



IMPROVING ACCOUNTING OF ENVIRONMENTAL COSTS OF NEW PROJECTS

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Abstract: This article covers issues of environmental costs of new projects, estimation of reserves and their accounting using professional judgment.

Key words: investment, new investment project, environmentally oriented project, environmental costs of new projects, environmental cost assessment, reserve calculation, project efficiency.

Introduction

In the conditions of market economy, the main goal of any enterprise is to produce products according to market requirements and to choose new projects that bring maximum profit and to make investments for this project. Correct selection of such projects is the basis of a successful investment strategy of enterprises. Profit, which is the main goal of enterprises, is reflected in the determination of any performance indicators and in the evaluation of the financial situation. But today's environmental situation in our country shows that it is very important to take into account not only profits and cash flows, but also the environmental impact of project implementation when determining the effectiveness of new projects.

It should be noted that there are many ways to evaluate the financial efficiency of investment projects. The method considered in this work takes into account environmental factors and is extremely important for today. Because regardless of the scale of implementation of new projects, the problem of environmental assessment has become very urgent in Uzbekistan in recent years. In fact, in our country, a lot of attention is being paid to the environment, and even a number of legal documents are being adopted. For example, starting from January 1, 2024, in the design of new facilities that fall into category I and category II in terms of environmental impact, high-efficiency dust-gas cleaning equipment and (or) local water treatment facilities will not be installed in the design, and the projects will be subject to state environmental and urban planning expertise, and the construction will be completed. it is forbidden to accept objects for use without their installation [Decree of the President of the Republic of Uzbekistan No. PF-81 of May 31, 2023 on measures to transform the field of ecology and environmental protection and organize the activities of an authorized state body]. In this regard, the correct organization and improvement of the calculation of environmental costs of new projects is one of the urgent issues of today.



Literature review

At a time when the effectiveness of new projects is an important factor in the sustainable development of territories, as well as becoming a solid ground for development, humanity is gaining new knowledge about investments, and now modern authors publish many formulations of the term "investment projects". For example, Bocharov V. V. According to the opinion, the object of an investment project is any project that requires a large amount of capital expenditure (both financial and labor) to implement this project. Investment projects are often distinguished from other projects that require less planning and resources by their mass and relatively higher costs.

The Law of the Republic of Uzbekistan on Investments and Investment Activities (25.12.2019 No. O'RQ-598) defines an investment project as a set of interrelated activities aimed at realizing or attracting investments for economic, social and other benefits. Also, according to this law, investment activity is a set of actions of investment activity subjects related to the implementation of investments, while an investor is an investment activity subject that invests its own funds and (or) debt funds or other investment resources involved in investment activity objects for the purpose of profit.

Any commercial organization invests its resources to purchase various types of assets necessary for the implementation of its main activities. Business entities pursue different goals when deciding on the implementation of this or that investment project. Savchuk V.P. The book "Preparation and Analysis of Investment Projects" indicates three main goals for the implementation of an investment project: updating the material and technical base, creating new types of products and expanding the production capabilities of the enterprise.

In the financial analysis of the costs of new projects, a lot of attention is always paid to cash flows. But today's environmental problems require a slight change in the traditional assessment methodology. According to Wang Chun, Professor of the Faculty of Economics of the China University of Finance and Economics (Jiangsi), the method that does not take into account the social and environmental impact of the company's activities is called "extensive"

Research methodology

In the study, the accounting and statistical analysis methods used in national and international practice were used in the assessment of investment in new projects and its important performance indicators, taking into account environmental costs.



Results and Discussion

Today, the formation of a "green" economy and transition to its sustainable development is one of the priority tasks both globally and for Uzbekistan. The concept of sustainable development for the future of humanity is an important source, which is reflected in the resolutions and documents of the UN. The modern economy largely depends on compliance with environmental standards and orientation to the international concept of sustainable development. In the period of transition to economic development, the most important condition is an ecologically clean living environment. It and the state of the ecological-economic system as a whole are affected by the implementation of new projects, which play an important role in the achievement of strategic goals.

When evaluating the effectiveness of large, socially significant projects, it is necessary to reveal additional information about the consequences of the project for the economy of the region and the country as a whole. In order to ensure sustainable development, it is important that project developers, investors and state organizations that grant permission take into account the main aspects of investment projects - economic and environmental efficiency. Currently, the methods used to increase the responsibility of enterprises for environmental protection do not give the desired results. The following reasons can be given for insufficient consideration of environmental factors when evaluating the effectiveness of new projects:

- the difficulty of identifying many factors affecting the environment due to its diversity;
- lack of methods that allow comprehensive assessment of the effectiveness of new projects;
- environmental costs incurred before the launch of the new project are not included in the total cost of the project;
- non-consideration of current costs of environmental protection in the analysis of project cash flows;
- Weakness of relations in the field of compensation for damage caused to the environment;
- failure to establish reserves for the costs of compensation for damage caused to the environment;
- non-estimation of liabilities for costs incurred for the restoration of dismantling natural resources at the end of the new project activity.

