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## ACCOUNTANCY REFORM AND PREREQUISITES FOR THE PREPARING OF FINANCIAL STATEMENTS UNDER IFRS IN THE REPUBLIC OF UZBEKISTAN

**Abstract:** The article is aimed at rolling of International Financial Reporting Standards in the corporate governance system, problems and prospects for the unification of accounting. A general analysis of the international approach was carried out and the perspective for the preparation of financial statements in accordance with IFRS was given, and the prospects for accounting reform in the Republic of Uzbekistan were also considered.

**Key words:** International Financial Reporting Standards, National Financial Reporting Standards, increased transparency, improved comparability, increase in analytical capabilities.

**Language:** English

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### Introduction

Accounting is a part of management function, carried out by business entities around the world; it is designed to accumulate all the economic information of the organization. Accounting, without exaggeration, is called the "Financial Language of Business". Before 1970s there was no single "Economic Language", and this was one of the major obstacles to the movement of capital.

The active growth of transnational corporations, the globalization of financial markets and international economic integration were the main reasons for the unification of accounting. The growth of international business activity in modern conditions could have succeeded without the introduction of one common financial reporting benchmark for meeting the concern of all interested users.

The need for the transition to international financial reporting standards is determined by the fact that companies and organizations are required to comply with IFRS financial reporting for entering international market, increasing country's export potential, quotation on world commodity and

currency markets, and obtaining loans from world banks.

Currently, the problem of unification of accounting and financial reporting is being decided by the International Financial Reporting Standards Committee (IASB). The IASB develops International Financial Reporting Standards (IFRS) which summarize the accumulated global experience in the formation of financial statements. IFRS are designed to replace countries' national standards and thereby unify the accounting system.

This article is devoted to priorities identified by the Resolution of the President of the Republic of Uzbekistan dated 22 August 2018, that all companies with a state share in the budget, starting from 2020, must submit reports according to international standards. Today, according to IFRS, all banks, as well as joint-stock communities of Uzbekistan, are already operating.

### Literature review

Such foreign scientists as J. Maclean, G. Simon, D. Smitburg, T. Levitt, R. Dodge, R. Adams, D. Robertson and others were engaged in the

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problems of unification of accounting and financial reporting. Also in this direction conducted research such Russian scientists as: V.D. Andreev, A.M. Bogomolov, N.A. Goloshchapov, O.E. Terekhova, etc.

At the same time, the development and formation of an international accounting system is associated with the activities of a large number of international organizations. Among them are the International Organization of Securities Commissions, the American Institute of Certified Public Accountants, the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants in England and Wales, the International Accounting Standards Board (IASB), the European Economic Community, the European Federation of Accountants, the African Accounting Council, Inter-American Association of Accountants, Confederation of Asia-Pacific Accountants, ASEAN Federation of Accountants, South Asian Federation of Accountants, Northern Society of Chartered Accountants, International Federation of Accountants, United Nations (UN), the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, the Commission on Transnational Corporations and the United Nations Centre on Transnational Corporations, the Organization for Economic Co-operation and Development, etc.

### Research methodology

Methodological bases of the study are the work carried out to improve theoretical, normative-legal and organizational basis of auditing activities in Uzbekistan, including the Resolution of the President of the Republic of Uzbekistan # 3946 dated September 19, 2018 "On measures to further develop auditing activities in the Republic of Uzbekistan", The comparative analysis and statistical data of the statutory audit activities issued by the Ministry of Finance were used.

### Main part

The international accounting model is developing under the influence of globalization and the internationalization of the economic space. It is designed to ensure the unification of accounting and financial reporting in the international market. Unification and harmonization of accounting is ensured by the development of uniform international financial reporting standards. IFRS include financial reporting standards, underlying assumptions and qualitative characteristics.

The preface to the statement of international financial reporting standards states that neither the IASB nor the International Federation of Accountants may require mandatory compliance with IFRS. The process of adoption by the state of international financial reporting standards (international accounting model) is entirely voluntary, so IFRS are advisory in

nature, but gradually the entire world economic community begins to use these standards for the preparation of financial statements designed for qualified users.

