



## ISSUES OF ADJUSTING NATIONAL ACCOUNTING STANDARDS IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING SYSTEM

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**Abstract:** *Currently two benchmark models - International Financial Reporting Standards and generally accepted accounting rules of the USA - Generally Accepted Accounting Principles (GAAP) - are recognized as the accounting standards. According to the analysis, there is almost no accountant in the world who has no idea about the IFRS. Moreover, the number of countries that recognize international standards is increasing day by day. Thus this fact serves as an essential tool in mutual cooperation between the countries of the world, including in development of economic relations, especially in improving the investment environment. In this regard this article covers a number of aspects such as the IFRS, international experience, as well as their use in the countries of the world.*

**Key words:** *International standards of financial reporting - IFRS, reporting, accounting, investment, transformation, interpretation*

### INTRODUCTION

The Resolution of the President of the Republic of Uzbekistan №PR-4611 “On additional measures for the transition to international financial reporting standards” was adopted on February 24, 2020. This Resolution aims to introduce International Financial Reporting Standards in the Republic of Uzbekistan and initiates a new stage of reforms in the field of accounting. This document represents a roadmap for the transition of large business entities to the International Standards of Financial Reporting, and stipulates consideration of the accounting

system of our country. This Resolution states that .... “joint-stock companies, commercial banks, insurance organizations and legal entities included in the category of large taxpayers shall organize accounting based on International Financial Reporting Standards starting from January 1, 2021 and prepare financial statements based on International Financial Reporting Standards starting from the end of 2021...”. International Financial Reporting Standards are becoming increasingly widely used and recognized around the world. Even some countries



are using the International Financial Reporting Standards as their standards without changes, and some are making some amendments depending on the country's peculiarities.

## Literature review

The composition of financial statements in reliance upon the requirements of international standards serves the accuracy and reliability of information. It is appropriate to thoroughly investigate the concepts and principles contained in the standards when compiling financial statements based on the requirements of International Financial Reporting Standards (IFRS) in business entities. Currently, transition to and implementation of International Financial Reporting Standards (IFRS) in improving financial reporting is considered a crucially important issue for all countries. A number of scholars-economists have expressed their opinions on this issue, including: as a result of the compilation of financial statements in many countries around the world, the process of transition to prepare financial statements based in reliance upon the IFRS is going on [6] According to A.Z. Avlokulov, financial statements based on international standards are required for effective management of the company. The main goal of the transition to international standards is to enter the international market and attract

investments. Furthermore, 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 governance make a significant contribution to the development of joint-stock companies [7]. Another scholar-economist argues that adoption of international financial reporting standards is due to the growing need for reliability and comparability of financial statements in countries around the world [8].

## Research methodology

Such research methods as the methods of studying economic processes, as well as generalization, abstract logical thinking, grouping, have been widely applied in the research process.

## Analysis and discussion of results

As is known, accounting is considered the "language of business" because when economic entities are in economic relations with each other, they must be well aware of the financial situation of their partners. To investigate its financial condition, it is necessary to understand its financial documents. Or, it is required for the entities involved to prepare financial statements based on the same principles and rules that do not



contradict each other. Development of any sector depends on the legal framework adopted. In this sense, the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020 “On additional measures for the transition to international financial reporting standards” has become one of the statutory acts that brought reforms in the accounting sector to a new level because it provides a unique road map for large business entities and a revision of the accounting system of the Republic of Uzbekistan. International Financial Reporting Standards set common rules that ensure financial reporting is consistent, transparent, and comparable around the world. Studying the experience of European countries in the implementation of the IFRS and a systematic approach to the problems in this process is one of the essential 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 IFRS №1, “First-time application of international standards of financial reporting”, peculiarities of accounting information include: relevance, reliability, accuracy, comparability, neutrality, continuity, content over form, data comparability, etc. According to the state of implementation of the international financial reporting standards worldwide, the countries that have directly adopted them through special regulations are a

number of European countries. Furthermore, the countries that have implemented their national standards in compliance with the international financial reporting standards are the USA, Japan. We can also mention China, Estonia, and Latvia to the countries that have strictly implemented it in their companies participating in international exchanges. Another advantage of maintaining a modern accounting system based on international financial reporting standards is that it enables business entities to make effective management decisions in the internal management accounting system. We can observe from the experience of European countries that the transition to international standards of financial reporting not only determines the perspective of business entities in the world capital market, but also ensures the development of the national economy.

When entering the world capital market and attracting foreign investors, preparation of financial statements in reliance upon international standards becomes a vital necessity. In Uzbekistan introduction of international financial reporting standards in business entities will help to accelerate the activities of attracting foreign investors. In addition, it is very convenient and transparent in terms of business operations. A modern accounting system, developed on the basis of international financial accounting principles, enables companies to manage their activities in accordance with the requirements of the market economy.



