

# THE NEED TO TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN UZBEKISTAN

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## Abstract

The issue related to the need for the transition of Uzbek enterprises to international financial reporting standards (IFRS) was considered. The need to intensify measures to apply international standards in the financial reporting of business entities is associated with the need to attract investment in the production and financial sectors of the economy of the Republic of Uzbekistan by increasing the transparency of corporate governance. The transition to international accounting practice is intended to significantly facilitate the relationship of enterprises with large investors, including foreign, large suppliers and buyers, and contribute to an increase in the number of joint projects due to generally recognized rules for the formation of current financial statements. The article discusses a number of fundamental differences between the requirements of IFRS and the requirements of national accounting standards (NAS). At the same time, attention is drawn to the fact that IFRS require not so much knowledge of specific accounting entries, as required by NAS, but understanding and reflection of the economic essence of the economic processes taking place at the enterprise. A number of methodological issues on changing the accounting system that companies need to solve at the stage of making a decision on the transition to IFRS are also considered.

**Keywords:** NAS (National Accounting Standard), IFRS (International Financial Reporting Standards), automation, accounting process, chart of accounts.

## Introduction

The Government of the Republic of Uzbekistan is currently implementing large-scale reforms in the political, economic, and social spheres, and actively working to attract foreign direct investment into the country's economy, and is creating conditions for the effective work of foreign investors. In a developing economy, there are increased levels of risks that may hinder the attraction of capital, primarily foreign, into the country's economy. This is especially true for foreign direct investment in industrial sectors of the economy. Foreign investors are not ready to seriously enter the Uzbek market until improvements are made in the area of corporate transparency.

To increase the level of corporate transparency, the Republic has adopted a number of legislative acts aimed at protecting investments and increasing transparency in the corporate



governance system. In particular, such legislative and regulatory acts as the “Law on Joint-Stock Companies and the Protection of Shareholders’ Rights” (new edition) [2], “Corporate Governance Code” [3] and a number of others. In this series is Resolution of the President of the Republic of Uzbekistan No. 4611 dated February 24, 2022 “On additional measures for the transition to international financial reporting standards” [1], which provides for a radical revision of the process of implementing IFRS in Uzbekistan. A “Road Map” for the phased implementation of international financial reporting standards and modern methods of training personnel in this area, taking into account best international practices, was also approved.

## Conclusions and analyzes

IFRS (International Financial Reporting Standards) is a set of international accounting standards that specifies how to reflect different types of business transactions in financial statements [3]. The main purpose of IFRS is to maintain stability and transparency in the financial world. Thanks to these standards, enterprises from different countries can understand each other’s financial statements and make decisions on further mutual cooperation.

The need for large Uzbek enterprises to transition to IFRS standards is associated with the possibility of attracting foreign investment through increasing the transparency of corporate governance. The transition to international accounting practices is intended to significantly facilitate relationships with foreign investors and contribute to an increase in the number of joint projects through generally accepted rules for the preparation of current financial statements. Since the international financial reporting standards developed by the IFRS Committee are recognized throughout the world, they can be used as an effective tool for providing transparent and understandable information about the activities of companies.

Let's consider the main distinguishing features of IFRS from national accounting standards (NAS).

IFRS are documents that disclose the requirements for the content of accounting information and the methodology for obtaining the most important accounting characteristics based on the harmonization of national standards of economically developed countries. To date, 41 international financial reporting standards have been issued. These standards deal with topics that affect the financial statements of business entities. One of the principles that is mandatory in IFRS, but not always applied in the local accounting system, is the priority of content over presentation of financial information.

It should be especially noted that the application of IFRS principles in the preparation of financial statements makes it possible to present information characterizing the property status and financial results of an organization in a language understandable to users around the world, and as a result, in the least labor-intensive way to win the trust of investors, including foreign ones.

Under IFRS, the content of transactions or other events does not always correspond to what they appear to be in their legal or accounting form. According to NAS, transactions are accounted for strictly in accordance with their legal form. In IFRS, accounting entries are reflected based on the economic essence of the transaction. In particular, an example when form prevails over content in local accounting is the case of theft of property or other assets: a company, according to local standards, is not able to write off this property until documents are received from law enforcement or judicial authorities about the theft and the statute of



limitations will not expire. According to IFRS, such property, in the professional opinion of the accountant, should be written off as a loss immediately.

