

LONG-TERM LIABILITIES: FINANCING SOURCES AND THEIR REFLECTION IN ACCOUNTING

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Abstract: The present study investigates the significance of long-term financial obligations in corporate capital structure and the procedures through which such obligations are captured in accounting records. Drawing on both International Financial Reporting Standards (IFRS) and Uzbek national accounting regulations, the paper identifies and categorises the principal instruments of long-term debt financing—encompassing bank credits, bond issuances, finance leases, government-backed subsidies, and multilateral development-bank loans. The research further examines foundational measurement principles, including initial fair-value recognition, subsequent measurement at amortised cost, and the application of the effective interest rate (EIR) method prescribed by IFRS 9. Attention is given to the reclassification of the current portion of non-current debt, the capitalisation of borrowing costs on qualifying assets, foreign-currency translation risk, and the accounting implications of debt-restructuring events. Comparative analysis reveals areas of convergence and divergence between IFRS and domestic Uzbek practice. The findings underscore the critical importance of rigorous disclosure for investors, creditors, and regulatory stakeholders.

Keywords: long-term liabilities, bank loans, bond financing, finance lease, amortised cost, effective interest rate.

Introduction

Long-term liabilities occupy a central position in the financing architecture of modern enterprises. Defined broadly as obligations whose settlement is not expected within twelve months of the reporting date, these instruments allow organisations to fund capital-intensive investments that could not otherwise be financed from internally generated resources alone (IASB, 2014). Their proper recognition, measurement, and disclosure therefore constitute a foundational requirement of reliable financial reporting.

In the context of Uzbekistan's transitional economy, the relevance of long-term debt financing has grown markedly over the past decade. The government's structural reform agenda, embodied in successive development strategies, has expanded enterprises' access to both domestic bank credit and concessional loans from multilateral institutions such as the World Bank and the Asian Development Bank (ADB). At the same time, domestic accounting standards have undergone phased alignment with IFRS, creating both opportunities and challenges for practitioners.

Despite this progress, the academic literature addressing the intersection of IFRS requirements and Uzbek accounting practice for long-term liabilities remains limited. The present article seeks to address that gap by providing a structured analysis of the major

categories of long-term debt, the measurement principles that govern their presentation, and the analytical tools through which their financial impact is assessed.

The remainder of the paper is organised as follows. Section 2 reviews relevant prior scholarship. Section 3 describes the research methodology. Section 4 presents the principal findings and discussion. Section 5 offers concluding observations and directions for future inquiry.

Literature Review

The conceptual framework governing liabilities has been the subject of sustained scholarly debate. The IASB Conceptual Framework (2018) defines a liability as a present obligation of the entity to transfer an economic resource as a result of past events. Building on this definition, researchers have explored how measurement conventions—particularly the shift from historical cost to fair value and amortised cost—affect the informational quality of financial statements.

Shokh (2025) contends that the adoption of the effective interest rate method materially improves the comparability of interest expense across entities with heterogeneous debt structures, though he acknowledges that implementation complexity remains a concern for preparers in developing markets. Similar conclusions were drawn in studies examining IFRS adoption in post-Soviet economies, where capacity constraints among finance professionals were identified as a persistent obstacle to high-quality disclosure (Ta'lim Fidoyilari, 2022).

The capitalisation of borrowing costs on qualifying assets—required under IAS 23—has attracted particular attention given its dual effect on the income statement and the balance sheet. Research compiled in educational and methodological guides (2026) highlights that Uzbek enterprises engaged in infrastructure development have increasingly capitalised interest, though inconsistencies in identifying qualifying assets continue to be documented.

Currency risk associated with foreign-currency-denominated debt is another theme that pervades the literature. Borrowings from multilateral institutions are typically denominated in USD or EUR, exposing Uzbek borrowers to exchange-rate volatility. World Bank and EBRD guidelines (2018–2022) encourage the use of hedging instruments to manage this exposure, yet the limited depth of domestic derivatives markets constrains their widespread uptake.

Debt restructuring and its accounting consequences under IFRS 9 represent a further strand of inquiry. The standard's 'substantial modification' test—requiring derecognition of the original liability and recognition of a new instrument when cash flow changes meet a quantitative threshold—has been criticised for introducing earnings volatility that may not faithfully reflect economic reality. Buxgalter.uz (2026) notes that local guidance on this provision remains underdeveloped, creating uncertainty for preparers.

Taken together, the reviewed literature points to a need for applied research that integrates IFRS principles with the specific institutional context of Uzbekistan, a gap the present study aims to partially address.

