

Eureka Journal of Business, Economics & Innovation Studies (EJBEIS)

ISSN 2760-4950 (Online) Volume 2, Issue 5, May 2026



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IMPROVING THE ACCOUNTING OF CORPORATE DIVISION, SPIN-OFF AND TRANSFORMATION OF LEGAL FORM PROCESSES

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Abstract

This article examines the theoretical and methodological aspects of accounting and financial reporting for enterprise reorganization processes, including division, spin-off, and transformation of legal form. Recommendations are developed for the valuation, allocation, and transfer of assets, liabilities, and equity to successor entities. The proposed approaches contribute to improving the reliability and transparency of accounting information.

Keywords: Reorganization, division, spin-off, transformation of legal form, accounting, financial reporting, succession, valuation differences, allocation balance sheet.

Introduction

In the global economy, structural transformations aimed at restructuring corporate entities, diversifying business activities, and improving the efficiency of resource utilization are becoming increasingly widespread. In particular, the optimization of business processes, enhancement of investment attractiveness,

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and improvement of corporate governance through corporate divisions, spin-offs, and transformations of legal form have become common practices. According to data published by Bain & Company, one of the world's leading consulting firms, the value of global mergers and acquisitions (M&A) transactions reached USD 4.9 trillion in 2025, representing a 40 percent increase compared with 2024. Furthermore, according to PwC analyses, the value of M&A transactions increased by 36 percent in 2025, while the number of large-scale transactions rose from 63 in 2024 to 111 in 2025. These trends demonstrate the growing economic significance of corporate reorganization processes.

Corporate divisions, spin-offs, and transformations of legal form are not limited to legal formalities. These processes involve complex accounting procedures, including the allocation of assets, liabilities, and equity among successor entities, the determination of valuation differences, the recognition of reorganization costs, and the assessment of impairment losses and tax consequences. Therefore, such transactions constitute a distinct and important object of accounting, and their proper recognition and disclosure are essential for ensuring the reliability and transparency of financial information.

In international practice, the accounting treatment of reorganization processes is primarily governed by IFRS 13 Fair Value Measurement, IAS 36 Impairment of Assets, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IAS 12 Income Taxes, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. According to the IFRS Foundation, International Financial Reporting Standards are applied in more than 140 countries worldwide. This increases the need to improve mechanisms for fair value measurement of assets and liabilities, determination of valuation differences, recognition of deferred tax consequences, and disclosure of relevant information in financial statements during reorganization processes.

In Uzbekistan, ongoing reforms aimed at economic liberalization, transformation of state-owned enterprises, improvement of corporate governance, and

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preparation of financial statements in accordance with International Financial Reporting Standards have intensified corporate reorganization activities. In particular, Resolution No. PQ-4611 of the President of the Republic of Uzbekistan established strategic objectives related to accelerating the adoption of IFRS, creating a transparent information environment for investors, and expanding access to international capital markets. These reforms highlight the importance of improving the theoretical and methodological foundations for accounting and financial reporting of corporate divisions, spin-offs, and transformations of legal form.

This study aims to examine the economic substance, organizational and legal characteristics, underlying causes, and economic consequences of corporate divisions, spin-offs, and transformations of legal form; to justify these processes as independent accounting objects; to develop conceptual foundations for the recognition, measurement, allocation, transfer through legal succession, and disclosure of accounting objects in financial reporting; to analyze the practices of inventory-taking, fair value measurement, and allocation of assets, liabilities, and equity among successor entities; to improve methodological approaches ensuring consistency between division balance sheets, succession reports, and opening financial statements; to assess the accounting treatment of valuation differences, reorganization costs, shortages, losses, and tax consequences arising during reorganization; to refine accounting procedures for valuation differences resulting from fair value measurement and their impact on financial performance and taxation; to systematize the application mechanisms of IFRS 13, IAS 8, IAS 12, IAS 36, and IAS 37 within reorganization processes; and to develop an accounting and reporting model that enhances the reliability, transparency, and comparability of financial information generated as a result of reorganization activities. The study develops scientifically grounded recommendations for the systematic identification and accounting treatment of valuation differences arising during reorganization processes, the allocation of assets, liabilities, and

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equity among successor entities based on their economic substance and legal succession relationships, and the establishment of consistency among division balance sheets, succession reports, and opening financial statements.

