

ISSUES OF HARMONIZING THE NATIONAL ACCOUNTING SYSTEM WITH THE INTERNATIONAL FINANCIAL REPORTING SYSTEM

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Abstract

Today, two benchmarks - International Financial Reporting Standards - IFRS (International Financial Reporting Standards - IFRS) and the generally accepted accounting rules of the USA - BHUQ (Generally Accepted Accounting Principles - GAAP) are recognized as the standard of accounting. According to the analysis, there is almost no accountant in the world who is not aware of MHXS. Also, the number of countries that recognize international standards is increasing day by day. Also, the number of countries that recognize international standards is increasing day by day. It serves as an important tool in mutual cooperation between the countries of the world, including in the development of economic relations, especially in improving the investment environment. This article covers a number of aspects such as MHSS, international experience, and its use in the countries of the world.

Key words

International standards of financial reporting - IFRS, reporting, accounting, investment, transformation, interpretation

Introduction

Introduction of international financial reporting standards in business entities in any country results in the improvement of focus areas for attracting foreign investors and creation of a convenient accounting system. In addition, transparency and objectivity of the information in the reports will be achieved, and it will help solve the issue of investing in the development of the entity's performance by investors and banks. The modern accounting system developed on the basis of the international financial accounting principles enables companies to manage their activities in compliance with the market economy requirements. Moreover, implementation of international financial reporting standards enables to improve the management system of economic entities, to inform users of internal and

external information about the financial status of the enterprise, as well as to enhance competitiveness of the company through the use of uniform methods of accounting. It is known that accounting is considered the “language of business” because economic entities have economic relations with each other, they must be aware of the financial situation of their partners. With the aim of investigating and analyzing its financial situation it is required to understand its financial documents. In other words, it is necessary to prepare financial statements based on the same principles and rules of cooperation entities that do not contradict each other. International financial reporting standards determine general rules that make financial reporting consistent, transparent and comparable around the world.

Literature review

Studying the experience of European countries on the implementation of the IFRS and a systematic approach to the problems in this process are crucially important issues during the transition to the process of accounting and financial reporting in compliance with the IFRS in business entities operating in Uzbekistan. According to the level of implementing the international financial reporting standards in the countries of the world, the countries that have directly adopted them through special regulations are a number of European countries, the countries that have adjusted their national standards in compliance with the international financial reporting standards are the United States of America, Japan. Furthermore, China, Estonia, and Latvia are among the countries that have strictly implemented the IFRS in their companies participating in international exchanges. Another advantage of maintaining a modern accounting system in reliance upon the international financial reporting standards is that it enables business entities to make efficient management decisions in the internal management accounting system. In many world countries during the compilation process, financial statements are being prepared on the IFRS basis²⁰. According to S. Tashnazarov, one of the economists of our country, it is the most urgent issue for all countries to harmonize accounting and reporting with the requirements of international standards, to achieve global harmonization of financial reporting on this basis, and to effectively use the advanced practices at the national level²¹. Foreign scholars Jessica H. Yang, Nada Kakabadze and Dmytro Lazovsky have come to the conclusion that the main purpose of international financial reporting standards is to

²⁰ Djumanov S.A. Compilation of financial reporting information based on international standards: Abstract of the dissertation claiming for the degree of the Philosophy Doctor on Economics (PhD). – T., 2019. -56 p.;

²¹Tashnazarov S.N. Improving the theoretical and methodological foundations of financial reporting under conditions of economic modernization: Abstract of the dissertation claiming for the degree of the Doctor of Science on Economics (DSc). – T., 2019. -74 p.

attract foreign investment to the economies of developed and developing countries²². Another scholar-economist stated that adoption of international financial reporting standards is related to the increased need for reliability and comparability of financial reports in the countries of the world²³. According to L.V. Gusarova, the data on the company that prepares the reporting in reliance upon the IFRS is sufficient for a potential investor to understand and assess the risks associated with financing. Thus, the use of international financial reporting standards in the preparation of financial statements by an economic entity enables to increase their competitiveness in the process of searching for sources of financing²⁴. In the opinion of N.V. Malinovskaya, the significance of the IFRS is that it is appropriate to create financial reports that are easy for all users to understand in all countries of the world in order to develop integration relations in the conditions of the market economy²⁵.

Analysis and discussion

The main goal of shifting to the international standards is to enter the international market and attract investments. Moreover, international standards make an important contribution to the qualitative development of the national economy. In this process, a favorable investment environment, openness of companies' activities, accountability of management to shareholders, as well as introduction of the advanced methods of corporate management make an essential contribution to the development of joint-stock companies.²⁶ From the point of view of another scholar-economist, adoption of international financial reporting standards is related to the increased need for reliability and comparability of financial reports in the countries of the world.²⁷ International Financial Reporting Standards (IFRS) is not just a set of rules that complicate the work of practicing accountants, but is logically based on the simple principles of the accounting system, which aim is to provide true and reliable financial information about the

²² Jessica Hong Yang, Nada Kakabadse, Dmytro Lozovskyi. International financial reporting standards (IFRS) as a change agent in Ukraine. // Journal of Governance and Regulation / Volume 2, Issue 3, 2013, Continued - 1

²³ Auwalu Musa. The Role of IFRS on Financial Reporting Quality and Global Convergence: A Conceptual Review. // International Business and Accounting Research Journal Volume 3, Issue 1, January 2019, 67-76

²⁴ Gusarova L.V. Methodology for transforming the financial statements of a non-profit organization into the IFRS format // Accounting in budgetary and non-profit organizations. 2012. № 5. p. 17–30.

