



## ACCOUNTING RECOGNITION AND VALUATION OF LONG-TERM ASSETS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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**Abstract.** *This study analyzes the accounting recognition and valuation of long-term assets under International Financial Reporting Standards (IFRS) and assesses their impact on financial reporting quality. Long-term assets, including property, plant and equipment, intangible assets, and investment property, represent a substantial share of enterprise resources and significantly influence financial position and performance. IFRS establishes principles-based recognition criteria and permits alternative valuation models, which enhance transparency but also increase reliance on professional judgment.*

*The research is based on a qualitative and analytical review of relevant IFRS standards and recent academic literature, supported by comparative analysis of cost-based and fair value-based measurement approaches. The results show that IFRS improves consistency in asset recognition and comparability of financial statements over time. However, valuation challenges remain pronounced, particularly for intangible assets and investment property, due to estimation uncertainty and limited market data. The study also highlights the importance of high-quality disclosures in reducing subjectivity and improving decision usefulness. Overall, the findings confirm that effective IFRS implementation depends on consistent application, sound valuation practices, and transparent disclosures.*

**Keywords:** *International Financial Reporting Standards (IFRS), long-term assets, asset recognition, asset valuation, fair value measurement, financial reporting quality.*

### INTRODUCTION

Long-term assets play a fundamental role in the financial structure



of enterprises, as they represent the resources that support production, service delivery, and long-term economic development. Assets such as property, plant and equipment, intangible assets, and investment property usually constitute a significant portion of total assets, particularly in capital-intensive sectors. Because of their scale and long useful lives, the way these assets are recognized and valued in accounting records has a substantial impact on an enterprise's financial statements, influencing reported asset values, profitability indicators, and overall financial stability. For this reason, the accounting treatment of long-term assets is a critical issue in financial reporting and an important area of academic research.

The growing adoption of International Financial Reporting Standards (IFRS) across countries has significantly changed approaches to financial accounting, including the recognition and valuation of long-term assets. IFRS were developed to improve the transparency and comparability of financial statements and to provide users with high-quality information that supports economic decision-making. Under IFRS, the recognition of long-term assets is based on specific criteria related to control, future economic benefits, and reliable measurement, while their valuation involves both initial measurement and subsequent measurement using models that may differ across enterprises. These

requirements require professional judgment and careful assessment, making the accounting process more complex than under purely rules-based systems.

In practice, the application of IFRS to long-term assets often raises methodological and practical challenges. Enterprises must choose between valuation models, estimate useful lives and residual values, and assess whether assets are impaired, all of which involve uncertainty and subjective judgment. The use of fair value measurements, in particular, may be problematic in environments where active markets are underdeveloped or where reliable valuation data are limited. As a result, differences in interpretation and application of IFRS requirements can occur, leading to variations in reported asset values and financial results even among similar enterprises.

These challenges are especially relevant for economies that have recently transitioned to IFRS-based reporting systems. In such contexts, enterprises may face difficulties related to limited experience with international standards, insufficient valuation infrastructure, and inconsistencies between national accounting traditions and IFRS principles. The recognition and valuation of long-term assets under IFRS may therefore lead to significant changes in financial statements, affecting not only accounting figures but also investment decisions, credit assessments, and stakeholder confidence.



Given the importance of long-term assets in reflecting the real economic capacity of enterprises, ensuring their proper recognition and valuation under IFRS is essential for the credibility of financial reporting. A systematic examination of IFRS requirements and their practical application allows for a clearer understanding of existing problems and areas for improvement. In this context, the present thesis focuses on the accounting recognition and valuation of long-term assets under International Financial Reporting Standards, aiming to contribute to the improvement of financial reporting quality and to provide practical recommendations for more consistent and reliable application of IFRS in this area.

