



ISSN: 2249-7307

Vol. 11, Issue 10, October 2021

SJIF – Impact Factor = 8.075 (2021)

DOI: 10.5958/2249-7307.2021.00027.X

IMPROVING THE APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN UZBEKISTAN

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ABSTRACT

The processes of economic globalization are characterized by fundamental changes in economic relations between countries, financial systems and mechanisms, rules of doing business. At the present time, international regulation of accounting and financial reporting serves to protect the interests of all users of reporting, because a unified system is easier to understand than many national systems. Therefore, this article discusses the improvement of the application of international financial reporting standards (IFRS), and also recommends the order of the stages of implementation of IFRS in enterprises in Uzbekistan.

KEYWORDS: *Financial Report, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Standards On Auditing (ISA), Certified International Professional Accountant (CIPA), Association Of Chartered Certified Accountants (ACCA), Certified Public Accountant (CPA), Diploma In International Financial Reporting (Dipifir), International Accountant Certificate, Pilot Higher Education Institutions, Accounting, Auditing.*

INTRODUCTION

The integration of Uzbekistan into world business requires the presentation of financial statements of local enterprises interested in cooperation with international investors in a clear, transparent, reliable and clear form in accordance with generally accepted rules in accordance with the requirements of international standards.

Today, the number of enterprises engaged in foreign trade operations and attracting foreign investment in the innovative development of the economy is growing in Uzbekistan.

Performing international financial, credit, settlement, leasing operations, operations with securities, joint business activities, including the creation of joint ventures. Conducting joint business operations, joint ownership of property on the territory of the Republic of Uzbekistan and

beyond.

One of the factors that significantly hinder the development of relations between Uzbek and foreign business entities and the attraction of foreign capital to the country's economy is the quality of the financial information provided, its completeness and transparency. Currently, there is a situation in which the financial management services of Uzbek enterprises do not always have the necessary knowledge to process financial information provided to them by foreign companies. For foreign entities, it is difficult to consider financial statements compiled in accordance with national standards. Differences in national and international accounting and reporting standards lead to other problems.

It should be noted that many countries faced similar problems at one time, which led to the realization that the internationalization of business requires the use of a single methodology, principles and norms of accounting, drawing up financial statements, unifying its forms and indicators.

REVIEW OF RELATED LITERATURE

Some theoretical and methodological problems of collecting, grouping, processing information and the application of international financial reporting standards have been studied by foreign scholars and economists such as Needles B., Anderson H., Caldwell D., "Principles of accounting" [7], as well as scientists economists of the CIS countries A. Belavin book "Adaptation of international financial reporting standards in the activities of enterprises", textbook Gamolsky P.Yu., Sokolov Ya.V. "Fundamentals of accounting theory" and other scientists [7].

In recent years, scientists of our country have published scientific articles, monographs, and also defended dissertations dedicated to the perfection of international financial reporting standards in Uzbekistan. In the research of S.N. Tashnazarov, the theoretical and methodological foundations of financial reporting were improved, in particular, developed to optimize IFRS. In her works, M.M. Tulakhodjyaeva considers the issues of adapting financial reporting to IFRS, and the work of Sh.U. Khaidarov "Methodological manual of accounting" [13] reflects the methodological issues of financial reporting transfer.

However, in the majority of these studies, only some aspects of international financial reporting standards have been studied, all problems are completely uncovered. In addition, the organizational and legal stages of improving the application of IFRS in Uzbekistan have not been studied. Therefore, the existence of these problems and the need for their perfection determine the need for scientific research on this topic.

RESEARCH METHODOLOGY

The study used scientific methods for studying the processes of economic reality - generalization, grouping and comparison, abstract logical thinking, comparative analysis, statistics, forecasting and other methods.

ANALYSIS AND RESULTS

Improving financial reporting makes it possible not only to make reporting transparent, comparable, standardized and make it accessible to investors, business partners, creditors, and other users, but also to combine, promptly analyze the financial performance of companies located in different countries, and also enables owners and top management to make effective strategic decisions.