²⁵ Malinovskaya N.V. New forms of financial statements and their role in convergence with IFRS requirements // International Accounting. 2011. № 32. p. 23–27.

²⁶ Avlokulov A.Z. Features of reflecting financial performance indicators in the international standards of financial reporting. // "International Finance and Accounting" scientific electronic journal. №2, April, 2017.

²⁷ Auwalu Musa. The Role of IFRS on Financial Reporting Quality and Global Convergence: A Conceptual Review. // International Business and Accounting Research Journal Volume 3, Issue 1, January 2019, 67-76

company's activities in financial reports²⁸. In 2022-2026, the issues of rapid development, diversification and quality improvement of real sector enterprises have been determined in the Development Strategy of New Uzbekistan²⁹. This requires that the accounting system, which formulates reliable information about them, be aligned with international standards. Moreover, it shows that it is important to further develop the activities of economic sectors of our republic, in particular, joint-stock companies, and to attract investments, to raise the level of the population employment in reliance upon creation of new jobs in the sectors, and to organize financial accounts and reports in them according to the requirements of international standards.

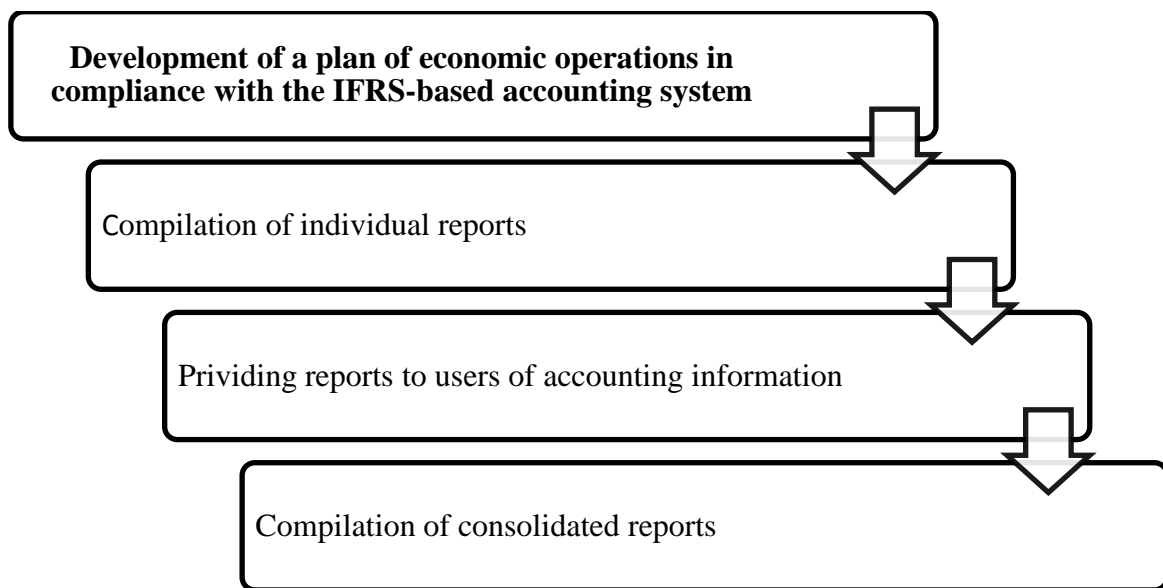


Chart 1. Sequence of the processes of adjusting the accounting and reporting system of Uzbekistan in compliance with the IFRS³⁰

The transition to the international financial reporting standards on a global scale will be beneficial for all business entities, especially investors, who can analyze the reports and determine which companies or activities to invest in. The goal of shifting to international financial reporting standards is to provide foreign investors with accurate and reliable information when making decisions on financing. The structure of financial reports based on the requirements of international standards serves the accuracy and reliability of information. The

²⁸A.A.Karimov, A.K.Ibragimov, N.K.Rizaev, N.M.Imamova INTERNATIONAL FINANCIAL REPORTING STANDARDS Textbook. Tashkent– 2021, 15 p.

²⁹ Decree of the President of the Republic of Uzbekistan PD-60 “On the Development Strategy of New Uzbekistan for 2022-2026 dated January 28, 2022, www.lex.uz

³⁰Developed by the author in reliance upon the data used.

transition to international financial reporting standards is one of the measures aimed at enhancing the country's investment attractiveness.