## Literature review

The recognition and valuation of long-term assets under International Financial Reporting Standards (IFRS) have been widely examined in accounting literature due to their substantial influence on financial reporting quality and decision usefulness. Long-term assets, including property, plant and equipment, intangible assets, and investment property, often represent the largest share of total assets, particularly in capital-intensive and industrial enterprises. IFRS establishes principles-based requirements for recognizing these assets when future economic benefits are probable and costs can be measured reliably, while also allowing alternative measurement models that introduce professional judgment into financial

reporting (International Accounting Standards Board [IASB], 2023). As a result, academic research frequently emphasizes that asset recognition and valuation under IFRS are not purely mechanical processes but involve estimation, interpretation, and contextual considerations.

A significant body of literature focuses on property, plant and equipment (PPE) under IAS 16, particularly the choice between the cost model and the revaluation model for subsequent measurement. The IASB (2023) explains that while the cost model emphasizes reliability and verifiability, the revaluation model aims to enhance relevance by reflecting current fair values when such values can be measured reliably. Empirical studies show that this flexibility can lead to differences in reported asset values and financial ratios across firms and countries, even when underlying economic conditions are similar. Researchers argue that these differences may reduce comparability and allow managerial discretion to influence reported financial positions, especially in environments with weak valuation infrastructure or limited market data (Toluwa et al, 2019).

Fair value measurement plays a central role in the valuation of long-term assets under IFRS, particularly in revaluations, impairment testing, and investment property accounting. IFRS 13 defines fair value as a market-based measurement and establishes a hierarchy of inputs, ranging from observable market



prices to unobservable estimates (IASB, 2025a). The literature highlights that while fair value measurements can improve relevance, they also introduce estimation uncertainty, particularly when Level 3 inputs are used. Academic reviews and professional guidance note that fair value estimates may be sensitive to assumptions and valuation techniques, raising concerns about reliability and potential bias if governance and audit oversight are insufficient (KPMG, 2025; Toluwa et al, 2019).

Impairment accounting under IAS 36 represents another critical intersection of recognition and valuation. The standard requires entities to assess whether assets are carried at amounts exceeding their recoverable values and to recognize impairment losses when necessary (IASB, 2022). Research on impairment practices indicates that while IAS 36 provides a structured framework, the estimation of recoverable amounts relies heavily on management assumptions related to cash flows, discount rates, and growth expectations. Empirical studies and doctoral research suggest that impairment disclosures often lack sufficient detail to fully explain these assumptions, limiting the usefulness of financial statements for users and leaving room for earnings management (Sonila, 2024).

The literature on intangible assets under IAS 38 has expanded significantly in recent years, reflecting the growing importance of knowledge-based and innovation-driven value creation. IAS 38

imposes strict recognition criteria and prohibits the capitalization of many internally generated intangibles, which has been widely criticized for creating a gap between book values and market valuations (IASB, 2024a). Recent academic studies and literature reviews emphasize that although these restrictions enhance reliability, they may reduce the relevance of financial statements by excluding economically significant assets. In response to these concerns, the IASB has initiated a comprehensive review of the accounting treatment of intangible assets, signaling that recognition and valuation requirements in this area may require reconsideration to better reflect modern business models (IASB, 2024b).

Investment property accounting under IAS 40 provides further insight into IFRS valuation practices, as entities are permitted to apply a fair value model with changes recognized in profit or loss. The literature shows that this approach can significantly affect reported earnings and asset values, particularly in real estate-intensive firms. Empirical studies indicate that the choice of valuation model is influenced not only by economic factors but also by institutional settings, regulatory enforcement, and managerial incentives (Business Perspectives, 2025). Professional guidance highlights recurring challenges related to valuation consistency, disclosure adequacy, and alignment with IFRS 13 requirements, reinforcing the importance of transparency in fair value reporting (PwC, 2025).