The processes of financial reporting standardization began in the global economy in the early 70s of the twentieth century, and continues to this day. Over the years of the Council for International Accounting Standards, 41 international accounting standards have been issued, 30 of which are valid today.

IFRS have international application; they summarize the experience of accounting in countries of

market economy. The information generated according to the rules of international standards is intended to be presented to various organizations and persons who are interested in the financial condition of the preparer of the reporting.

IFRS are used:

- In many countries of the world as the basis for national accounting requirements, and in those countries that develop their own requirements for financial reporting as an international basic approach to its preparation;
- Stock exchanges and regulatory authorities that require foreign issuers to report in accordance with IFRS;
- The World Bank, supranational commissions such as the European Commission.

Today international financial accounting standards are allowed in 25 countries, mandatory for use in 91 countries, mandatory for some enterprises - in 6 countries.

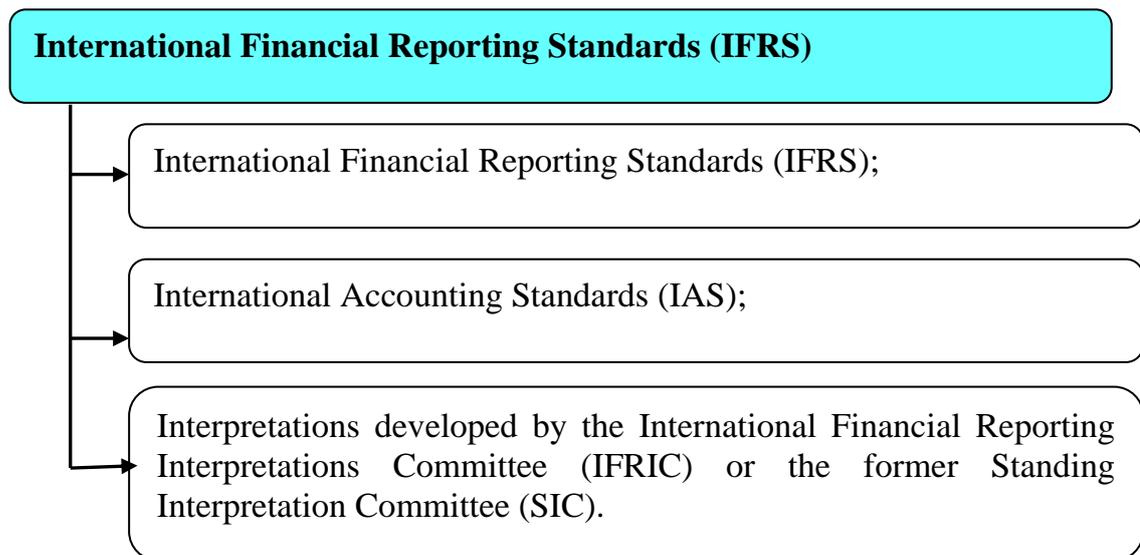


Figure # 1. Structure international financial reporting standards¹

The issues of implementation and use of IFRS in Uzbekistan have become relevant during the development of market relations and its entry into the world economic community. The accounting system used in Uzbekistan at present is based on international standards, methodologically and methodically ensures the creation of an information base for the activities of business entities, while taking into account the national legal norms of entrepreneurial activity.

However, the provisions (standards) of accounting applied in Uzbekistan differ significantly from international ones and do not reflect all the requirements for information disclosure, approaches, accounting methodology that contain international standards [1].

The main disadvantages of accounting regulations (standards) existing in Uzbekistan are: lack of transparency and clarity, economic logic, real principles for the assessment and revaluation of assets, consistency of accounting policies, impartiality of accounting and reporting, reflection of business transactions in accordance with their essence and economic reality, insufficient connection with international legal norms.

