



## Article

# Peculiarities of Private Capital Accounting in Cotton Textile Clusters

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**Abstract:** This article explores the legal, theoretical, and methodological foundations for forming the authorized capital of business entities, emphasizing the accounting of foreign founders' shares. While previous studies address general capital formation, limited attention is given to foreign contributors' specific accounting practices. This research aims to bridge this gap by developing recommendations for accurately accounting for foreign founders' shares. Using a mixed-methods approach, the study analyzes regulatory frameworks and accounting practices. Findings highlight discrepancies in current methods and propose standardized guidelines to enhance transparency and compliance. These results have implications for improving financial reporting and fostering international investment confidence.

**Keywords:** Private capital, Fouders, Foreign founders, Authorized capital, Sources of capital formation

## 1. Introduction

A review of the extant regulatory legal documents reveals that the authorised capital of economic entities, particularly joint-stock companies, is contingent upon their organisational and legal form [1]. It is important to note that the authorised capital of newly established joint-stock companies and enterprises with foreign capital participation was previously determined in foreign currency, specifically in US dollars [2]. However, in accordance with the Decree of the President of the Republic of Uzbekistan No. PF-5197, dated 29 September 2017, entitled 'On introducing amendments and additions to some documents of the First President of the Republic of Furthermore, the aforementioned documents were annulled, and the amount of the charter capital of newly established joint-stock companies and enterprises with foreign capital participation was henceforth established in the national currency, namely in sums [3]. The analysis of the aforementioned normative-legal act demonstrates that, in the context of the economy's accelerated growth, enhancing the accounting of private capital in business entities, including joint-stock companies, is of paramount importance. This underscores the relevance and significance of the subject matter of this scientific article.

## Lituratione Review

In light of Uzbekistan's accession to the global community and its transition to international accounting standards, the most pressing economic concerns pertain to capital

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accounting, its optimal utilisation and accurate representation in financial statements based on accounting data in cotton textile clusters.

One of the principal economic characteristics of business entities is their equity capital. The subject's capital represents financial resources allocated to production with the objective of generating profit, and serves as a foundation for the advancement and optimal functioning of enterprises, particularly within the oil and fat industry [4].

The accounting of equity capital in cotton-textile clusters is inextricably linked to the formation of the sources of their financing. The rational formation and accounting of the use of equity capital sources contribute to the more effective distribution of financial resources and the reduction of investment risks. The economic sustainability of cotton-textile clusters, improvement of labour conditions and development of the industry as a whole, as well as ensuring high competitiveness, are contingent upon the formation of own funds and the correct organisation of their accounting.

In the process of economic activity, capital is in a constant state of circulation, as postulated by the renowned economist V. F. Paley. It transforms a monetary form into a material form, which is then used to produce a variety of products. Consequently, through the implementation of commodity transactions, capital is returned to the monetary form, thereby initiating a new cycle. This approach aligns with the balance sheet equation [5]:

$$\text{Assets} = \text{Liabilities} + \text{Equity capital}$$

The scientists of our republic have reached the conclusion that the equity capital of a joint-stock company represents a set of material values, money, financial resources, as well as rights and privileges that are necessary for the implementation of economic activity [9].

In economic entities, including cotton-textile clusters, the value of equity capital is determined by the value of the property owned by the entity. This indicator is referred to as net assets, which are calculated as the difference between the value of property (active capital) and borrowed funds [6].

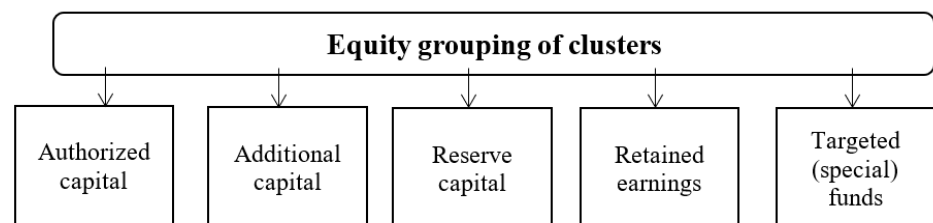


Figure 1. Consequently, the net capital of the subjects is comprised of the authorised capital, additional and reserve capital, retained earnings, and funds from target (special) funds

In light of Uzbekistan's integration into the global community and its transition to international accounting standards, the most pressing economic concerns pertain to capital accounting, its optimal utilisation and accurate representation in financial statements, based on accounting data within cotton textile clusters. One of the most significant economic characteristics of business entities is their equity capital. Equity represents financial resources directed towards production for the purpose of profit and serves as the foundation for the development and effective functioning of enterprises, particularly in the oil and fat industry [7].