According to S.N. Tashnazarov, "International Financial Reporting Standards are a separate branch of the subject of financial accounting and reporting, which is a part of the conceptual basis of financial reporting, the necessity, development, content, interpolation and theoretical and methodological issues of the international financial reporting standards" [3].

In our opinion, International Financial Reporting Standards is a system of principles and rules for the preparation and preparation of financial statements adopted in the public interest, developed by the International Standards Committee.

At present, in the CIS countries, and in particular in our country, many scientists have already defined the ways of transition to international standards of financial reporting and proposes to teach it as a special course (J. Kurbanbaev, S. Zhumanov, Z.Sagdullaev, N.Mirzarahimova, M.Marpatov A.K.Ibragimov, M.Tulakhadjaeva, N.K.Rizaev, K.B.Urazov, S.N.Tashnazarov) [3,4,5,6,7,8,9,10].

V.A. Terekhova in her work "International and National Accounting and Reporting Standards" [2] identifies the following six forms of application of IFRS in various countries:

1. Using IFRS as national financial reporting standards (Cyprus, Kuwait, Latvia, Malta, Pakistan, Trinidad and Tobago, Croatia).

2. Use of IFRS as national standards, but at the same time having its own national standards on issues that are not reflected in international financial reporting standards (Malaysia and Papua New Guinea)

3. The use of international financial reporting standards as national accounting and reporting standards, while due to national peculiarities IFRS undergo certain modifications (Albania, Bangladesh, Barbados, Zambia, Zimbabwe, Kenya, Colombia, Poland, Sudan, Thailand, Uruguay, Jamaica).

4. Development of national financial reporting standards in accordance with IFRS, while providing additional clarification of international regulations (China, Iran, Slovenia, Tunisia and the Philippines).

5. Use IFRS as a basis for the preparation of national standards, while national financial reporting standards might be more specified or impose additionally certain financial reporting requirements that are not provided for by IFRS (Brazil, India, Ireland, Lithuania, Mauritania, Mexico, Namibia, Netherlands, Norway, Portugal, Singapore, France).

6. Australia, Hong Kong, Denmark, New Zealand, Sweden also develop national financial reporting standards in accordance with international financial reporting standards, and there is a provision in each national standard that compares with IFRS.

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One of the main reasons for the application of IFRS by various countries is V.A. Terekhova calls is the reduction of the company's expenditures on reporting [2]. In our opinion, this position needs comments, since IFRS provides for slightly different rules for evaluating items of financial statements (the concept of "fair value" is widely used) than in the regulatory regulation of accounting. We believe that the cost of reporting in accordance with IFRS

significantly exceeds the cost of reporting under national rules. Reducing the cost of reporting can only be in the case of the preparation of a unified reporting according to the rules of IFRS for the amount of expenses for the preparation of reports according to the rules.

Highlight the main advantages and disadvantages of IFRS in front of the national accounting system (Table 1).

**Table 1. Advantages and disadvantages of IFRS to National Accounting Standards**

Advantages of IFRS over NAS	Disadvantages of IFRS over NAS
clear logic for building standards	standards imply a generalized nature and diversity of accounting methods, which leads to additional costs for analyzing the "quality" of profits
standards are developed based on international accounting and financial reporting practices	The official language of the standards is English, which makes it difficult to translate
recommendatory character and strengthening the role of professional judgment	lack of detailed explanation of the application of standards
Financial statements prepared in accordance with IFRS should be understandable to all interested qualified users	standards are constantly changing and refined
increasing transparency, improving the comparability of indicators, increasing analysis capabilities and facilitating access to international capital markets	the complexity of the transformation of financial statements from NAS to IFRS, the growth of management costs
The transition of large companies to IFRS will also affect the structure of the labor market of accounting and financial services, the need for specialists in international financial reporting standards will grow	The difficulty of perceiving an IFRS text is that in many cases, instead of the direct instructions customary to an accountant, IFRS contains the logic of making professional judgment

According to Y.Sokolov, "IFRS have a truly international significance, combining the experience of many countries" [16]. In our opinion, this position is not entirely correct. There are no elements of a continental accounting model in IFRS; there is no (even recommendatory) unified chart of accounts for financial and economic activities, which complicates the standardization of accounting procedures; not all developed countries are represented on the Board of the IASB.