Therefore, the strategic task of reforming accounting in Uzbekistan is the transition to the use of IFRS, which are recognized as one of the tools that contribute to improving the investment climate, increasing confidence in Uzbek enterprises on the part of foreign investors.

For practical research, an indicator of financial indicators is used to measure the financial performance of a company. According to IFRS, the used indicator of financial indicators is profitability, which is defined as the company's ability to make a profit [6]. Reasons for using

IFRS-based profitability indicators:

- 1) Profitability is an important indicator of financial performance and is often used in research to measure the financial performance of a company;
- 2) Profitability can measure the performance of the company as a whole and can measure the level of efficiency in managing the company's assets, liabilities and capital;
- 3) Shareholders are more likely to take advantage of profitability as the stability of share prices is highly dependent on the level of profits and dividends received in the future.

Table 1

**MAIN LEGAL DOCUMENTS REGULATING THE IMPLEMENTATION OF IFRS
IN UZBEKISTAN²**

No.	Year	Legal document
1.	2000	Law of the Republic of Uzbekistan "On auditing activity" approved from May 26, 2000 N 78-II
2.	2010	Resolution of the President of the Republic of Uzbekistan "On priority directions for further reforming and increasing the stability of the financial and banking system of the Republic in 2011-2015 and achieving high international rating indicators" dated November 26, 2010 No. PP-1438
3.	2015	Decree of the President of the Republic of Uzbekistan "On measures to ensure reliable protection of private property, small business and private entrepreneurship, removing barriers to their accelerated development" dated 05.15.2015. No.UP-4725
4.	2014	The Law of the Republic of Uzbekistan "On Joint Stock Companies and Protection of Shareholders' Rights" dated 6.05. 2014, No. LRU-370
5.	2016	Law of the Republic of Uzbekistan "On accounting" 13.04.2016, No. LRU-404
6.	2018	Resolution of the President of the Republic of Uzbekistan "On measures for the further development of audit activities in the Republic of Uzbekistan" dated September 19, 2018 No. PP-3946
7.	2020	Resolution of the President of the Republic of Uzbekistan "On additional measures for the transition to international financial reporting standards" dated February 24, 2018 No. PP-4611

Therefore, the goals of the transition of business entities to IFRS and the macroeconomic goals of introducing IFRS in Uzbekistan are to expand the measures taken today to attract foreign investment and foreign investment, as well as introduce modern methods of corporate governance, promote the implementation of international financial reporting standards and create a system that provides the necessary information for foreign investors.

The main legal documents reflecting the process of adaptation of Uzbek legislation to market conditions, convergence of national and international standards, and application of international standards in Uzbekistan are presented in Table 1.

The Cabinet of Ministers of the Republic of Uzbekistan was instructed to develop a draft law on the transition to an accounting system that meets international standards by 2019, after which the Resolution of the President of the Republic of Uzbekistan "On additional measures for the transition to international financial reporting standards" dated February 24, 2018 No. PP-4611.

A significant step towards reforming the accounting and financial reporting system based on international standards was the Law of the Republic of Uzbekistan "On Accounting" dated April 13, 2016.

It defines International Financial Reporting Standards as the documents adopted by the International Accounting Standards Board that govern the preparation of financial statements. International standards that are used for the preparation of financial statements should not contradict the Accounting Law and should be officially promulgated on the website of the Ministry of Finance of Uzbekistan [14].

According to this Law, IFRS in Uzbekistan apply:

- Companies legally obliged to draw up financial statements and consolidated financial statements in accordance with international standards: public joint stock companies, banks, insurance companies, as well as enterprises, the list of which is determined by the Cabinet of Ministers of the Republic of Uzbekistan;
- Enterprises that independently determine the appropriateness of using international standards for the preparation of financial and consolidated financial statements.
- On February 24, 2020, the President of the Republic of Uzbekistan signed a decree "On additional measures for the transition to international financial reporting standards" No. PP-4611, which opens a new page in the history of the transition to IFRS in the Republic of Uzbekistan.