The process of introducing international financial reporting standards can be conditionally divided into 4 stages:

1. Development of the accounting policy as an initial stage;
2. Creation of an accounting based on the international financial reporting standards as the implementation stage;
3. Preparation of financial reporting forms - formation of financial reporting stage;
4. The stage after the preparation of the financial report-transformation processes.

As a result of practical implementation of the process of introducing the international financial reporting standards, conditionally divided into 4 stages, the accounting procedure according to the IFRS will be further improved.

2) We demonstrate the following comparative description of the reporting forms according to the IFRS and national standards.

Table 1

Comparative description of the reporting forms according to the IFRS and national standards³¹

No	Report name³²	Form of the national report³³
1	Statement of financial position	Accounting balance
2	Statement of Profit or Loss	Report on financial results
3	Cash flow statement	Cash flow statement
4	Statement on changes on equity	Equity statement

A complete set of international financial reporting consists of the following components:

- a) Statement of financial position;
- b) Statement of profit or loss and other comprehensive income;
- c) Statement of changes in equity;
- d) Statement of Cash Flows;
- e) accounting policies and comments, that is, disclosures to the report (explanations);

³¹Developed by the author.

³²IAS 1-“Presentation of Financial Statements”. www.iasplus.com

³³“Rules for filling out financial reporting forms” approved by Appendix No. 7 to Order No. 140 of December 27, 2002 of the Minister of Finance of the Republic of Uzbekistan. www.lex.uz

f) a statement of financial position at the beginning of the most recent comparable period, if the entity applies accounting policies retrospectively or retrospectively recalculates items in its financial statements or reclassifies items in its financial statements.

Currently two benchmarks - International Financial Reporting Standards - IFRS (International Financial Reporting Standards) and US Generally Accepted Accounting Principles (GAAP) are recognized and admitted as the accounting standards.

Another important aspect in the transition to international financial reporting standards is transformation of financial reporting in joint-stock companies of the Republic of Uzbekistan. Financial reporting transformation is the process of preparing financial reports in accordance with the National Accounting System by making corrections to the report items in compliance with the rules of the national accounting system. However, this process requires specific rules and regulations.

Adjusting in compliance with the IFRS can be convenient, but requires skilled professionals. Another way is to implement the procedure of accounting and financial reporting in parallel with the National Accounting Standards. The second way is relatively simpler, but requires a lot of work. One of the significant issues in the transition to international financial reporting standards is creation of the IFRS-based accounting policy. Researches demonstrate that there is almost no accountant in the world who is not aware of the IFRS.

The necessity of using the IFRS is determined by the following factors:

- investors and shareholders in different countries will have the opportunity to better analyze the financial statements of potential companies based on the same principles, i.e. comparability;

- in various countries, it is more appropriate to prepare a single financial report that is recognized for all of them, rather than a financial report prepared based on the standards of that country for different stock exchanges. As a result, reporting costs are reduced and fund raising opportunities are expanded³⁴.

Investigating the experience of European countries on the implementation of the IFRS and a systematic approach to the problems in this process are essential issues during the transition to the process of accounting and financial reporting in compliance with the IFRS in joint stock companies operating in our country. In reliance upon this aspect, we have determined the following focus areas as the main

³⁴ Tashnazarov S.N., International standards of financial reporting and the need to transition to them economics and finance / Economics and finance 2016, 7 49 55 p.

objectives for business entities in the process of transition to international financial reporting standards:

- working out the system of accounting and financial reporting standards that provide transparent information to users of financial reporting information, first of all, to investors;
- ensuring coherence with the main trends of the international accounting system in the management of the accounting system in economic entities;
- developing the methodical procedures using efficient aspects of international accounting models.

Conclusions

In our opinion, financial reporting transformation is the process of preparing financial reports in compliance with the National Accounting System by making corrections to the reporting items in accordance with the rules of the national accounting system.

Advantages of the transformation method in joint-stock companies:

- compared to parallel accounting, it is a low-cost and economical accounting system;
- time is economized while performing accounting;
- accounting procedure is much simpler than parallel accounting, if an accurate procedure is developed once, there will be no difficulties in data processing, data reliability can be achieved;
- efficiency of this method directly depends on the established procedure, model, method and professional knowledge of the employee;
- visibility of correction records, i.e. the ability to make a clear conclusion on differences;
- it is possible to improve the system every year, find more effective methods and eliminate existing shortcomings, as a result, in a few years, it will be possible to create a perfect system suitable for this company, and it can be considered know-how.

One of the most significant advantages of international financial reporting standards in joint-stock companies is that due to the fact that reports are harmonized, investors do not spend time and money on processing and correcting them in order to understand them. Reports prepared on the IFRS basis reduce costs for investors. In addition, due to the transparency and comprehensibility of information, they rarely make mistakes in the selection of shares. On the one hand, the price of shares increases, on the other hand, attractiveness of new investments in companies with the government share enhances as well.

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