Across all categories of long-term assets, disclosure quality emerges as a recurring theme in the literature. IFRS requires extensive disclosures related to valuation techniques, assumptions, and sensitivity analyses, particularly for fair value measurements and impairment testing (IASB, 2025a). However, empirical research consistently finds variation in disclosure depth and clarity, with some firms providing boilerplate information that limits decision usefulness (Sonila, 2024). Studies emphasize that high-quality disclosures are essential for enabling users to assess measurement uncertainty and compare financial statements across entities and periods.

Overall, the contemporary literature concludes that while IFRS provides a comprehensive and theoretically sound framework for the recognition and valuation of long-term assets, its effectiveness in practice depends heavily on consistent application, robust valuation practices, and transparent disclosures. Differences in economic environments, professional judgment, and enforcement mechanisms continue to affect comparability and reporting quality. These findings highlight the ongoing relevance of research into IFRS-based asset accounting and support the need for further empirical and conceptual analysis of recognition and valuation practices for long-term assets.

### **Methodology**

This study employs a qualitative and analytical research methodology based on

a systematic review and comparative analysis of International Financial Reporting Standards governing the recognition and valuation of long-term assets. The research examines the requirements of relevant IFRS, including IAS 16, IAS 36, IAS 38, IAS 40, and IFRS 13, to identify key recognition criteria, measurement principles, and disclosure obligations, and to analyze their conceptual consistency and practical implications. In addition, recent academic literature, professional guidance, and institutional reports published by the IFRS Foundation, international accounting bodies, and peer-reviewed journals are reviewed to evaluate how these standards are applied in practice and to identify common challenges and areas of divergence. The methodology also includes a comparative assessment of alternative valuation models permitted under IFRS, focusing on their effects on financial statement reliability, relevance, and comparability. Through content analysis and synthesis of normative and empirical sources, the study develops evidence-based conclusions and recommendations aimed at improving the consistent and transparent application of IFRS in the recognition and valuation of long-term assets.

### **Results and discussion**

The results of the study demonstrate that the application of International Financial Reporting Standards to the recognition and valuation of long-term assets produces both positive improvements in financial reporting



quality and notable practical challenges. The analysis confirms that IFRS recognition criteria contribute to greater consistency in determining when long-term assets should be included in the statement of financial position, particularly by emphasizing control over the asset, the probability of future economic benefits, and reliable

measurement. These principles reduce arbitrary recognition practices and strengthen the conceptual foundation of financial statements. However, once assets are recognized, the valuation stage introduces significant variation in reported figures, largely due to the flexibility allowed by IFRS and the reliance on professional judgment.

**Table 1**

**Comparison of cost-based and fair value-based measurement approaches under IFRS<sup>46</sup>**

Measurement aspect	Cost based approach (IFRS)	Fair value based approach (IFRS)
Initial recognition	Emphasizes reliability and verifiability of historical cost	Emphasizes relevance through current market values
Subsequent measurement	Results in relatively stable carrying amounts over time	Results in carrying amounts that fluctuate with market conditions
Impairment testing	Conducted when impairment indicators are identified	Performed regularly, often on an annual or more frequent basis
Disclosure quality	Requires standard disclosures with moderate informational depth	Requires extensive disclosures to explain valuation assumptions and risks

<sup>46</sup> Developed by the authors



The comparative assessment of cost-based and fair value-based measurement approaches highlights a clear trade-off between reliability and relevance. As shown in Table 1, cost-based approaches generally result in stable carrying amounts and lower volatility in financial statements, which enhances reliability and predictability for users. In contrast, fair value-based approaches provide more up-to-date information that reflects current market conditions, thereby

increasing relevance, but they also lead to greater fluctuations in asset values and equity. This volatility is particularly evident during periods of market instability and may complicate financial analysis for investors and creditors. The results suggest that while fair value measurement aligns with the objective of providing decision-useful information, its effectiveness depends heavily on the availability of reliable market data and transparent disclosure practices