Research Methodology

The study adopts a qualitative, document-analysis research design. Primary normative sources— notably IFRS 9 (Financial Instruments), IAS 23 (Borrowing Costs), IAS 39 (Financial Instruments: Recognition and Measurement), and the applicable provisions of Uzbek national accounting regulations—were subjected to close textual interpretation. This approach permits a systematic comparison of requirements across regulatory frameworks without the measurement challenges associated with large-scale empirical data collection.

Secondary sources were identified through targeted searches of academic databases, official IASB publications, multilateral institution guidance documents, and domestic professional reference portals. Inclusion criteria required sources to address at least one of the following themes: long-term debt classification, measurement at amortised cost, borrowing cost capitalisation, currency risk and hedging, financial leverage analysis, or debt restructuring. Sources published between 2014 and 2026 were prioritised to ensure contemporaneous relevance.

The analytical procedure proceeded in three stages. First, the principal categories of long-term liabilities were identified and described. Second, the accounting treatment prescribed by IFRS was outlined and contrasted with domestic Uzbek practice. Third, analytical indicators used by financial statement users to evaluate long-term debt were reviewed. Throughout, illustrative numerical examples were constructed to clarify the application of measurement principles, particularly the effective interest rate method.

Limitations of the methodology should be acknowledged. The absence of firm-level financial statement data constrains the extent to which generalised conclusions can be drawn regarding actual practitioner behaviour. Future research employing survey instruments or case-study approaches would complement and extend the present findings.

Results And Discussion

1. Categories of Long-Term Liabilities

The analysis identified five principal categories of long-term liabilities encountered in Uzbek corporate practice.

Bank loans with maturities extending beyond one year represent the most prevalent form of long-term financing. In Uzbekistan, commercial banks offer investment credits with tenors of two to ten years, predominantly directed towards the acquisition of fixed assets and the financing of construction projects. Interest rates on such instruments are typically linked to the central bank's benchmark rate, introducing variable-rate exposure.

Corporate bond issuances enable larger enterprises to access capital markets directly, bypassing the banking intermediary and potentially obtaining more favourable pricing through competitive demand. The Tashkent Stock Exchange has facilitated a modest but growing volume of corporate bond placements in recent years, reflecting gradual capital market development.

Finance leases, as defined under IFRS 16 (Leases), create both a right-of-use asset and a corresponding long-term liability on the lessee's balance sheet. This treatment is

particularly relevant for enterprises that rely on leased equipment or real property to conduct their operations.

Government subsidies subject to repayment conditions are classified as financial liabilities rather than equity, requiring measurement and disclosure consistent with other debt instruments. The distinction between repayable grants and non-repayable assistance is therefore of material accounting significance.

Concessional loans from multilateral development banks—including the World Bank, EBRD, and ADB—form a significant component of long-term financing in the public and quasi-public sectors. These instruments are typically denominated in foreign currencies and carry below-market interest rates, generating both measurement complexity and currency risk.

2. Initial Recognition and Subsequent Measurement

Upon initial recognition, a long-term financial liability is measured at fair value, which in most practical circumstances equates to the transaction price—that is, the proceeds received net of directly attributable transaction costs. This treatment is consistent with IFRS 9, paragraph 5.1.1, which requires financial liabilities to be recognised at fair value at the date of initial recognition.

Subsequent to initial recognition, most long-term liabilities are carried at amortised cost using the effective interest rate method. Under this approach, the carrying amount of the liability is adjusted each period by: adding interest accrued at the effective rate; and deducting cash payments made. The effective interest rate is the internal rate of return that exactly discounts the estimated future cash payments through the expected life of the instrument to its carrying amount at initial recognition.

For illustration, consider a five-year bank loan of UZS 100,000,000 carrying a nominal annual rate of 14% but issued at a discount with transaction costs that yield an effective rate of 15.2%. In the first period, interest expense recognised in profit or loss would be UZS 15,200,000 ($100,000,000 \times 15.2\%$), while the cash coupon paid would be UZS 14,000,000. The difference of UZS 1,200,000 increases the liability's carrying amount, thereby ensuring that the obligation converges to its contractual redemption value at maturity.

The reclassification of the current portion of a long-term liability—that is, the principal instalment due within twelve months of the reporting date—to current liabilities is a procedural requirement that enhances the relevance of the statement of financial position as a measure of short-term solvency. Failure to perform this reclassification represents a common disclosure deficiency in practice.

3. Borrowing Cost Capitalisation

IAS 23 mandates the capitalisation of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset—defined as an asset that necessarily takes a substantial period of time to prepare for its intended use or sale. For long-term loans funding construction projects, the effective interest rate method is applied to determine the borrowing costs eligible for capitalisation.