The accounting of equity capital in cotton-textile clusters is closely related to the formation of sources of their financing. The rational accounting of the formation and utilisation of equity capital sources contributes to the more effective distribution of financial resources and the reduction of investment risks. The economic sustainability of cotton-textile clusters, the improvement of labour conditions, the development of the

industry as a whole, and the ensuring of high competitiveness depend on the formation of own funds and the correct organisation of their accounting [8].

In the process of economic activity, there is a constant cycle of capital circulation, as postulated by the renowned economist V.F. Palya. Initially, capital is transformed from a monetary form into a material form, which is then used to produce various goods. Ultimately, through commodity transactions, capital returns to the monetary form, ready for a new cycle. This approach aligns with the balance sheet equation:

**The total of assets is equal to the total of liabilities plus the total of equity capital.**

In the context of the CIS countries, notable contributions have been made by scientists such as I.N. Bogataya, S.M. Bychkova and L.I. Pronyaeva [8] in identifying the key avenues through which economic entities accrue their own resources, with these processes occurring at distinct stages.

1. The objective of the analysis is to examine the formation of the enterprise's own financial resources in previous periods. This is done in order to identify potential avenues for the generation of such resources and to ascertain their alignment with the pace of enterprise development.
2. The total need for own resources must be determined. Furthermore, the maximum attraction of own resources at the expense of internal cash must be ensured.
3. The estimation of the cost of attracting capital from various sources is conducted on the key elements of equity capital obtained from both internal and external sources. The results of such an assessment serve as a basis for selecting alternative sources of capital and making managerial decisions aimed at ensuring equity capital growth.
4. The objective is to ensure the maximum amount of own funds are attracted at the expense of internal sources, such as net profit and depreciation charges.
5. The objective is to ensure the requisite volume of own resources are attracted from external sources.
6. The objective is to optimise the ratios between the internal and external sources of own resource formation. In Uzbekistan, enterprises in the oil and fat industry operate in a variety of ownership structures and organisational and legal forms. Cotton-textile clusters encompass not only joint-stock companies, but also joint ventures, limited liability companies, state and local unitary enterprises, and other organisational forms involved in the production of products in this industry [9].

In this context, legal entities and individuals, acting as founders or shareholders, assume the role of owners. With regard to joint-stock companies, the formation of authorised capital encompasses all organisational and legal aspects, reflecting equity capital as share capital.

## 2. Materials and Methods

The methodology employed in this study is as follows:

The term 'authorised capital' is used to describe the initial funds that are provided with the intention of forming the assets of an enterprise in order to enable it to commence operations. The volume of these funds is determined on the basis of the charter of the enterprise in question. The specifics of accounting for the authorised capital are contingent upon the organisational and legal forms of the enterprise (share capital, accumulated capital) and encompass liquid assets such as leased land, buildings, structures and equipment [10].

### 3. Results and Discussion

In joint-stock companies, the authorised capital approved by the board is recorded in account 8300, entitled 'Share capital'. At the inaugural meeting of the board of the joint-stock company, subsequent to the approval of the authorised capital, the following entry shall be made in the accounting records:

**D-it 4610, 'Indebtedness of founders on contributions to the authorised capital'.**

The credit to be used is 8300, which corresponds to the accounts of the authorised capital [11]. In the case of a joint-stock company, the authorised capital is reflected in the accounts under credits 8310 (ordinary shares) and 8320 (preference shares). In organisations with other forms of ownership, it is recorded under account 8330 (shares and contributions) [12].

Table 1. The characteristics of the formation of equity capital

№	Positive characteristics	Negative characteristics
1.	Ease of attraction, as decisions related to the increase of equity capital (especially at the expense of internal sources of its formation) are made by the owners.	The volume of attraction is limited, therefore, at certain stages of the company's activity the opportunities for significant expansion of operating and investment activities during the period of favourable market conditions are also limited.
2.	Sufficiently high ability to generate profits in all spheres of activity, as the use of equity capital in all its forms does not require the payment of interest rates on loans.	Formation of equity is more expensive compared to alternative borrowings.
3.	Financial stability of the enterprise, long-term solvency, and, accordingly, reduction of the risk of bankruptcy.	Unrealised opportunity to increase the return on equity ratio by attracting borrowed funds.

The following information was sourced from: The author developed this in the course of their research. The research findings have enabled the identification of the following criteria for the optimal structure of equity capital, reflecting its economic essence in business entities.