Thus, in some countries, the ability to unify the process of accounting training in modern conditions depends on the effective implementation of international financial reporting standards, and the presentation of reliable uniform financial reporting to all qualified interested users.

Analysis of the main publications on the procedure for the transition of national accounting to IFRS showed the presence of three conceptual approaches to implementation:

A.S. Bakaev [1] and O.M.Ostrovskiy [11] propose to develop national accounting standards based on IFRS.

The IASB recognizes reporting prepared in accordance with IFRS only with full compliance with all requirements of the standards. Reporting prepared on the basis of modified standards is not international.

S.A. Nikolaeva [13] proposes to transfer large or socially significant companies to IFRS.

In our opinion, the approach proposed by S.Nikolaeva, the most acceptable in the medium term, but only in the case of legislative consolidation of the possibility of reporting either on the basis of IFRS, or in accordance with national rules. The obligation to submit two sets of financial statements complicates accounting and increases the cost of preparing financial statements.

According to R. Dusmuratov and B. Menglikulov for further reforming of accounting based on IFRS the following priority areas are recommended: "To carry out preparatory work on the application of IFRS taking into account recent

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changes; improving the existing regulatory framework based on IFRS; providing high-quality translation of IFRS that meets the original and linguistic norms of the Uzbek language; eliminating inconsistencies in the methodological aspects of accounting and tax accounting; development and implementation of methodological support (instructions, guidelines, comments) at the industry level; coordination of the terminological apparatus of accounting, auditing, taxation and other areas; staffing (the formation of the accounting profession, training and professional development of accounting professionals); further development of international cooperation" [12].

Many countries, including the Republic of Uzbekistan, in varying degree currently use IFRS. IFRS are allowed to apply for the preparation of consolidated statements by some countries (Russia, Germany, Switzerland), in some countries of the stock exchange they list financial statements of companies compiled on the basis of international standards (Latvia, Estonia, China).

Currently, European countries are converting to reporting in accordance with IFRS; Australia has announced the transition from 2005 to IFRS; the United States since 2002 has been implementing a program to eliminate the differences between the national accounting system and international standards.

The main factor in the transition of national companies to IFRS is the ability to obtain financing for their activities from foreign companies, but for this, the foreign partner needs to provide comprehensive information about the assets, liabilities, income, expenses and equity of the company in a format understandable to foreign analytics.

Other factors causing the transition to IFRS: the establishment of strong long-term economic relations with foreign counterparties, the establishment of joint ventures, the entry of companies into international stock markets, etc.

In connection with the transition of the Republic of Uzbekistan to a new stage of development, there is a need for ongoing reforms in existing system of accounting and reporting.

The Republic of Uzbekistan is also gradually transferred to the IFRS. The following documents have been adopted within the framework of these transitions: Resolution of the President of the Republic of Uzbekistan №3946 dated September 19, 2018 "On Measures for Further Development of Audit Activities in the Republic of Uzbekistan"; Decree of the President of the Republic of Uzbekistan of April 24, 2015 №4720 "On Measures to Introduce Modern Corporate Governance Methodologies in Joint Stock Companies"; Resolution of the President of the Republic of Uzbekistan No. PP-1438 of 26.11.2010 "On priority directions of further reforming and

improving the stability of the financial and banking system of the Republic in 2011-2015 and achievement of high international rating indicators"; "Regulations on the procedure for issuance of an auditor qualification certificate". Order by the Minister of Finance of the Republic of Uzbekistan №144 of November 14, 2018 has been registered by the Ministry of Justice of the Republic of Uzbekistan on December 21, 2018 with the order 3105.