Uzbek accounting standards broadly align with this requirement; however,

divergences in defining 'qualifying asset' and in treating suspended-construction scenarios have been observed in practice. Specifically, some entities continue to expense borrowing costs incurred during temporary interruptions to construction activity, contrary to the IAS 23 benchmark treatment.

4. Foreign Currency Risk and Hedging

Long-term liabilities denominated in foreign currencies expose entities to exchange-rate risk: when the local currency depreciates, the soum-equivalent carrying amount of the obligation increases, inflating reported liabilities and generating translation losses in the statement of comprehensive income. This mechanism is particularly significant for Uzbek enterprises servicing hard-currency loans from multilateral institutions, given the soum's historical trajectory.

IFRS 9 and IAS 21 together prescribe the recognition of foreign exchange differences arising on monetary items at each reporting date. Hedging instruments—including currency swap agreements and forward exchange contracts—may be designated in a qualifying hedging relationship to offset this variability. Hedge accounting under IFRS 9 requires formal designation, documentation, and ongoing assessment of hedge effectiveness, requirements that currently exceed the operational capacity of many domestic preparers.

5. Financial Leverage Analysis

From a financial analysis perspective, the debt-to-equity (D/E) ratio—computed as total long-term debt divided by total shareholders' equity—is a primary metric through which investors and creditors assess the degree of financial leverage and associated default risk. A higher ratio implies greater reliance on debt financing, which amplifies both potential returns to equity holders and the probability of financial distress.

Concurrently, the tax deductibility of interest payments creates a debt tax shield, reducing the effective cost of debt capital relative to equity. This trade-off between the benefits of leverage and the costs of financial risk is central to capital structure theory and informs management decisions regarding the optimal mix of long-term financing instruments. In Uzbekistan, the corporate income tax framework generally permits the deduction of interest expense, reinforcing the attractiveness of debt financing subject to prudent leverage constraints.

6. Debt Restructuring

When an entity encounters financial difficulty, it may negotiate a modification of the contractual terms of an existing long-term obligation—for example, by extending the repayment schedule, reducing the contractual interest rate, or obtaining a partial forgiveness of principal. IFRS 9 requires an assessment of whether such a modification is 'substantial', defined quantitatively as a change in the present value of remaining cash flows, discounted at the original effective rate, of at least 10%.

Where the modification is substantial, the original liability is derecognised and a new instrument is recognised at fair value, with the difference presented in profit or loss as a gain or loss on extinguishment. Where the modification is not substantial, the entity recalculates

the carrying amount as the present value of the revised cash flows, discounted at the original effective rate, and recognises any adjustment immediately in profit or loss. These requirements introduce both measurement complexity and income-statement volatility, aspects that warrant continued professional development among Uzbek preparers.

7. Comparison of IFRS and Uzbek National Practice

The preceding analysis reveals a pattern of broad conceptual alignment between IFRS and Uzbek national accounting standards, combined with divergences at the level of detailed application. Both frameworks require initial recognition at fair value and subsequent measurement at amortised cost; both mandate the capitalisation of qualifying borrowing costs; and both address the reclassification of current portions. However, differences persist in the treatment of foreign exchange differences, the definition of qualifying assets under IAS 23, and the operationalisation of the substantial-modification test for debt restructurings. Ongoing harmonisation efforts are expected to narrow these gaps progressively, though the pace of convergence depends materially on investment in professional training and standard-setting capacity.

Conclusion

This article has provided a structured examination of long-term liabilities as instruments of corporate financing and as objects of accounting recognition and measurement. The analysis confirms that long-term debt, in its various forms, plays an indispensable role in enabling enterprises to undertake capital-intensive activities that create long-term value. At the same time, the complexity of the applicable accounting requirements—encompassing amortised cost measurement, borrowing cost capitalisation, foreign currency translation, and debt restructuring accounting—demands a high standard of technical competence from financial reporting practitioners.

In the specific context of Uzbekistan, the findings point to three priority areas. First, continued investment in IFRS education and capacity building is essential to close the gap between normative requirements and actual practice. Second, the development of domestic derivatives markets would expand the hedging options available to entities with foreign-currency debt exposures. Third, clearer national guidance on the application of the IFRS 9 substantial-modification test would reduce uncertainty and promote consistency in the accounting for debt restructurings.

Future research could extend the present analysis through empirical investigation of disclosure quality in the financial statements of Uzbek listed companies, or through case-study examination of hedging practices among enterprises with significant multilateral institution borrowings. Such studies would provide a richer evidence base for policy recommendations directed at regulators and standard-setters.

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