When preparing financial statements and consolidated financial statements in accordance with international standards, enterprises inform the State Tax Committee of the Republic of Uzbekistan in accordance with the procedure established by the Resolution of the President of the Republic of Uzbekistan "On additional measures for the transition to international financial reporting standards" dated February 24, 2018 No. PP-4611 [14];

The adopted document provides for a cardinal revision of the process of transition to IFRS for business entities. In particular,

1. A list of persons has been determined who will compile financial statements based on IFRS starting from the results of 2021 without fail. It included joint stock companies, commercial banks, insurance organizations and legal entities classified as large taxpayers. They will have to:

- Organize accounting based on IFRS from January 1, 2021;
- To ensure the number of employees of accounting services, sufficient for the quality application of international standards.

The State Asset Management Agency will annually approve and publish by June 1 the schedule for the transition of business entities with a state share and state-owned enterprises to accounting and financial reporting based on IFRS.

2. The Ministry of Finance has been designated as the authorized body for the implementation of IFRS. To perform the relevant functions in the structure of the ministry, a "Department for Coordination of the Implementation of International Financial Reporting Standards and External Quality Control" will be created.

Taking into account the need to train a significant number of qualified specialists with the necessary knowledge and skills, the document provides for a fundamentally new comprehensive approach to the training of national personnel.

In 2020–2025 for the first time, the republican budget will reimburse the costs of training, advanced training in accordance with IFRS, as well as registration for an exam within the framework of international certification of accountants (according to the ACCA program). These costs will be reimbursed by teachers in the disciplines "Accounting" and "Audit" of higher

educational institutions, employees of government agencies, as well as students and graduates (within 6 months after graduation) of higher educational institutions [2].

Applicants with an international certificate of accountant receive the right to enroll without passing the entrance exams for a master's degree in the specialty "Accounting" and "Audit" of higher educational institutions on a paid-contract basis. It is expected that these measures will not only allow timely training of the required number of qualified specialists in the field of IFRS, but will also ensure the creation of a national system for training specialists of international level.

In addition, by the resolution of the President, instructions were given to the Ministry of Finance:

- Conclude an agreement with the Foundation for International Financial Reporting Standards, which is an international independent organization, as well as cover the costs associated with the translation of IFRS texts and explanations thereto into the state language;
- Jointly with the Ministry of Higher and Secondary Specialized Education, based on the results of studying the international practice of training specialists in the field of accounting and auditing, make proposals on the possibility of reducing the duration of the full-time study of the bachelor's degree "Accounting and Audit" [2].

For Uzbekistan, the implementation of IFRS has its own characteristics, which are associated with the economic situation in the country, the lack of a comprehensive legal framework and methodology for accounting and reporting, the presence of a large-scale shadow economy, tax evasion and many other factors.

It should be noted that the transition to IFRS inevitably entails the recalculation of many items in the financial statements of companies: the value of assets and liabilities, reserves, income and expenses, and financial results. Accordingly, the indicators of profitability, capitalization, liquidity, and solvency change. As a result, a business entity that, according to reporting in accordance with national standards, had satisfactory financial performance, may turn out to be unprofitable and close to bankruptcy. Undoubtedly, this affects the reputation and ratings of many companies.

At the same time, identifying the real financial condition of a business entity will allow to quickly eliminate weaknesses in work, develop strategically correct management decisions, exclude or reduce the influence of external and internal risk factors, and, possibly, avoid bankruptcy.

The introduction of IFRS contributes to more effective government regulation of the stock market and the financial services market, allows them to "cleanse" unscrupulous participants, as well as those companies whose performance does not meet the established financial standards, to protect investors.

The implementation of international financial reporting standards in enterprises is often difficult due to the incompatibility of the tasks set by the owners of enterprises for financial management services and accounting. The desire to minimize taxation (not always by legal means) conflicts with the requirements of IFRS on transparency, clarity, and comparability of information. For example, on the one hand, the goal may be to reduce the object of taxation for income tax, and on the other, the transition to IFRS and reporting with indicators that would indicate a good financial condition of the enterprise, contribute to its entry into the international stock market and attract investors.

