed and the remaining part can be exchanged for a convertible bond and a share.

If the party buying the convertible bond chooses the first option, the party issuing the convertible bond pays the money and invests a share of the capital gains on the convertible bonds in the other element of capital . Then gives the accounting transfer as follows.

A convertible bond is a liability		**The equity element is transferred to the income statement as a gain on a convertible bond.**	
Dt-Current Liabilities on Convertible Bonds	**36,0**	Dt-Equity element Kt-Profit on convertible	

AMERICAN JOURNAL OF BUSINESS MANAGEMENT
ISSN: 2996-5098 (online) | ResearchBib (IF) = 9.618 IMPACT FACTOR
Volume-3| Issue-5| 2025 Published: |30-05-2025|

Kt-Money and their equivalents	**00**	bond	**458**

If the party buying the convertible bond chooses the second option, the party issuing the convertible bond issues shares. Pursuant to our indenture, the bonds may be converted into 1 common share for every $2.50 per bond at any time prior to maturity. So, 14,400 common shares were issued and converted into bonds for $36,000.

common stock of the issuing party of the convertible bond is 3 USD. So, the party issuing the convertible bond will lose 0.5 US dollars from the issue of 1 common share , and 7,200 US dollars from the issue of 14,400 common shares . The party issuing the convertible bond based on the above information gives an accounting transfer as follows.

Common stock issued

Shares of the founders in the charter capital		
Kt-Ordinary Shares		**43200**
A common stock was issued instead of a convertible bond obligation		
Dt-Current Liabilities on Convertible Bonds		**36,000**
DT- Other element of capital	**0**	
DT-Retained earnings		**6 458**
Shares of founders in Kt-Charter capital		**742**
		43200

As can be seen from the above accounting transactions, part of the amount of loss is covered from the private capital element, and the rest is considered as covered from retained earnings.

If the party purchasing the convertible bond chooses the third option, the party issuing the convertible bond will issue shares as requested by the party purchasing the convertible bond and pay the remainder. Under our indenture, the bonds may be converted into 1 common share for every $2.50 bond at any time prior to maturity . So , 14,400 ordinary shares were issued for 36,000 US dollars and converted into bonds.

the common stock of the party issuing the convertible bond is 3 USD. If the buyer of the convertible bond requires the seller to pay 7,200 common shares and the rest in cash, the seller will make the following accounting transactions.

A part of the obligation of the convertible bond was paid

Dt-Current Liabilities on Convertible Bonds Kt-Money and their equivalents		**18,000**
Common stock issued		
Shares of the founders in the charter capital Kt-Ordinary Shares (MHTH)		**21,600**
A common stock was issued instead of a convertible bond obligation		
Dt-Current Liabilities on Convertible Bonds DT- Other element of capital Shares of founders in Kt-Charter capital		**18,000** **3 600** **21,600**
The amount remaining in the equity element of the convertible bond was transferred to retained earnings		
DT- Other element of capital KT-Retained earnings		**2 858**

At the request of the party that purchased the convertible bond, the selling party issued 7,200 shares of common stock at $3 par value for $21,600 (7,200*3=21,600) and instead deducted $ 18,000 from current liabilities under the convertible bond . Covered the remaining $3,600 (21,600-18,000=3,600) from the balance in the private equity element of the convertible bond . The remaining $2,858 (6,458-3,600=2,858) of retained earnings in the equity component of the convertible bond was transferred.

Conclusions and suggestions

As a result of studying the topic, the following conclusions were formed:

1. It is necessary to evaluate the current organizational and methodological rules of accounting for financial instruments and develop proposals for their development.

2. On the basis of the current legislation, it is necessary to propose an accounting scheme for accounting of financial instruments and develop proposals for its improvement.

It is necessary to develop a classification of financial instruments according to their important features.

4. In accordance with the international standards of financial reports, it is necessary to generalize the approaches to the organization of accounting of financial instruments and to determine the characteristics.

As a result of studying the topic, the following proposals were formed:

1. We propose to discount the amount of future payments of convertible bonds and recognize the discounted amount as the initial obligation of the convertible bonds.

2. We propose to recognize the difference between the discounted amount of the convertible bonds and the nominal value of the convertible bond as the share capital of the convertible bonds and include it in another element of the capital.

3. In order to keep track of another element of capital included in the structure of private capital, we offer a passive account called "Equity of Exchangeable Bonds".

4. If the party who bought the convertible bond does not convert the bonds, we propose to transfer the credit balance in the passive account named "Equity in Convertible Bonds" as a profit to the profit and loss histbot.

5. If the party purchasing the convertible bond elects to partially or fully convert the bonds into common shares. We propose to use the credit balance in the proposed liability account "Convertible Bond Equity" after the books of accounts to eliminate the difference between the par value of the common stock issue and the current liabilities of the convertible bonds.

6. If the party buying the convertible bond chooses to partially or fully convert the bonds into ordinary shares, the credit balance of the proposed "Equity of convertible bonds" liability account after the books of accounts is greater than the difference between the nominal value of the ordinary share issue and the current liabilities of the convertible bonds. Direct transfer of the credit balance of the proposed "Convertible Bond Equity" liability account to retained earnings. On the contrary, if it is less than the difference between the nominal value of the ordinary share issue and the current liabilities for the convertible bonds, we propose to cover the remaining part directly from the retained earnings.

The above proposals are based on international standards and achievements of international experience. We believe that the implementation of these proposals will serve to ensure the reliability of financial instruments in financial statements.

LIST OF USED LITERATURE:

1. Regulation of the Republic of Uzbekistan dated June 3, 2015 "On the stock market" No. 387. https://lex.uz/docs/2662539

2. The Law of the Republic of Uzbekistan dated December 6, 2001 "On Limited and Additional Liability Companies". https://lex.uz/docs/22525

3. The order of the Center for Coordination and Control of the Securities Market under the State Property Committee of the Republic of Uzbekistan,

registered on August 30, 2009, " On approval of the rules for the state registration of the issuance of securities and issuance of emission securities." https://lex.uz/docs/1515251

4. International Financial Reporting Standards (IAS) 32 "Financial Instruments: Recognition".

5. IFRS 7 "Financial instruments: disclosure of information". recognition" of international standards of financial reporting.

6. IFRS 9 "Financial instruments" international standards of financial reporting.

7. http:ifrs.com