Implementation of international financial reporting standards improves the management system of economic entities by applying uniform methods of accounting, provides information to users of internal and external information about the financial status of the enterprise, as well as enhances competitiveness of the company. Submission of reports in accordance with the IFRS creates a uniform financial information exchange environment in the international capital market.

Considering the Japanese accounting system, preparation and filing of statements in reliance upon International Financial Reporting Standards is permitted but not required for domestic companies. There are four sets of accounting standards in Japan: International Financial Reporting Standards (IFRS), Japanese Generally Accepted Accounting Principles (J-GAAP), Japanese Modified International Accounting Standards (JMIS), and American Generally Accepted Accounting Principles (US GAAP). Small and medium-sized companies and enterprises generally use Japanese Generally Accepted Accounting Principles (J-GAAP) for their accounting systems. Large companies generally use International Financial Reporting Standards (IFRS). International financial reporting standards include accounting standards, guidelines for comments, interpretation guidelines, practical guidelines, etc. However, there are

exceptions compared to J-GAAP. Unlike J-GAAP, IFRS includes non-operating income as “other operating income” and “other operating expenses”. In the activities of enterprises, if there are companies with subsidiaries abroad, they apply IFRS. If a newly registered company has funds in excess of the amount specified in the charter, they will report directly according to international financial reporting standards. However, as stipulated in the Companies Act, there is a requirement to disclose J-GAAP reports. Therefore, Japanese companies prepare statements according to both systems. Today, the number of companies compiling their statements according to the IFRS system is increasing.

Investors are seeking diversification and investment opportunities and are raising capital in companies around the world. At the same time, they enter into agreements or conduct international operations in several countries and have subsidiaries. International financial reporting standards are considered the major lever for making economic decisions by companies and investors in these processes and reducing the risk of increased costs. Development of a set of high-quality, internationally recognized international financial reporting standards that provide transparency, accountability, and efficiency to financial markets around the world solves a number of problems for investors and companies. It is known that international financial reporting standards



provide transparency by raising international comparability and quality of financial information of accounting standards. In addition, this fact enables investors and other market participants to make informed economic decisions. In 1978, the beginning of reforms in the Chinese economy was clear, but the situation changed after the emergence of the capital market. The evolution of China's accounting system has been a process of convergence with international accounting standards. Accounting system reforms have initially focused on the needs of foreign-owned firms since the 1980s. The first set of accounting standards was developed within the framework of international accounting standards. By the 1990s, the accounting system had further developed as a result of the growing development of the economy and capital markets. The Malaysian accounting system is also unique, with businesses preparing their accounts in accordance with accounting standards developed and approved by the Malaysian Accounting Standards Board (MASB). Foreign companies listed on the Malaysian Stock Exchange prepare financial statements in compliance with internationally recognized accounting standards such as International Financial Reporting Standards. In 1996 Kazakhstan was one of the first among the CIS countries to develop the accounting and financial reporting system of Kazakhstan based on the international financial reporting standards. In 2002 it

was emphasized that economic entities would be fully integrated by 2006. In the research and studies conducted, there are different approaches and views on the experience of countries. Within the IFRS implementation it is necessary to study the experience of a number of economically developed foreign countries and the theoretical, methodical and practical aspects and priorities of their achievements. International financial reporting standards (IFRS) is a set of international accounting standards that indicate that certain types of transactions and other events should be reflected in financial reporting. In other words, international financial reporting standards is a set of documents regulating the rules of developing financial statements required for external users to make economic decisions about the company [5].

The need to apply 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 different countries it is more appropriate to prepare a single financial report that is recognized for all of them, rather than a financial report prepared in reliance upon the standards of that country for different stock exchanges.

The main task of international financial reporting standards is to



promote growth and long-term financial stability in the world economy.

Studying the experience of European countries in the implementation of the IFRS and a systematic approach to the problems in this process is one of the significant issues during the transition to the process of accounting and financial reporting in accordance with the IFRS in business entities operating in Uzbekistan. Based on this aspect, we have determined the following focus areas as the main objectives for business entities in the

- working out methodical procedures using effective aspects of international

accounting models.