1. In order to guarantee the protective function of equity capital, it is essential that the amount of authorised capital is in compliance with the requirements set forth in legislative acts. First and foremost, this is contingent upon the minimum permissible amount of capital at the time of its formation [13].
2. It is essential that operating enterprises possess a sufficient amount of capital to ensure financial stability. It is assumed that the requisite amount of capital should be sufficient not only for the formation of fixed assets, but also for current assets. Concurrently, capital serves to safeguard and regulate, while also facilitating growth and enabling strategic shifts in operational focus.
3. In order to ascertain the efficacy of capital utilisation with regard to income generation, the efficiency of equity capital utilisation may be taken as a criterion.
4. The cost of equity capital is indicative of the value of the enterprise, its financial stability, and its capacity to procure capital and fulfil its regulatory function.
5. As an agent of production, capital is a means of meeting future needs. In light of the aforementioned considerations, it is appropriate to include retained earnings (or profits allocated to special funds for the development of production) in the category of equity.
6. The protective and regulatory functions of an enterprise can only be fully realised when a minimum amount of reserve capital is created. This is

particularly crucial for businesses engaged in activities that are prone to entrepreneurial or natural-economic risks [14].

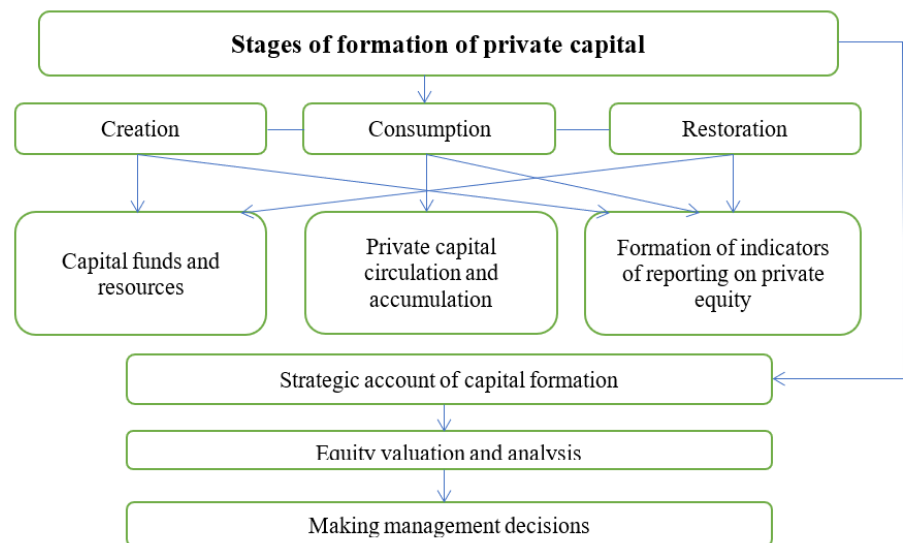


Figure 2. Illustrates the stages of equity capital formation

Source: The model was developed by the author during the course of the research.

The interrelationships between all stages of capital formation and accounting (creation, consumption and recovery) facilitate the development of information on equity capital, which is necessary for the effective management of capital resources and sources of financing [15,16]. The process of forming and managing one's own capital should be conducted in a systematic, structured, and methodical manner, taking into account the specific objectives and orientations of the management body in question [17].

It was thus established that the specific characteristics of capital investment accounting represent a crucial aspect of the operational activities of any economic entity [18]. In light of the aforementioned considerations, we have undertaken an investigation into the distinctive features of equity capital accounting, its composition and structure, and have formulated proposals for their formation within the context of the aforementioned stages (Figure 2) [19].

Some of the proposed provisions contribute to the enhancement of equity capital accounting in cotton-textile clusters, thereby facilitating the harmonisation of information pertaining to its formation and movement. An understanding of the distinctive features of economic entities is crucial for the prudent utilisation of equity capital. In this regard, the improvement of accounting in business entities is contingent upon the level of formation of their accounting policy [20].

#### 4. Conclusion

In light of the aforementioned evidence, it can be concluded that the formation of equity capital and its effective utilisation have a direct impact on the future activities of business entities. Consequently, it is of paramount importance to consider the specificities of equity capital formation. The characteristics of equity capital formation in economic entities, including cotton-textile clusters, are presented in Table 1.

Therefore, an enterprise that utilises only equity capital attains the greatest financial stability (the autonomy coefficient is equal to one), yet constrains its potential for growth (as it is unable to guarantee the formation of the requisite volume of supplementary assets in a favourable market environment) and fails to leverage financial opportunities to enhance profitability on invested capital.

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