For enterprises applying IFRS, the problem is that the preparation of financial statements in accordance with international standards occurs in parallel with the maintenance of accounting in accordance with national standards. It should be noted that a significant part of the working time of accountants is occupied by tax accounting, which is formed according to its own rules and methodology.

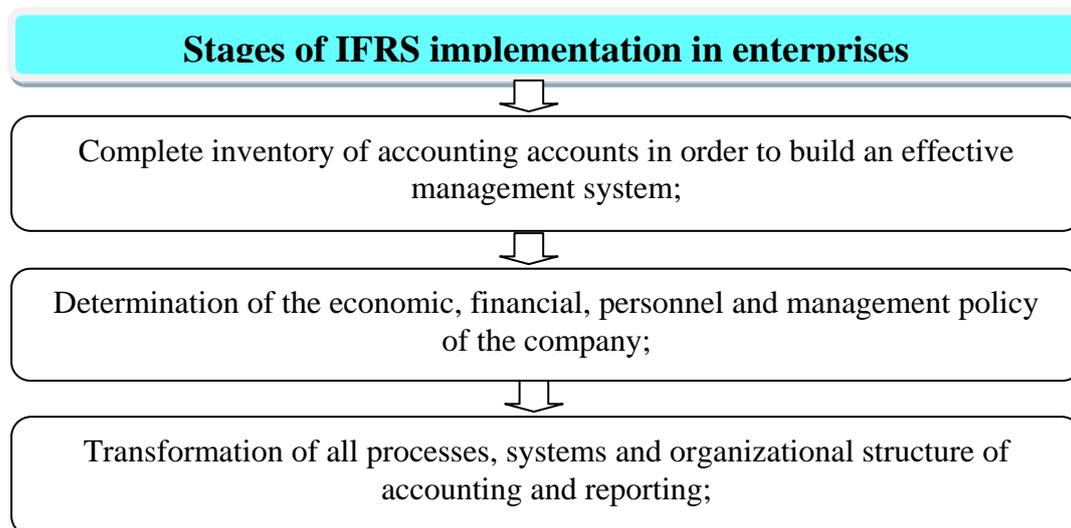


Figure # 2 Stages of IFRS implementation in enterprises³

An increase in the burden on the accounting department of an enterprise often leads to an outflow of personnel or the need to increase the remuneration of accountants. Each company implementing IFRS must go through a series of stages (Figure 2).

Accountants of enterprises are often simply not able to pay the necessary attention to the implementation of IFRS, and the management of enterprises, for various reasons, does not consider it expedient to create a separate division or expand the staff in connection with the introduction of IFRS.

Significant obstacles to the implementation of all stages of this process at the enterprises of Uzbekistan are not only the lack of necessary knowledge among accountants, but also the peculiarities of their mentality. Since the regulatory framework of accounting in Uzbekistan is, as a rule, prescriptive, the main task of accountants is the timely and correct reflection of data on certain business transactions, supported by the necessary documents [3].

Unlike the existing regulatory framework, IFRS are written in such a way that they do not contain detailed instructions, they are flexible. The accountant must be able, on the basis of the Standards, to evaluate a business transaction, analyze, draw conclusions, make a decision on the choice of certain methods. At first glance, it may seem that the accountant's judgment is subjective, but a subjective judgment based on a competent analysis of the situation is a professional judgment. In addition, the accountant must be ready, if necessary, to defend the correctness of his actions. Therefore, enterprises should pay significant attention to the training and certification of their specialists [7].

One of the main problems hindering the process of spreading IFRS at the enterprises of Uzbekistan is an acute shortage of specialists with appropriate qualifications. Many enterprises, in order to draw up reports in accordance with international standards, are forced to involve employees of other organizations - auditors, certified accountants. As practice shows, the transformation of financial statements is a very time consuming and costly process. It is more effective to train our specialists who could keep records and prepare financial statements in accordance with international standards on an ongoing basis.