Article 22 of the new edition of the Law of the Republic of Uzbekistan "On Accounting" establishes the legal basis for the application of international financial reporting standards in our country as "The requirements for financial reporting requirements established by international standards are set out in international accounting standards". The new revision of the law is consistent with international best practices and international standards [14]. Based on the above, it can be concluded that today it is expedient to study the international financial reporting standards as a separate line of financial accounting and reporting.

Therefore, there is a need to adopt a consistent program for the implementation of IFRS, ISA and the International Evaluation Standards (IES), the functioning of which will lead to the formation of high-quality information. The quality of information depends on financial and cash flows, business activity and, accordingly, the country's macroeconomic indicators. The government has set the goal of accounting reform as bringing national accounting rules in line with the market business model based on international financial reporting standards. To achieve the goal of the program, it is necessary to solve certain tasks: to form national accounting and reporting standards that will be understood by qualified users, to provide methodological assistance to accountants and financial analysts, to ensure the formation of a regulatory accounting framework, to conduct training for economic services of organizations, enhance the role of the accountant's professional judgment in the decision-making process, actively harmonize and harmonize accounting and reporting, cooperate with the International Federation of Accountants, the International Financial Reporting Standards Committee and, as a logical conclusion of the reform, adopt IFRS as an alternative to national accounting and reporting standards.

In our opinion, at present, the basis for reforming accounting in Uzbekistan will be the development of the "Concept for the Development of Accounting in the Republic of Uzbekistan", which awakens to be a framework document, a logical continuation of the "Implementation Program for International Financial Reporting Standards" implemented, albeit with the extension of deadlines.

In our opinion, the approach to reforming accounting, by adopting a Concept, corresponds to the logic of the reform being carried out, is a compromise

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option, and the concept should eliminate a number of shortcomings:

1. The exception is the absence of specific deadlines for its implementation, clear-cut stages and terms for their implementation, which is a negative factor for its implementation.

2. Focusing on the high costs associated with the preparation of consolidated financial statements of organizations under IFRS through the transformation of the data NAS. However, it does not take into account the fact that the cost of preparing IFRS conversion reports are more significant. The concept should emphasize that the duplication of statements in the format of IFRS and NAS, a temporary phenomenon associated with preparing the infrastructure for the application of IFRS.

3. In the Concept, it is necessary to point out the insufficient participation of professional accounting organizations in the regulation of accounting, but it is overlooked that there are objective reasons for this - the legislation provides for state regulation of accounting and reporting. Strengthening the role of accounting associations, in our opinion, is possible with a clear definition of the functions of these professional organizations in the process of developing the rules of the accounting process.

4. In the Concept, it should be noted that the usefulness of accounting information is achieved by using IFRS as the basis for constructing national accounting.

Information prepared according to generally accepted rules, deviations from which lead to loss of value of accounting information. Reporting prepared using only a few elements of IFRS will mislead qualified users, which will reduce the quality of management decisions. However, we consider it possible to use a gradual transition to IFRS by bringing together national methodologies, the ultimate goal of which should be full recognition of IFRS as a national accounting system.

Thus, reforming the accounting and reporting system in accordance with the requirements of IFRS is an important step towards efficient market relations. Currently, this problem has received much attention from both government agencies and professional organizations. As a result of the ongoing reform, professional organizations of accountants are actively working in the Republic of Uzbekistan, including the National Association of Accountants and Auditors of Uzbekistan and the Chamber of Auditors who are members of the International Federation of Accountants, participating in the development of national accounting standards and the implementation of international financial reporting standards, etc.

Thus, it can be argued that the development of national accounting occurs in line with global trends, namely, in accordance with IFRS. Translation of reports to IFRS increases the information content of the data provided, as any qualified user has the

opportunity to obtain information that is based on common methodological principles and there is no need for time-consuming analysis of the "quality" of profits.