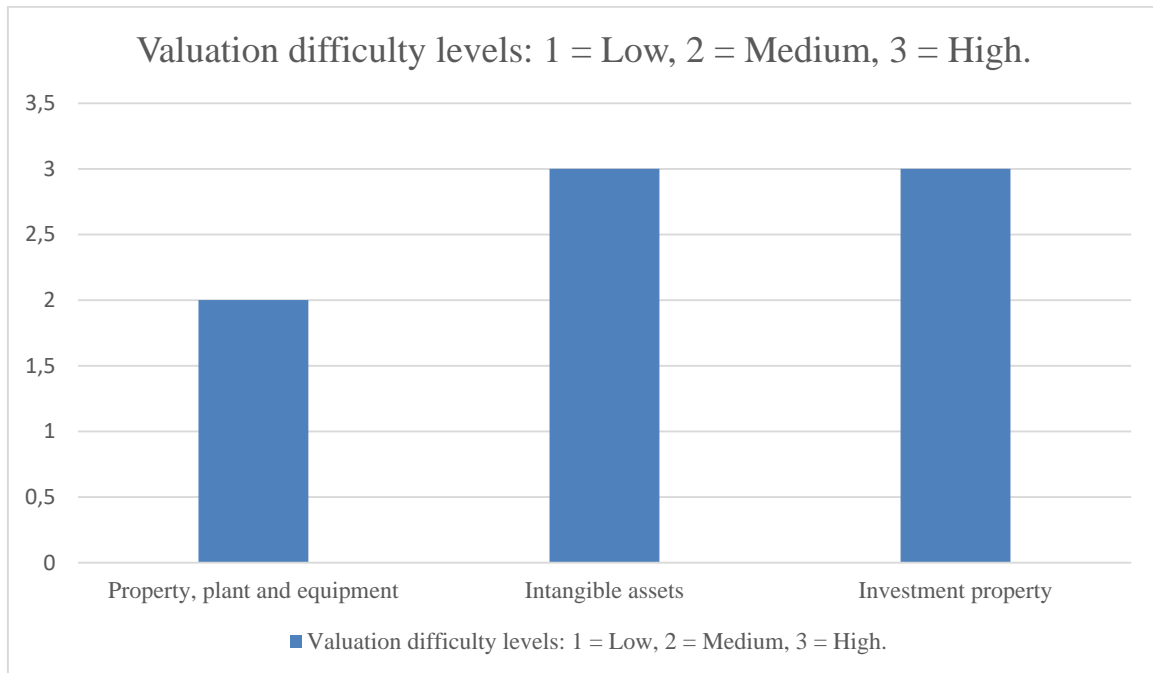
**Table 2**

**Asset categories and valuation challenges under IFRS<sup>47</sup>**

Asset Category	Relevant IFRS Standard	Level of Valuation Challenge	Primary Area of Professional Judgment
Property, plant and equipment	IAS 16	Moderate	Estimation of useful lives and residual values
Intangible assets	IAS 38	High	Assessment of recognition criteria and future economic benefits
Investment property	IAS 40	High	Determination of fair value based on market assumptions

The findings further indicate that valuation challenges vary significantly across different categories of long-term assets. Table 2 illustrates that property, plant and equipment are mainly affected by estimation issues related to useful lives, residual values, and depreciation methods. Although these estimates involve judgment, they are often supported by technical documentation and physical usage patterns, which reduces uncertainty. In contrast, intangible assets exhibit the highest level of valuation difficulty due to strict recognition requirements and the inherent uncertainty surrounding future economic benefits. The results confirm that many economically valuable intangible resources remain unrecognized under IFRS, contributing to a gap between book values and market valuations. Investment property also presents substantial valuation challenges, primarily due to dependence on fair value estimates that rely on market assumptions and external appraisals. These differences demonstrate that, despite the existence of a unified IFRS framework, recognition and valuation outcomes are strongly influenced by asset-specific characteristics and market conditions.

