



# Prospects of introduction of international standards of financial reporting in Uzbekistan, issues of improving the system.

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## ABSTRACT

In this article, the normative and legal bases of the organization of joint-stock companies, their role and importance in the economy are usually connected with their large-scale financial and economic activities. Proposals and recommendations have been made on the issues that should be introduced, with the main focus on improving management efficiency, increasing the capitalization of the company.

## Keywords:

founder, joint-stock companies, shareholding, share, budget, regulatory analysis, positive analysis, tax benefits, tax rate. foreign investors.

## Literature review

in the opinion of associate professor S. Tashnazarov, the most urgent issue for all countries is 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 best practices at the national level (1).

Another economist S.A. Djumanov said that today, in the improvement of financial reporting, transition to international financial reporting standards (IFRS) and its implementation is an urgent issue for all countries. In many countries of the world, as a result of the compilation of financial statements, financial statements are being prepared on the basis of IFRS (2).

According to Doctor of Economics, Associate Professor A.Z. Avlokulov, financial reports based on international standards are necessary for effective management of the organization. The main goal of moving to international standards is to enter the international market and attract investments. Also, international standards make an important contribution to

the qualitative development of the country's economy. In this process, a favorable investment environment, openness of companies' activities, accountability of management to shareholders, introduction of modern methods of corporate management make an important contribution to the development of joint-stock companies (3).

Jessica H. Young, Nada Kakabadze and Dmytro Lazovsky concluded that the main purpose of international financial reporting standards is to attract foreign investment to the economies of developed and developing countries (4). Another economist, Jessica Hong Yang, stated that the 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. (5)

Auwalu Musa Studying the International Financial Reporting Standards (IFRS) methodology should begin with the principles defined in the Framework for the Preparation of Financial Statements (hereinafter referred to as the Concept). This document is not considered a standard and is not numbered, but it contains a

clear framework for understanding MHXS. Its principles are based on concepts (6)

**Enter.** In various countries of the world, special attention is paid to scientific research aimed at improving the methodological foundations of financial reporting audits in the context of the globalization of the economy. In these studies, the issues of planning the audit of financial statements, determining the optimal set of audit risks, determining the level of importance in the audit of financial statements, and drawing up audit conclusions and reports have been solved. It should be recognized that in the field of research, at the same time, the improvement of the process of identifying and eliminating frauds in the audit of financial statements, applying analytical procedures in audits, and evaluating the effectiveness of the internal control system has been achieved. However, the current issues related to the organization of the financial reporting audit methodology at the level of international standards have not yet been fully resolved.

#### **Analysis and results:**

In the current economic conditions, due to the increasing level of independence of any joint-stock company and the entry of many of them into international markets, the analysis of financial statements becomes important. This can be explained by the fact that economic decision-making is completely dependent on analytical calculations, for which the accountant must be able not only to prepare a financial report, but also to understand the content of it and accounting information, key indicators and their interrelationships. It is necessary to be able to understand the connections.

The use of the entire volume of economic indicators formed on the basis of external and internal information allows the company to create a system aimed at increasing the speedy, current and strategic tasks of increasing the efficiency of economic and financial activity. Such an information base is organized and valid under the condition of compliance with important requirements for reports: analysis,

objectivity, speed and usefulness. To fulfill these requirements, a reliable assessment of the company's activities is necessary.

The financial report of a joint-stock company represents a system of indicators that reflects the results and nature of the company's economic activity during a certain reporting period. Compilation and presentation of the financial report of the joint-stock company is the final stage of accounting of the financial and economic activity of the joint-stock company.

According to the legislation of the Republic of Uzbekistan, "Financial reporting consists of systematic information about the financial status of the accounting entity as of the reporting date, the financial results of its activities during the reporting period, and the movement of funds"<sup>1</sup>.

Today, the annual financial report consists of the following: balance sheet, statement of financial results, statement of cash flows, statement of private capital, as well as notes, calculations and explanations.

In order to fully implement the principles of modern corporate governance in the Republic of Uzbekistan, increasing the effectiveness of the corporate governance system in joint-stock companies, taking into account international requirements, as well as ensuring their wide participation in investment processes and the implementation of structural changes in the economy today. is one of the current issues. In this regard, the adoption of Decree PF-4720 of the President of the Republic of Uzbekistan dated April 24, 2015 "On measures to introduce modern corporate management methods in joint-stock companies" is considered important in the development of the activities of joint-stock companies. In accordance with Clause 8 of this Decree "Increasing the openness of the activities of joint-stock companies, publication of audit and financial reporting information by them based on international standards"<sup>2</sup> is set. This situation automatically requires conducting audits in joint-stock companies based on international audit standards.