After determining the results of the project implementation, the expected loss and profit will be assessed. The complete description of the cost estimation of the ecological component of the project is formed on the basis of the cash flow components of the operational and investment activities. Expenditures for current measures of environmental protection are a component of cash flows of operating activities, and the cost of equipment necessary for environmental protection is a component of cash flows of investment activities.



Expressing the results of environmental costs of new projects in monetary form and reflecting them in one cash flow allows:

- determining the relationship between the amount of expenses and the results of environmental protection measures;
- to determine the optimal level of the value of these indicators in order to achieve the necessary level of environmental safety of the project;
- calculation of the amount of economic profit seen in the long-term strategy as a result of environmental costs;
- to determine the integrated indicators that reflect the effectiveness of expenses for environmental protection measures.

The listed situations indicate the need to develop a methodology for economic-economic evaluation of investment projects. Such an assessment allows to determine the indicators of the effectiveness of the project by calculating the consequences of the impact on the ecological environment in monetary terms and drawing conclusions about the feasibility and possibilities of its implementation. In this way, it is possible to determine the economic efficiency and stability of the projects, and to assess the impact on the environment.

Today, the initiators of the project must take responsibility for maintaining a comfortable environment, rational use of natural resources, and dismantling the equipment at the end of the project. Legal obligations to restore the environment can arise in two situations. First, it arises in connection with the requirements of the legislation of the area where the project is implemented, the contracts and license agreements concluded on the extraction of underground resources, and the terms of the project documents agreed with the state authorities. The second is constructive (voluntary) and can come from published environmental policies, past practices, management statements published in the media, etc. A liability for environmental remediation is recognized when it is probable that the remedial action will take place and the related costs can be measured reliably. There should usually be a formal plan to recognize such a commitment. Such costs can be written off as a one-time charge to the statement of profit and loss or, if it is expected that a certain benefit will flow to the company as a result of the work performed, they will be reflected in the assets and they will be written off through depreciation.

Assumptions and contingencies must be made when measuring such liabilities for IFRS purposes. This is due to the uncertainty of future cash flows, the lack of a clear description of the criteria and methods for fulfilling environmental protection obligations, and changes in production and finishing technology. In practice, each of the project initiators, based on the professional judgment of their experts, develops their own methodology to be reflected in the project documents.

Environmental protection obligations in new projects arise in two cases:

- during the production activity;
- at the end of the project after the end of the production process.



In the course of production activities, the enterprise undertakes to eliminate production waste and eliminate the consequences of emergency situations, such as the release of harmful substances into the atmosphere or the accidental spillage of pollutants. International standard IAS-37 "Estimated liabilities, contingent liabilities and contingent assets" includes requirements for measuring liabilities for the restoration of natural resources. When assessing the environmental impact of new projects, it is important to calculate reserves for environmental restoration costs. Such reserves can be recognized when the project promoter has a formal plan for financing the environmental protection program agreed with the regional administration during the life of the project. Annual environmental remediation fees should be discounted by the project proponent using an estimated discount rate. Provisions for environmental remediation costs are written off as a lump sum when recognized in the statement of profit or loss or may be capitalized as part of assets if any future benefits are expected to flow from the implementation of these works.

In accordance with the IAS-16 "Fixed Assets" standard, enterprises' obligations to restore the land where the project was implemented after the end of the production process should be included in the cost of fixed assets based on the initial calculation of the costs of dismantling, finishing the object and restoring natural resources in the area occupied by it. In accordance with the requirements of paragraph 14 of IAS-37, a reserve is recognized in the following cases:

- if the company has a current obligation (legal or constructive) as a result of a past event (forced event);
- if there is a possibility that the resources embodying economic benefits will go out;
- if it is possible to reliably estimate the amount of this outflow.

Liability for anticipated decommissioning and reclamation costs will arise during the construction and operation of such facilities. The decommissioning costs that the project promoter has to pay at the end of the production process are usually significant. Such costs should be related to project revenues and should not be written off as period costs. Therefore, at the same time as the liability for reserves is recognized in the reports, it is capitalized as part of the corresponding object, increasing its book value by the same amount as the liability. Thus, the reserve associated with the decommissioning and reclamation of assets leads to the formation of a liability and an asset on the balance sheet in the amount of liquidation costs. The obligation increases from period to period as the due date approaches. Based on the principle of matching of income and expenses, the asset is gradually transferred to the statement of profit and loss as amortization expenses.

Recommended accounting procedures for reflecting environmental costs of new projects in accounting are given in the table below.