<sup>47</sup> Developed by the authors



**Figure 1. Valuation difficulty levels of long-term asset categories under IFRS<sup>48</sup>**

<sup>48</sup> Developed by the authors



The figure 1 shows that valuation difficulty under IFRS varies across long-term asset categories. Property, plant and equipment display a medium level of difficulty, as their valuation is generally supported by observable costs and technical data, despite the need for estimates related to useful lives and depreciation. In contrast, intangible assets and investment property exhibit high valuation difficulty, reflecting greater reliance on subjective assumptions, future economic benefits, and fair value estimates. Overall, the results indicate that valuation complexity increases as measurement depends more on judgment and market-based inputs rather than observable historical costs.

The discussion of results also emphasizes the critical role of disclosures in supporting effective recognition and valuation of long-term assets. The analysis indicates that high-quality disclosures significantly enhance users' ability to understand valuation assumptions, assess uncertainty, and compare financial statements across periods and entities. Where disclosures are detailed and entity-specific, concerns related to subjectivity and estimation risk are reduced. Conversely, generic or boilerplate disclosures weaken the informational value of fair value and impairment measurements, even when formal IFRS requirements are met. This finding reinforces the view that recognition and valuation cannot be evaluated independently of disclosure

quality, as disclosures are essential for interpreting reported numbers.

Overall, the results confirm that IFRS provides a robust and conceptually sound framework for the recognition and valuation of long-term assets, contributing to improved transparency and comparability in financial reporting. At the same time, the findings highlight that the practical effectiveness of this framework depends on consistent application, asset-specific considerations, professional judgment, and strong disclosure practices. These results support the conclusion that further efforts are needed to strengthen valuation methodologies, enhance professional expertise, and improve disclosure quality in order to fully realize the benefits of IFRS-based accounting for long-term assets.

## Conclusion

The purpose of this study was to examine the accounting recognition and valuation of long-term assets under International Financial Reporting Standards and to assess their implications for financial reporting quality. The findings confirm that IFRS provides a coherent and principles-based framework that strengthens the consistency of asset recognition and improves the conceptual soundness of financial statements. By emphasizing control, future economic benefits, and reliable measurement, IFRS reduces arbitrary recognition practices and enhances the credibility of reported asset information.



At the same time, the study demonstrates that valuation remains the most challenging aspect of long-term asset accounting under IFRS. The availability of alternative measurement models, particularly the choice between cost-based and fair value-based approaches, creates trade-offs between reliability and relevance. While fair value measurement improves the timeliness and economic relevance of financial information, it also increases volatility and reliance on professional judgment, especially in environments with limited market data. As a result, valuation outcomes may differ significantly across enterprises, even when similar assets are involved.

The analysis further shows that valuation complexity is not uniform across asset categories. Property, plant and equipment are generally associated with moderate valuation challenges due to the availability of physical evidence and historical cost information. In contrast, intangible assets and investment property present higher levels of measurement uncertainty, driven by strict recognition criteria, limited active markets, and heavy dependence on assumptions and external appraisals. These differences contribute to variations in reported asset values and partially

explain gaps between book values and market valuations.

The results also highlight the critical role of disclosure in supporting effective recognition and valuation under IFRS. High-quality, entity-specific disclosures significantly enhance the usefulness of financial statements by allowing users to understand valuation assumptions, assess uncertainty, and compare financial information across periods and entities. Conversely, generic or insufficient disclosures weaken the informational value of IFRS-based measurements, even when formal recognition and valuation requirements are met.

Overall, the study concludes that IFRS-based accounting for long-term assets improves transparency and comparability in financial reporting but does not eliminate valuation challenges. The effectiveness of IFRS in practice depends on consistent application, sound professional judgment, robust valuation practices, and comprehensive disclosures. These findings underline the need for continued development of valuation expertise and stronger enforcement mechanisms to ensure that the intended benefits of IFRS recognition and valuation of long-term assets are fully realized.

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