<sup>1</sup> Ўзбекистон Республикасининг "Бухгалтерия ҳисоби тўғрисида"ги Қонуни. Ўзбекистон Республикаси қонун ҳужжатлари тўплами, 2016 й., 404-сон.

<sup>2</sup> Ўзбекистон Республикаси Президентининг 2015 йил 24

апрелдаги "Акциядорлик жамиятларида замонавий корпоратив бошқарув услубларини жорий этиш чоратадбирлари тўғрисида"ги ПФ-4720 Фармони. [www.lex.uz](http://www.lex.uz)

Bookkeeping in accordance with the National Accounting Standards allows to create a system of general economic indicators based on various types of activities of joint-stock companies, areas of activity and, ultimately, reports on the economy of the entire country.

Available financial reports are divided by types, periodicity of preparation and level of summarization of reporting indicators.

The most important economic indicators describing the level of efficiency of the joint-stock company's financial and economic activity are the assets, liabilities and funds owned by the organization. Therefore, the main function of the accounting balance sheet is the summarization and formation of financial information on these economic elements.

Financial reporting standards provide a minimum structure of linear indicators describing these elements.

Line items presented in the standard balance sheet do not reveal all the items that each joint-stock company includes in it. Each joint-stock company may, at its own discretion, include in the structure of the balance sheet additional items necessary for a reliable and complete reflection of its financial position.

Based on the liquidity indicators of the assets of the joint-stock company and their importance for users of the financial statements, a decision is made to allocate additional items in the asset structure of the balance sheet. In particular, it is appropriate to separate the fixed assets that are actively working from the item of fixed assets. If such assets are valued differently (for example, at initial and replacement cost), this can serve as a strong reason for their separate reflection and accounting in the balance sheet asset. Another important reason for the allocation of additional items is the functions that the assets perform in this organization. For example, financial assets are divided into bonds, shares of other organizations, reserves - finished products, materials, goods and work in progress. Accounts receivable items include settlements with buyers and customers, advance payments for prepayment, and long-term debts due next year. It is necessary to rely on the information about their size, description and the date of payment in order to allocate additional items in the list of

obligations. In our opinion, direct liabilities and reserves (pension, social, etc.), as well as interest-free and interest-bearing, long-term and short-term, financial and commercial for raising debt funds are obligations arising as a result of activities. From accounts payable, it is possible to separate the additional items of long-term obligations, which must be paid in the next reporting year, settlements with suppliers and contractors, business partners. The composition of reserves and capital items can be considered based on the number of shares issued, partially or fully paid by the joint-stock company, and the number of such shares in circulation at the beginning and end of the reporting period. It is also appropriate to disclose the composition of reserves created on the basis of one's shares.

The shares purchased by the management of the joint-stock company from its shareholders must be reflected in the balance sheet according to their nominal value in a separate line. This can reduce the amount of equity. In this case, the nominal value of these shares should be indicated in the note to the accounting balance sheet. If the shares to be purchased have different real (nominal) values, information is given on different price descriptions. In situations where it is not possible to determine the nominal value, this is also reported in the notes to the financial statement.

In the accounting balance, it is useful to disclose information about the rights, privileges and restrictions of the share classes, and the shares that remain in the ownership of the company or the subsidiary company are shown on a separate line, and there are direct or option contracts about the availability of a stock of shares for sale. can be reported under "other comments to the accounting balance".

Organizations that do not have share capital can reflect changes in equity shares, classification categories of such shares, rights, privileges and restrictions related to each of these categories, the amount of dividends and other necessary information in the accounting balance sheet.

Separation of the items of the accounting balance into long-term and short-term types allows to observe clear boundaries between the capital of the joint-stock company, dividing the

capital of the joint-stock company into circulating capital and immobilized capital. This allows for a reliable assessment of the solvency of the joint-stock company, the liquidity of its assets and, ultimately, the financial condition of the joint-stock company.

Due to the fact that information about the term of payment of assets and liabilities is important for assessing the liquidity and solvency of the joint-stock company, their payment or replacement should take place within a period of no more than 12 months from the date of preparation of such report. It is necessary to disclose the due amounts in a mandatory manner. When considering the composition of obligations, it is necessary to reveal the term of their payment. In this case, the cycle period of balance items is very important. The reporting year is taken as the basis, because under normal circumstances, the reporting period is 12 months. Although it is accepted to consider such liabilities as short-term liabilities, there are a number of exceptions.