### Conclusion

Implementation of IFRS is a work for the future, which will be increasingly associated with foreign economic activity, attracting foreign investment and related technologies. In addition, IFRS are relevant for evaluating the management of companies, because it shows the effectiveness of management decision-making. In general, the organization of accounting will develop through the selection and application of more sophisticated methods and techniques for grouping credentials, forms of accounting registers, the correct and rational combination of analytical and synthetic accounting and, ultimately, the use of the most progressive forms of accounting using automated systems [15].

In our opinion, the main directions of development of national accounting at the present stage are:

(Amendment of the Law of the Republic of Uzbekistan) the adoption of a new version of the Law on Accounting, which meets the requirements of a market economy and the concept of accounting development in our country; improvement of legislation in the field of accounting and management accounting, taxation;

convergence of national accounting with international financial reporting standards;

development and adoption by professional associations of accountants of methodological recommendations on complex accounting issues (for example, on the use of market value in the accounting process), industry guidelines (for example, on the calculation of cost);

strengthening control over the correctness of accounting and financial reporting by business entities;

professional development of accountants and auditors, including IFRS training.

The Ministry of Finance of the Republic of Uzbekistan is in favor of preserving the functions of regulating the accounting and reporting for the state and the gradual convergence of national accounting standards and IFRS.

In our opinion, the applicable approach to the development of accounting is more acceptable. We present the following arguments:

this approach does not imply amending the Constitution of the Republic of Uzbekistan, since the basic law of the country provides for state regulation of accounting, and not regulation of accounting by professional organizations and associations;

full transition to IFRS is practically impossible in the near future, as the country has not trained qualified personnel, there is a high correlation

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between accounting and tax base calculation, there will be a sharp increase in accounting costs in accordance with IFRS (hiring a professional appraiser, information costs, retraining expenses for account workers, etc.)

the assertion that the full adoption of IFRS as national accounting rules will lead to a reduction in government spending is not justified, because there will be additional costs for the official translation of IFRS (from English), bringing the national regulatory framework and terminology in accordance with international standards, paying “royalties” to the International Financial Reporting Standards Committee for publishing standards, etc.;

the transfer of accounting functions to professional associations will lead to an increase in organizations' costs for consulting services.

One of the main advantages of national accounting before IFRS is the existence of a single chart of accounts for financial and economic activity. With the rapid transition to IFRS it is difficult to develop a single chart of accounts that meets all the requirements of international standards, which may lead to its cancellation.

The Ministry of Finance of the Republic of Uzbekistan, unlike any professional organization, has an “administrative resource”, which will allow for a more qualitative reform and at the same time not disturbing the balance of the use of financial statements for state and economic purposes, etc.

Thus, the process of reforming the national accounting in accordance with IFRS, in our opinion, should be coordinated by the Ministry of Finance of the Republic of Uzbekistan.

It should be noted that the harmonious development of accounting in our country is not possible without the development of professional associations, making decisions to reform accounting and reporting should be supported by the Institute of Professional Accountants.

Particular attention should be paid to the development of auditing activities in Uzbekistan. The transition to international financial reporting standards will raise the requirements for auditing organizations, including and the transition to international auditing standards (IAS). It is necessary to change the approach of confirming the financial statements of business entities by audit organizations, i.e. Auditors should confirm the accuracy of financial statements, and not tax calculations.

To move to reporting in accordance with IFRS, it is also necessary to be guided by International Evaluation Standards (IES) - this is another area that is closely related to the development of national accounting.

Thus, the development of national accounting at the present stage is closely linked to international financial reporting standards. The logical conclusion of the process of reforming accounting and reporting should be the full adoption of IFRS as national standards for large and medium-sized businesses, and we do not exclude the possibility of developing our own national accounting methods for small businesses before the appearance of a corresponding international standard. The introduction of international financial reporting standards should occur in parallel with the implementation of the IAS and the IES.