Accordingly, in order to ensure the systematic recognition and reporting of valuation results, the study proposes the introduction of the following accounts into the chart of accounts: Account 8540 – Accounts for Reorganization Valuation Results, Account 8541 – Accounts for Asset Valuation Results in Reorganization Processes, and Account 8542 – Accounts for Liability Valuation Results in Reorganization Processes, together with the establishment of an appropriate analytical accounting framework for these accounts (see Table 1).

Table 1 Proposed Procedure for Recording Valuation Differences in Accounts 8540, 8541, and 8542 at “Sam Tex Factory” LLC

№	Object	Carrying Amount (UZS million)	Fair Value (UZS million)	Valuation Difference	Debit	Credit	Accounting Treatment
1	Production Building	2,400	2,850	+450	0120	8541	Increase in asset value
2	Technological Equipment	1,180	1,050	-130	8541	0130	Decrease in asset value
3	Inventories	640	700	+60	1010	8541	Increase in inventory value
4	Long-term Bank Loan	900	960	-60	8542	7810	Increase in liability value
5	Accounts Payable	420	390	+30	6010	8542	Decrease in liability value
	Net Valuation Difference			+350	8541 /8542	8540	Aggregation of valuation results

Furthermore, the research substantiates the necessity of recognizing valuation differences arising from the fair value measurement of assets and liabilities during divisions, spin-offs, and transformations of legal form as a separate accounting object.

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As can be seen from Table 1, the proposed Account 8541 is intended to record the results of asset valuation, while Account 8542 is designed to record the results of liability valuation. Account 8540 serves as a summary account for accumulating the overall valuation results arising from corporate reorganization processes. This approach makes it possible to monitor valuation differences as a separate analytical accounting object rather than combining them with overall financial results or including them directly within equity components.

The proposed accounting treatment enhances transparency in the recognition of valuation adjustments, improves analytical control over reorganization-related transactions, and provides users of financial statements with more reliable information regarding the impact of fair value measurement on the financial position of successor entities. Furthermore, the separate recognition of valuation differences facilitates the assessment of their effects on financial performance, equity, and tax consequences, thereby strengthening the informational value of accounting data generated during corporate reorganization processes.

The study develops a step-by-step algorithm for generating accounting information in the processes of corporate division, spin-off, and transformation of legal form. The principal advantage of the proposed algorithm is that the accounting information generated at each stage serves as the information source for the subsequent stage, thereby ensuring continuity and consistency of accounting data among all participants involved in the reorganization process.

In particular, the results of the inventory count conducted by the reorganizing entity provide the basis for identifying assets, liabilities, and equity components. At the next stage, these accounting objects are measured at fair value, and the resulting valuation differences are determined. The identified valuation differences subsequently serve as the basis for allocating assets, liabilities, and equity among successor entities.

In division and spin-off processes, the allocated assets, liabilities, and equity are transferred to successor entities through succession reports and division balance

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sheets. In cases involving the transformation of legal form, these accounting objects are reclassified in accordance with the new legal status and transferred to the opening financial statements of the reorganized entity.

The proposed algorithm ensures logical and informational consistency among the final financial statements of the reorganizing entity, the division balance sheet, the succession report, and the opening financial statements of successor entities. As a result, it contributes to improving the reliability, comparability, and transparency of accounting information generated during corporate reorganization processes.

Table 2 Reflection of Acquisition Results in the Balance Sheet Prepared under the “Final Financial Statements – Succession Report – Opening Financial Statements” Framework at Samarkand England Eco Medical JV and the Interrelationship of Its Indicators

Indicators	Final Financial Statements (UZS million)	Valuation Difference	Succession Report (UZS million)	Revised Balance Sheet of the Acquiring Entity (UZS million)
Property, Plant and Equipment	3,200	+480	3,680	3,680
Inventories	740	+60	800	800
Accounts Receivable	520	-40	480	480
Cash and Cash Equivalents	310	-	310	310
Total Assets	4,770	+500	5,270	5,270
Liabilities	1,460	+90	1,550	1,550
Net Assets	3,310	+410	3,720	3,720
Final Financial Result	-	+410	+410	-
Recognition of Acquired Net Assets in Equity	-	-	-	3,720



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As can be seen from the data presented in Table 2, in the processes of corporate division and spin-off, the assets, liabilities, and equity of the reorganizing entity, after fair value adjustments, were allocated among the successor entities according to predetermined allocation criteria. As a result, the allocated net assets were recognized in the opening financial statements of each successor entity as the relevant components of equity. This approach ensured continuity and comparability among the final financial statements of the reorganizing entity, the division balance sheet, the succession report, and the opening financial statements of the successor entities.