The obligation is defined as a short-term obligation if it is intended to pay the obligations during the normal operating cycle of the joint-stock company or within 12 months from the date of the report. In particular, debts for the payment of wages, settlements with suppliers and contractors are sources of working capital. The new form of information presented in the reports of local joint-stock companies contributes to a favorable investment environment in many ways. This is due to the fact that the competitive market in the conditions of the market economy can function normally only when its participants are provided with reliable, objective and high-quality information about the objects of financial investments. The main source of such information is the financial report of organizations, which is formed in such a way that it should ensure the interests of all interested users from the point of view of the usefulness of this information. During the last decade, requirements have been formed in global practice regarding financial reports that make them useful and convenient to the

maximum level for making economic and management decisions.

International Financial Reporting Standards (IFRS) can undoubtedly be recognized as the most recognized standards in the field of financial reporting in terms of the relevance and usefulness of the information provided at the moment. MXXS is the most widespread and recognized basis for ensuring the quality of the provided information and its usefulness in making important economic decisions.

The process of globalization of the world economy requires uniformity of standards for the preparation of financial reports, that is, a "universal language" understandable to all businessmen of the world, regardless of nationality, citizenship and other characteristics.

The development of MXXS is based on the need to create standard forms of financial reporting and accounting systems that can be compared in the same way for all joint-stock companies. Companies operating in global stock markets use IFRS to prepare financial statements, because making correct decisions on major financial transactions is ensured by the application of all accounting standards recommended by IFRS, reliable and uniform. can be done only on the basis of financial information understood in the sense.

The integration of business into the world economy in Uzbekistan, the creation of conditions for attracting foreign investments, requires the need to study and use the international financial reporting standards (IFRS), the universal business language of economic communication that is understandable to the whole world.

In order to enter the world market, obtain an international loan, and attract foreign investments, it is appropriate to prepare a financial report according to the IFIs<sup>3</sup>.

The formation of financial statements in Uzbekistan is currently undergoing major changes in connection with the adaptation to the requirements of the International Financial Reporting Standards. There are several reasons why there is a high demand for EMS in

<sup>3</sup> Ташназаров С.Н. Молиявий ҳисоботнинг МХХС бўйича трансформацияси зарурати, моҳияти ва босқичлари //

“Иқтисодиёт ва инновацион технологиялар” илмий электрон журнали. № 3, май-июнь, 2017 йил

Uzbekistan at the moment. One of the main reasons for the transition to MHSS is the insufficient flow of investments to Uzbekistan due to the lack of reliable information about the financial results and real financial status of organizations. Today, the way for national companies to enter the world's largest stock markets is through their recognition of MHXS. For example, the presence of financial statements prepared in accordance with the International Financial Reporting Standards is a condition for the inclusion of national and foreign companies in some stock exchanges (for example, in the stock exchanges of Austria, France, Germany, Italy<sup>4</sup>. For listing on other stock exchanges, it is allowed to submit a financial report on MHXS along with financial statements prepared according to national regulations (for example, on stock exchanges of Australia, Denmark, Turkey).

According to the Decision of the President of the Republic of Uzbekistan dated September 19, 2018 "On measures to further develop audit activity in the Republic of Uzbekistan" No. It is determined that it will be conducted based on the standards<sup>5</sup>.

Another reason for the transition to MHXS is the lack of working capital of enterprises, which increases the need for credit resources provided by credit organizations on terms that are beneficial to the borrower. In the context of the expansion of world economic relations and globalization, the issue of attracting cheap debt funds for the successful and rapid growth of local enterprises is considered urgent. It is known that the terms of lending in the banks of developed countries are more favorable than the terms of the banks of Uzbekistan. In addition, one of the main conditions for Russian companies to receive foreign credit resources on favorable terms is the presence of financial reports compiled according to the MFRS. This is due to the fact that the report on MHXS provides external users with the most appropriate information about the property and financial

condition of the company, therefore, such information can be used by investors and creditors to make management decisions.

The official recognition and introduction of international standards of financial reporting in the Republic of Uzbekistan is the most important step in ensuring the openness of the capital market in terms of information and creating a favorable investment environment.