Based on the above considerations, we consider it appropriate to set up Uzbekistan Institute of Accountancy, which is an independent professional body of Accountants engaged in the development of general accounting principles and national standards, summarizing and introducing the best practices in accounting, accounting and professional development of accountants.

The main purpose of the Institute is to introduce IFRS, submit to the Ministry of Finance of the Republic of Uzbekistan for the development and approval of national accounting standards, to introduce advanced foreign experience, to improve the quality of accounting and professional development of professional accountants and to develop accounting in the Republic of Uzbekistan to the international level.

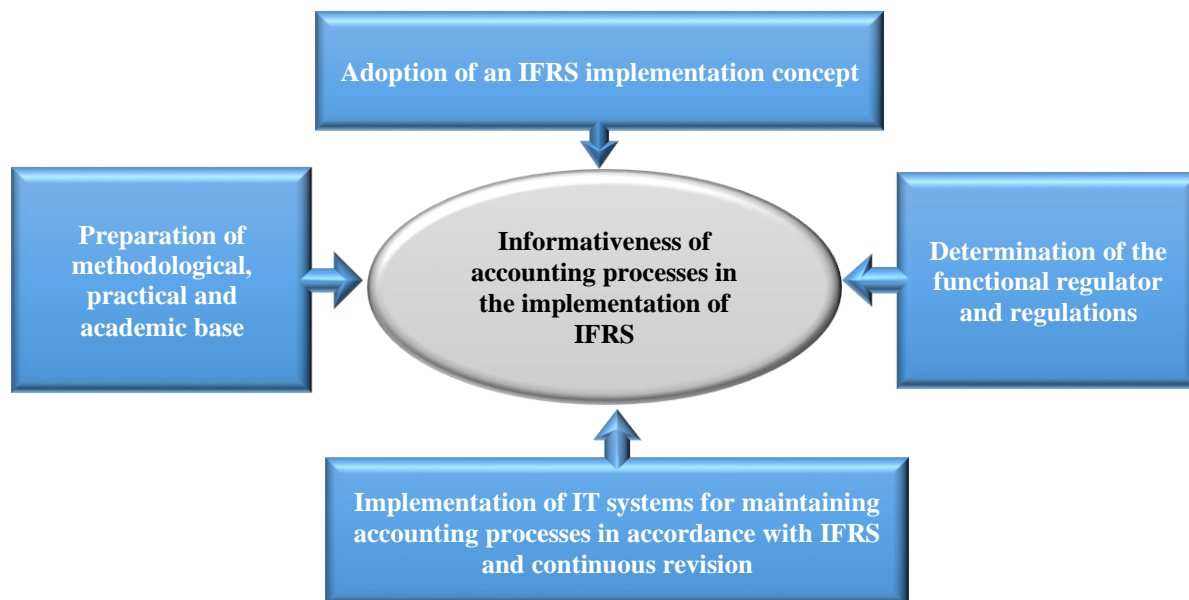
In our opinion, the transition to IFRS is a complex, ambiguous process that must take place in accordance with the pace of development of economic reality and correlate with the willingness of the current accounting system and accountants-practitioners to the relevant innovations.

The deep integration of the economy of Uzbekistan with the processes of globalization, put a number of requirements for the evolutionary development of accounting as the main source of financial information. Regarding the flexibility of accounting processes when implementing IFRS, these requirements can be expressed by the following illustration: Fig.1.

Based on the above, it can be argued that the transition of the Republic of Uzbekistan to reporting under international financial reporting standards is a long process, it requires a phased, correct, logically aligned approach. With the transition of the Republic of Uzbekistan to IFRS, one should not expect a sharp influx of foreign investment into the country. But this will be an important moment for the movement of capital between the Republic of Uzbekistan and the international community. Increasing the transparency of organizations will mean that investments will become less risky for investors, and therefore cheaper.

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**Fig.1. Requirements for the implementation of IFRS in accounting processes.**

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