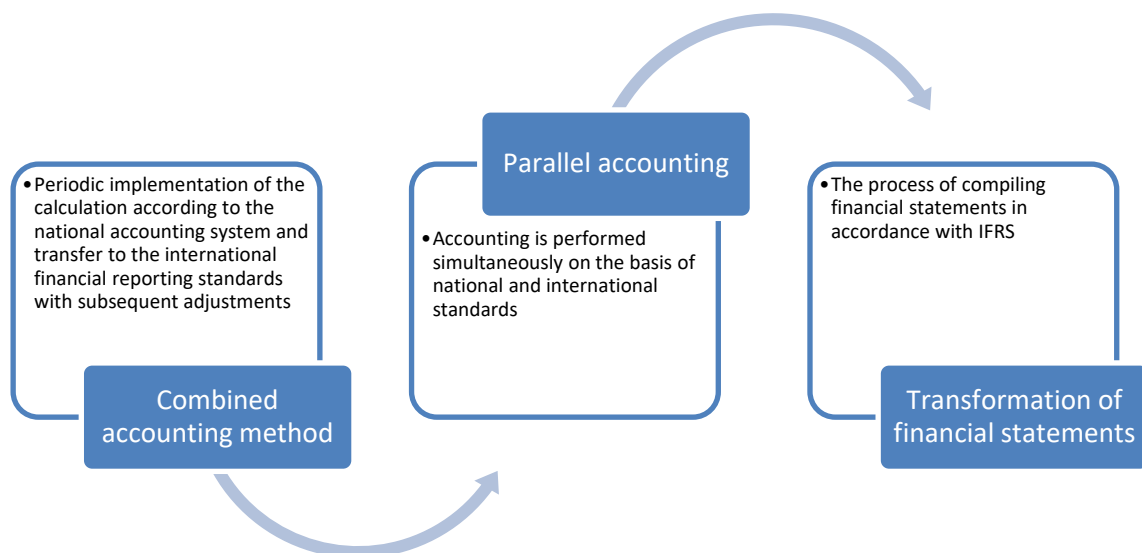
There are several stages of the reporting process based on international

process of transition to international financial reporting standards:

- developing the system of accounting and financial reporting standards, which provides the users of financial information, primarily, the investors, with the transparent information;

- ensuring that the accounting system of economic entities is in line with the major trends of the international accounting system;

financial reporting standards, and we have divided them into the following groups (Figure 1):



**Figure 2. Methods of compiling reports in reliance upon the international financial reporting standards**

As it is obvious, each process has its own peculiarities. Let's consider the transformation process here. During our

research we have investigated several definitions given by experts. In particular, according to A.B. Bagopolsky,



transformation is a process that is performed at the date of preparation of reports and includes introduction of adjustments to financial reporting indicators compiled in accordance with the national accounting system based on the principles of recognition, measurement and disclosure of elements of international standards [11].

In our opinion, **financial statement transformation** is the process of preparing financial statements in accordance with IFRS by adjusting the reporting information developed in compliance with the rules of the national accounting system.

If we consider the transformation processes in details, it is necessary to determine the goal of the transformation process at the preparatory stage as this will impact the process. If the enterprise has consolidated accounts when implementing the transformation, then a unified accounting policy should be applied. Thus two options can be used in this process. A single accounting policy is developed for the main and subsidiary enterprises. In reliance upon this fact, they keep accounts and prepare their reports. In the second option, each enterprise's reports are compiled in compliance with its own accounting policies and accounting is carried out based on this process. Additional adjustments are made to prepare consolidated financial statements.

## Conclusion

In an era of rapid global economic growth, financial statements of business entities must be reliable and transparent to their users. International experience shows that the form and content of financial reports are more influenced by the requirements of the users concerned. In order to investigate the financial condition of an entity, it is necessary to understand its financial documents. Or, the entities are required to be involved in the process of developing financial statements in reliance upon the same principles and rules that do not contradict each other. In short, financial reporting should be transparent, accurate, and most importantly, reliable. International financial reporting standards have always been considered the main tool for implementing reforms in the accounting and reporting system of the Republic of Uzbekistan. Implementation of international financial reporting standards enables to improve the management system of economic entities by applying uniform methods of accounting, to inform users of internal and external information about the financial status of the enterprise, as well as to raise the competitiveness of the company.

All joint-stock companies, multinational corporations and large companies operating in various fields in the world prepare financial statements in accordance with IFRS on a voluntary basis. The advantage of keeping financial reports is that the economic entity shows the results of its financial activities, as



well as its current financial position and changes during the reporting period. New approaches are emerging in the analysis of financial statements of enterprises. In particular, in this process new views related to international financial reporting standards are recognizing two areas: the process of interpreting reporting and the analysis of financial statements. Interpretation of financial statements helps to understand the essence of their economic analysis and to make economic and management decisions. Interpretation of financial statements reveals a number of specific aspects of an economic entity, such as the quality of disclosure of financial statement information, economic business strategy of the enterprise, accounting policy, methods and tools of managing financial statements.

In conclusion, it should be emphasized that the study of international

financial reporting standards will be one of the most essential steps that will open up the possibility of joining international capital markets for business entities in Uzbekistan. Secondly, reports compiled in accordance with the requirements of these standards enable preparation of reports in the international economic language, and thirdly, the prepared reports are distinguished by their compliance with the requirements of international capital markets and the usefulness of the information. International financial reporting standards rely on the requirements of information users and are the main criteria for making economic decisions. Fourthly, compiling and preparing reports based on international financial reporting standards is useful in saving time and resources based on long-term experience of market economy conditions.

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