In the Republic of Uzbekistan, the problems of financial statements prepared according to the national accounting standards are based on the accounting methodology. The main shortcomings are the low level of comparability and transparency of reports, incomplete reflection of all facts of business activity (for example, contractual obligations and transactions with derivative securities), the principle of prudence in recognizing and evaluating facts and events of business activity. not to be included. First of all, this is related to the valuation of assets at initial value, which does not fully respect the principle of prudence in valuation. In the balance sheet of the joint-stock company, morally obsolete main means of production are taken into account, the current value of which may be many times overstated. Another important drawback is that the calculation method is based on the initial value, not the current value. This leads to the fact that the financial results of the joint-stock company are overstated. All these shortcomings are sharply manifested in the conditions of the financial crisis and the increase in the factors of instability in the world markets, which are observed together with the large outflow of capital from the country.

Thus, options for bringing national accounting standards closer to international standards are shown in the figure below (Figure 1.1). Studies show that the main problems of applying international financial reporting standards in Uzbekistan are:

Difficulty in accepting current and new standards by experts and lack of information

<sup>4</sup> Вахрушина М.А., Малиновская Н.В. Корпоративная отчетность: новые требования и направления развития // Международный бухгалтерский учет. 2014. № 16. С. 5—7

<sup>5</sup> Ўзбекистон Республикаси Президентининг 2018 йил 19

сентябрдаги “Ўзбекистон Республикасида аудиторлик фаолиятини янада ривожлантириш чора-тадбирлари тўғрисида”ги ПҚ-3946-сон Қарори. [www.lex.uz](http://www.lex.uz)

due to the lack of appropriate methodological instructions and comments on the issues of the practice of applying specific provisions of the MHXS;

Absence of a generalized analysis of the practice of applying the MHSS in joint-stock companies of Uzbekistan;

The high cost of training in special courses for obtaining international certificates on MHXS;

Cost of auditing and consulting services provided on the basis of international standards;

Lack of specialists and qualified personnel on MHSS;

Automated accounting and reporting programs for MHSS, as well as the high cost of servicing them.

In this regard, the emergence of the official MHSS country.

accounting reform is an important step towards turning it into an effective tool for creating high-quality, objective, useful and in-demand information.

Thus, it can be said with confidence that the foundation has been laid for the introduction of MHSS in the territory of the Republic of Uzbekistan. Consistent and consistent implementation of MHSS on the territory of the country allows enterprises to receive direct economic benefits from involvement in the world economy.

National accounting standards continue to be harmonized with the IASB, ensuring that they are as uniform as possible.

The adoption of new accounting rules, which are as close as possible to the IRS of the same name in content, will serve to ensure the highest adaptation of the accounting rules of the country in accordance with the standards of the IRS. These are accounting rules such as "Reserves account", "Rent account", "Employee bonus account", "Organizational income". One of the important changes is the possibility of discounting receivables and payables with a maturity of more than 12 months, which is one of the requirements of the MFHSS<sup>6</sup>.

<sup>6</sup> Зарецкая В.Г. Оценка и анализ дебиторской и кредиторской задолженности с учетом фактора времени //Международный бухгалтерский учет. 2014. № 29. С. 47

Despite all the numerous changes introduced in the country's accounting standards and which will be introduced in the near future, the differences between the national accounting standards and the conceptual and basic rules in international standards remain as serious as before. The absence of concepts such as the current value concept and the capital concept in the national accounting standards makes these differences serious.

It should be noted that the transition of joint-stock companies of the country to MHSS is not given the same assessment by experts. Some experts believe that such a transition will benefit the country's economy, and first of all, increasing its international rating will undoubtedly change the flow of investments to the country. Others see no benefit in such an approach and believe that it will create additional costs for companies and increase the volume of accounting and reporting work to be performed<sup>7</sup>.

However, if we understand well that the main purpose of using the MFRS is to obtain the most reliable information about the financial status of joint-stock companies, which is necessary for existing and potential investors, the need to switch to the MFRS is clearly visible.

### **Conclusions and suggestions.**

Financial statements provided by business entities allow external users to make important economic decisions. Financial reports reflect information about the financial situation, financial results and cash flows, providing an opportunity to obtain information about the stability of the activity. The main requirement for financial reports is the reliability of the information reflected in them. That is why business entities, first of all, need to ensure the reliability of financial reports.

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<sup>7</sup> Крупина Т. Международные стандарты банковской жизни. URL:<http://www.klerk.ru/bank/articles/25802/>.

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