Table 1. Recommended accounting procedures for accounting for the environmental costs of new projects

No	Content of the operation	Debit	Credit
1.	Legal environmental costs	Operating expenses	Cash or current liability
2.	When reserves are created to eliminate the consequences of the release of harmful substances into the atmosphere or the accidental spillage of pollutants	Operating expenses	Long-term liability for reserves
3.	When reserves are used to eliminate the consequences of the release of harmful substances into the atmosphere or accidental spills of pollutants	Long-term liability for reserves	Cash or current liability
4.	When reserves are created for environmental restoration costs	Fixed assets	Long-term liability for reserves
5.	When reserves for environmental restoration costs are used	Long-term liability for reserves	Cash or current liability
6.	When the amount of the long-term liability for estimated reserves increases as a result of revaluation	Operating expenses	Long-term liability for reserves
7.	When the amount of long-term liability for estimated reserves decreases as a result of revaluation	Long-term liability for reserves	Operating income

Based on the above comments, the following proposals were developed to improve the calculation of environmental costs of new projects implemented in our country:

1. The environmental costs incurred before the launch of the new project are not considered in the total cost of the project, but are reflected in the costs of the period. This, in turn, leads to a mismatch of income and expenditure. It is necessary to move to the practice of regular distribution of expenses during the entire period of the project by reflecting the environmental costs incurred before the launch of the new project as capitalized costs in the value of fixed assets. As a result:

- firstly, during the implementation of new projects, the compatibility of income and expenditure is ensured;
- secondly, the requirements of the principle of consistency of income and expenses during the reporting period are met;
- thirdly, period cost overruns are avoided in the financial statements before the new project is launched.

2. Subjects of new projects in the category of high and medium risk of impact on the environment, disposal of production waste in the course of activity, elimination of the



consequences of emergency situations, the release of harmful substances into the atmosphere or the accidental spillage of pollutants (land or water) undertakes to eliminate. Reserves should be formed based on the requirements of the international standard (IAS) 37 "Estimated liabilities, contingent liabilities and contingent assets" for these liabilities. At the end of the enterprise's activity, the liability for the costs incurred for the dismantling and removal of the fixed asset and the restoration of natural resources in the place where it is located should be included in the initial cost of the fixed asset at the beginning of the project according to the preliminary accounting estimate of these costs (IAS-37) (IAS-16 "Fixed Assets ") is necessary. As a result:

firstly, it is ensured that the expenses for the disposal of production waste of the enterprise during the production activity of new projects and the consequences of emergency situations (obligations according to the account price) are regularly transferred to expenses during the period of reserve creation;

secondly, the risk of lack of funds to eliminate the consequences of emergency situations related to environmental pollution and (or) to dismantle and remove the main asset at the end of its operation and to restore natural resources at its location is avoided, because reserves have been formed for these purposes will be;

thirdly, the requirements of the Decree of the President of the Republic of Uzbekistan dated 30.10.2019 No. PF-5863 "On approval of the concept of environmental protection of the Republic of Uzbekistan until 2030" will be fulfilled.

Conclusion

The complexity of presenting the environmental consequences of the implementation of new projects in the form of money shows the importance of careful assessment of environmental damage and the probability of its occurrence with professional judgment before the start of project implementation. Due to the risk of accumulating negative environmental consequences towards the end of the project's life cycle, the importance of the project termination phase increases and requires a great deal of attention. As a result of the evaluation of the reserves for these environmental costs of new projects using the true discount rate, their correct and timely accounting, the organization of full reflection in the reports and proposals for improvement, the following will be achieved:

1. In order to ensure the periodic consistency of income and expenses, capitalize the environmental expenses incurred before the launch of the new project and regularly allocate them to the expenses during the entire period of the project by calculating the depreciation based on the period of the permitting environmental documents, the income and expenses of the reporting period during the implementation of new projects serves to ensure compliance and correct formation of financial results.



2. Creation of reserves that will be used in order to eliminate the consequences of damages caused to the environment during the operation of the new project and to cover the costs incurred for the restoration of natural resources, elimination of production waste during the operation of the new project, elimination of the consequences of emergency situations related to environmental pollution, the project in the end, it will serve to form a source of financing for the costs of dismantling the main vehicle facilities and restoring the natural resources in the place where they are located. It also creates an opportunity to encourage the selection of projects with low emissions and low environmental impact.

3. Taking into account the reserves formed for the expenses related to the prevention of environmental pollution of new projects, not in the reserves of private capital, but in the working account entitled "Obligations for the reserves of future expenses and payments" in the long-term liabilities, to prevent environmental pollution of the initiators of new projects "reserves" formed at the end of the project related to the costs associated with obtaining and restoring natural resources provide an opportunity to reflect them as liabilities in the accounts and reporting information. Also, understatement of liabilities and overstatement of private capital are prevented in the financial report, reliable financial report is presented to the users.

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