It is no coincidence that today, when selecting employees for work in the economic services of enterprises, special attention is paid to the availability of international certificates in the field of applicants. In addition, many enterprises set conditions for their employees - the obligatory passage of appropriate training and obtaining international certificates. Often, enterprises pay for the training of their employees, and when they receive certificates, they increase their payment level.

Today, in the territory of the post-Soviet countries, two programs for certification in accordance with IFRS are most successful - ACCA DipIFR (rus) and CAP/CIPA [9].

ACCA (the Association of Chartered Certified Accountants) is an international professional association with 208,000 members and 503,000 students in 178 countries. ACCA is headquartered in London with its main administrative office in Glasgow. ACCA operates through a network of more than 104 offices and centers in 52 countries - with 323 Approved Learning Partners (ALPs) and more than 7,300 Approved Employers around the world that drive employee development [9]. He is a member of the International Federation of Accountants. To obtain the ACCA certificate, you must pass 14 exams.

Due to the fact that many enterprises of the CIS countries are switching to accounting in accordance with international standards, ACCA has provided a new qualification for these countries with a diploma in International Financial Reporting in Russian-language format (ACCA DipIFR (rus)). It is safe to say that the fact that a specialist has an ACCA DipIFR (rus) diploma confirms the highest professionalism of its owner in the world of finance.

CAP/CIPA is a two-tier qualification program. The first level is CAP (Certified Accounting Practitioner). An accountant who possesses this level of qualification is able to maintain the accounting system in the enterprise and prepare all the basic reports.

The second level is CIPA (Certified International Professional Accountant: Certified International Professional Accountant). CIPA is capable of applying professional judgment to financial management issues and taking part in managerial decision-making.

Our results indicate significant support for the development of international financial reporting standards for NSNPOs with the survey respondent recognizing the importance of broad managerial responsibility to all stakeholders, but prioritizing accountability to external sponsors and regulators for financial and fiduciary matters [4].

There are calls for the development of international standards for the non-profit sector The [IFRS Foundation] Trustees continue to strongly support the need for transparent financial reporting requirements for non-profit organizations [5]. Given the need for standards to be created for this sector, and the lack of an international standard-setter for this, trustees will welcome views on whether the organisation's terms of reference should be expanded to include non-profit organizations.

CONCLUSIONS AND OFFERS

Thus, despite the fact that the process of implementing IFRS takes a significant period of time (at least a year). This requires the following steps:

- Introduce a procedure according to which business entities compiling financial statements on a voluntary basis in accordance with IFRS;
- Determine the Republic of Uzbekistan as the authorized body for the implementation of IFRS in the state languages;
- Attract significant financial resources for favorable conditions for the implementation of IFRS.
- Attract educated and qualified young personnel.
- Oblige large enterprises to pay significant attention to training and certification of their specialists.
- To expand interaction with international organizations in the field of accounting (Association of Chartered Certified Accountants - ACCA) to disseminate successful world practice in training specialists in the field of IFRS, including gradual international accreditation of non-governmental educational organizations for retraining and advanced training in the field of accounting and auditing, and educational programs of specialized higher educational institutions;

-To introduce an effective system of certification in accordance with IFRS based on the best practices of developed countries, which ensures the quality of the educational process, transparency of examinations and assessment of results, as well as providing comprehensive assistance in organizing training events in accredited training centers for demanded specialists in IFRS;

- Monitor the implementation of IFRS together with the State Tax Committee, the Agency for State Assets Management of the Republic of Uzbekistan, including the timely publication by business entities of financial statements based on IFRS.

Thus, the company gets the opportunity to effectively conduct foreign economic activities, attract the necessary resources in foreign markets, improve the organizational structure of the company in general and accounting in particular, increase the efficiency of decision-making in the field of financial activities of the company, which ultimately contributes to its economic growth.

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