The proposed working calculation schedule serves as an instrument for ensuring consistency among the indicators presented in the division balance sheet, succession report, and opening financial statements of successor entities. Furthermore, the schedule contributes to substantiating the allocation of assets, liabilities, and equity during reorganization processes and enhances the reliability of information disclosed in financial statements. Consequently, the proposed methodological approach strengthens transparency, comparability, and analytical usefulness of accounting information generated during corporate division and spin-off transactions.

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Table 3 Working Calculation Schedule for Determining Goodwill, Gain from Bargain Purchase, and Consolidation Adjustments in Business Acquisitions

Indicators	Goodwill Scenario (UZS million)	Bargain Purchase Scenario (UZS million)	Explanation
Acquisition Consideration	5,200	4,500	Amount paid or payable by the acquirer
Fair Value of Acquired Assets	7,100	7,100	Assets measured at fair value on the acquisition date
Fair Value of Assumed Liabilities	2,250	2,250	Liabilities assumed at fair value on the acquisition date
Fair Value of Net Assets	4,850	4,850	7,100 – 2,250
Goodwill	350	–	5,200 – 4,850
Gain from Bargain Purchase	–	350	4,850 – 4,500
Deferred Tax Liability (15% tax rate)	52.5	52.5	Tax effect of valuation differences
Consolidation Adjustments	402.5	402.5	Goodwill, tax, and elimination adjustments

In the process of corporate reorganization through a spin-off, the economically justified and equitable allocation of assets, liabilities, and equity components among successor entities is of critical importance. This is because the amount of assets, liabilities, and equity transferred to each successor entity directly affects its future financial position, financial performance, and investment attractiveness. Therefore, in order to ensure transparency and objectivity in the allocation process, this study recommends the preparation of a special allocation statement for distributing assets, liabilities, and equity among newly established successor entities.

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The proposed allocation statement enables the presentation of the carrying amount, fair value, allocation criterion, allocation coefficient, and amounts transferred to successor entities for each individual asset, liability, and equity component. This statement serves as a primary working document for preparing the division balance sheet and succession report, while also providing a mechanism for documenting and monitoring decisions related to the allocation of accounting objects among successor entities.

As a result, the implementation of the proposed allocation statement in practice contributes to improving the reliability and transparency of the allocation process of assets, liabilities, and equity among successor entities. Furthermore, it facilitates consistency among the indicators presented in the division balance sheet, succession report, and opening financial statements of successor entities, thereby enhancing the quality and comparability of accounting information generated during corporate reorganization processes.

Table 4 Allocation Statement for the Distribution of Assets, Liabilities, and Equity During the Spin-off Process of Saturn Metal Qayta Ishlash LLC

Object	Allocation Criterion	Remains with the Parent Entity (UZS million)	Transferred to the Successor Entity (UZS million)	Reporting Document
Production Building	Relation to core operating activities	2,600	–	Revised Balance Sheet
Warehouse Building	Relation to logistics activities	–	1,150	Opening Balance Sheet
Vehicles	Intended use and operational function	300	720	Allocation Statement
Inventories	Association with the related asset	480	260	Allocation Statement
Accounts Receivable	Contractual succession	190	310	Accounts Receivable Register
Accounts Payable	Source of obligation	240	180	Liabilities Register
Charter Capital	Proportion of net assets	3,330	2,260	Opening Balance Sheet

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The significance of the proposed allocation statement lies in its ability to directly reflect the distribution of assets, liabilities, and equity among successor entities through the integrated chain of **“accounting object – allocation criterion – successor entity – reporting document.”** As illustrated by the statement, assets are allocated based on their intended use or their relationship to specific business activities, liabilities are distributed according to their source and contractual succession arrangements, and equity is allocated on the basis of net asset proportions and ownership interests.

In cases of division, spin-off, and transformation of legal form, the allocation statement, the opening balance sheet of the successor entity, the transfer and acceptance act, and the related accounting entries should be regarded as an integrated set of interrelated documents. This documentation package ensures the justified allocation of accounting objects among successor entities, their proper recognition in accounting records, and their accurate presentation in opening financial statements.

