

LEGAL BASIS FOR ORGANIZING A PRIVATE CAPITAL ACCOUNT

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Annotation: This article explores the concept of private equity (owner's equity), its economic essence, and the legal framework for organizing its accounting in the Republic of Uzbekistan. The study analyzes the main components of private equity, the relevant national legislation, and international standards that regulate its recognition and reporting. Furthermore, it discusses existing challenges in accounting practices and proposes practical recommendations for improving the transparency and efficiency of private equity accounting in business entities.

Keywords: Private equity, owner's capital, accounting, legal framework, financial reporting, International Financial Reporting Standards (IFRS), capital structure, Uzbekistan legislation, corporate finance.

Introduction. Private capital is one of the important factors in the formation of a competitive economy and ensuring the sustainable development of business entities. Private capital is the sum of funds invested by the owners of the organization and the profit received from their activities. Its correct and legal accounting plays an important role in ensuring financial transparency. Therefore, the correct organization and management of private capital in accounting must be strengthened by legal frameworks.

Private capital consists of funds invested by the owners of the enterprise, profit received from activities and capital reserves, and is the main source of ensuring the financial independence and stability of the enterprise. It is defined as the difference between the assets and liabilities of the business entity. That is:

Equity = Assets – Liabilities

This capital can be in various forms - in the form of money, material resources, intellectual property or services. The exact amount and composition of equity capital is reflected in the financial statements of the enterprise and serves as an important indicator of its development prospects.

Equity capital consists of several components:

- Authorized capital – the sum of funds invested by the founders when the enterprise was established. These funds are specified in the charter and are subject to state registration.
- Additional capital – this type of capital includes funds received from the difference between the issue price and the nominal price of shares, the results of property revaluation.
- Reserve capital – is formed at the expense of allocations from profit and is used to cover accounting losses and pay dividends.

- Retained earnings (or losses) – the undistributed part of the enterprise’s profits received in previous years. This capital is the basis of the enterprise’s internal investment capabilities.

There are the following main regulatory and legal documents on accounting for private capital in Uzbekistan:

- a) Law “On Accounting” (2021, new edition). This law establishes a single legal framework for the organization of accounting, the preparation of financial statements and ensuring their reliability. The reflection of equity components in accounting is also carried out on the basis of this law.
- b) Civil Code. The organization of an enterprise, the formation of authorized capital, and the rights and obligations of the parties participating in them are regulated by the Civil Code. The Code determines the term for the formation of the authorized capital, its minimum amount, and the shares of participants.
- c) Resolutions of the President of the Republic of Uzbekistan and regulations of the Cabinet of Ministers. For example, the Resolutions “On the Introduction of National Standards of Accounting and Financial Reporting” are aimed at bringing equity accounting closer to international practice.
- d) IFRS – International Financial Reporting Standards. Most large enterprises and joint-stock companies are required to comply with the requirements of IFRS. IFRS has a separate standard for each component of equity (for example, IAS 1 - Financial Statements).

In many developed countries, approaches to accounting for equity differ as follows:

- USA – is based on GAAP (Generally Accepted Accounting Principles). Each capital movement is documented in detail.
- European Union – is based on IFRS, but is harmonized with national standards within the country.
- Russia – integration of national accounting standards and IFRS has been implemented.

In Uzbekistan, national accounting standards are being gradually introduced, aligned with IFRS requirements. This will help increase investor confidence.

The following problems are observed in practice:

- Complexity and confusion of regulatory documents – small business representatives do not fully understand them;
- Lack of qualified accountants – especially in districts and rural areas;
- Insufficient implementation of electronic accounting systems – this increases the risk of errors;
- Incorrect reflection of capital changes in financial statements – this creates distrust for investors and tax authorities.

Today, it is possible to automatically record private equity using digital accounting systems (for example, 1C, SAP, Zoho Books, etc.). This:

- reduces human error;
- provides real-time financial information;
- simplifies reporting.

Private equity is one of the main factors determining the stability of the enterprise's activities, financial independence and investment attractiveness. Its correct and legal accounting increases the reliability of financial statements and becomes an important source of information for shareholders and investors in making the right decisions.

The Republic of Uzbekistan has a sufficient legislative framework for private equity accounting. However, in practice, there are a number of problems with its correct application: confusion in the legislation, lack of qualifications, systems that are not fully aligned with international standards, and insufficient introduction of digital technologies.

This article analyzes the essence, composition, legal framework and existing problems in accounting for private equity. Also, by comparing with international experience, directions for improving the existing system were identified. The following proposals were developed:

Full harmonization of national accounting standards with IFRS will increase investment confidence and strengthen international cooperation.

Develop a regulatory legal act that specifically regulates private equity movements – for example, the “Instructions on Maintaining Private Equity Accounting”.

Organize regular seminars and online courses to improve the skills of accountants and financiers – especially for small businesses.

Encourage the introduction of digital accounting systems – this will reduce human errors in accounting activities and increase financial transparency.

Encourage the state to promote the process of private equity formation through tax incentives – tax breaks on the authorized capital for newly established enterprises can be provided.

Develop standard forms for a complete and accurate reflection of changes in private equity in financial statements – this will facilitate audit and control processes.

Pay special attention to teaching private equity accounting in higher education institutions – this will be an important factor in training future specialists.

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