One of the most significant issues associated with corporate reorganization processes concerns the accounting treatment and reporting of reorganization-related expenses, identified shortages, losses, asset write-offs, and impairment losses. In this study, it is proposed that valuation, legal, consulting, and state registration expenses, as well as losses arising from shortages, destruction, and impairment, should be recognized by the final entity registered upon completion of the reorganization process, regardless of the form of reorganization applied.

For this purpose, it is recommended that these transactions be recorded within Account 9430 *“Other Operating Expenses”* through a system of dedicated working accounts. In addition, methodological procedures governing the correspondence between these accounts and other accounting accounts are proposed in order to ensure consistent recognition, measurement, and reporting of reorganization-related expenses and losses (see Table 5).

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Table 5 Proposed Accounting Treatment for Reorganization Expenses, Shortages, Losses, and Impairment Losses

Account	Account Title	Corresponding Credit Account	Supporting Document
9431	Valuation Service Expenses	6990	Contract, Invoice
9432	Legal and Consulting Service Expenses	6990	Contract, Invoice
9433	State Registration Expenses	6990	Contract, Invoice
9435	Irrecoverable Shortages Identified During Inventory Count	Relevant Asset Accounts	Inventory Report, Management Decision, Order
9436	Losses from Damage and Destruction of Assets	Relevant Asset Accounts	Inventory Report, Management Decision, Order
9437	Impairment Losses	Relevant Asset Accounts	Inventory Report, Management Decision, Order
9910	Write-off of Reorganization-Related Expenses	9431–9437	Management Decision, Order

Conclusion

The proposals and recommendations developed in this study make it possible to reflect the processes and outcomes arising from various forms of corporate reorganization in accounting records and financial statements in accordance with the requirements of International Financial Reporting Standards. Furthermore, they contribute to providing users of financial information with comprehensive, transparent, and reliable information regarding corporate reorganization transactions. Based on the results of the research conducted on improving accounting for corporate reorganization processes, the following conclusions and recommendations have been formulated:

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1. It has been substantiated that corporate reorganization processes are not limited to legal formalities or amendments to constituent documents but represent complex accounting processes affecting assets, liabilities, equity, valuation differences, financial performance, tax consequences, and reporting entities.
2. The forms of corporate reorganization, including mergers, acquisitions, divisions, spin-offs, and transformations of legal form, were systematized from the perspective of accounting objects, and the necessity of applying specific methodological procedures for each form was demonstrated.
3. An integrated model for accounting for corporate reorganization processes was developed, covering accounting objects, accounting principles, recognition, measurement, allocation, transfer through legal succession, and disclosure in financial statements.
4. To ensure the separate and systematic recognition of valuation differences arising from the fair value measurement of assets and liabilities during reorganization processes, the application of Accounts 8540, 8541, and 8542 and their correspondence with other accounts was proposed.
5. A six-stage practical algorithm for merger transactions was developed, encompassing inventory procedures, valuation of assets and liabilities, recognition of valuation differences, determination of revalued net assets and final financial results, preparation of the liquidation balance sheet, and preparation of opening financial statements.
6. A methodological chain consisting of “Final Financial Statements – Succession Report – Opening Financial Statements” was substantiated for merger and acquisition transactions. This framework ensures continuity, comparability, and logical consistency of accounting information and reporting indicators.
7. Working calculation schedules were proposed to facilitate the determination, reconciliation, and control of acquisition consideration, fair value of net assets, goodwill, gains from bargain purchases, tax consequences, and consolidation adjustments in acquisition transactions.

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ISSN 2760-4950 (Online) Volume 2, Issue 5, May 2026



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8. For divisions, spin-offs, and transformations of legal form, a methodological approach based on the relationship between “accounting object – allocation criterion – successor entity – reporting document” was developed for the allocation of assets, liabilities, and equity among successor entities.

9. The necessity of maintaining systematic accounting records for reorganization expenses, shortages, losses, and impairment losses through separate working accounts, distinguishing them from valuation differences, and disclosing them appropriately in financial statements was substantiated.

The proposed approaches contribute to improving the reliability, transparency, analytical usefulness, and compliance with International Financial Reporting Standards of accounting information generated in connection with corporate reorganization processes.

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ISSN 2760-4950 (Online) Volume 2, Issue 5, May 2026



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