Another important principle of IFRS is the recognition of costs, which differs from local accounting. IFRS prescribes the matching principle, whereby costs are recognized in the period of expected revenue generation, while in local accounting, costs are reflected after receipt of relevant documentation. The need to have the necessary documentation often does not allow Uzbek enterprises to take into account all transactions relating to certain periods. This difference results in differences in when these transactions are recorded.

It should also be noted that some concepts and terms currently used in NAS differ from the interpretations found in IFRS, and different values are used to assess the value of assets. For example, according to IFRS, fixed assets can be reflected at fair value, i.e. it is estimated how much they currently cost and how much they can be purchased or exchanged for. Accordingly, depreciation is calculated based on their planned and actual service life, and not on the terms established in accordance with the requirements of NAS and/or Government regulations.

There are other, more significant differences between IFRS and NAS, which are related to the separation of accounting and control functions, the need for internal control, and a different management system.

In particular, in accordance with IFRS and international accounting practice, only something that is a source of future economic benefits is considered an asset. When defining an asset, ownership of it is not primary. At the same time, IFRS require not so much knowledge of specific accounting entries, as required by the NAS, but rather an understanding and reflection of the economic essence of the economic processes occurring at the enterprise.

Thus, the introduction of IFRS makes it possible to consistently eliminate the shortcomings and inconsistencies of the domestic accounting system with the needs of a market economy without violating the integrity of this system. In addition, the use of IFRS contributes to the improvement of the local accounting system through the use of uniform accounting methods for the purpose of managing business activities, provides managers with information that significantly increases management efficiency, and makes it possible to competently communicate with shareholders and the market, increases the transparency of the company, strengthens the system of corporate behavior. In addition, the use of IFRS helps improve the business climate in the country and strengthens the sense of confidence among entrepreneurs and investors. Business entities have the opportunity to increase the competitiveness of the enterprise by providing reliable and transparent information to interested users. Investors can obtain information that allows them to evaluate the object of possible investment.

There are a number of other aspects that answer the question of why it may be beneficial for an enterprise to prepare financial statements under IFRS. In particular, the information that is usually generated when preparing consolidated financial statements under IFRS can be used to:

- budgeting;
- planning changes in the composition of a group of enterprises;
- assessment of strategic business development. When considering options for the transition of Uzbek - Russian enterprises using IFRS, it can be noted that there is usually a “push” to make a decision in favor of IFRS. Typically, such a “push” is government decisions to introduce



IFRS. However, an equally important factor motivating an enterprise to switch to international standards is also “promises of obtaining financing” according to the principle: “reporting according to IFRS - the ability to attract investment.” Such a link provides the client with transparent, reliable reporting. IFRS is the basis for management accounting and the most advanced form of consolidation of reporting for a group of companies. The most important thing is that reporting under IFRS helps to obtain cheaper and longer-term credits, loans, and investments.

## Conclusion

The active implementation of IFRS in the reporting practice of Uzbek companies began in 2020. Currently, most joint stock companies of the Republic of Uzbekistan already publish and/or provide reports in accordance with IFRS requirements. In this regard, it is possible to highlight problematic issues that are characteristic of all Uzbek companies regarding the preparation of financial statements under IFRS; in particular, the attention of enterprise management should be drawn to solving the following questions:

- ensure the formalization of the transition from coordinating the preparation of financial statements under IFRS to the direct independent preparation of financial statements; Moreover, this transition must take place under the regular supervision of the company's board and its auditors;
- create and formalize the process of preparing financial statements in accordance with IFRS, including the development of methodology, accounting policies, chart of accounts, accounting registers and other guidelines; develop a strategy for the transition to parallel accounting according to NAS, IFRS, tax accounting, management accounting, as well as budgeting based on IFRS;
- create a division within the company's structure for preparing financial statements in accordance with IFRS, and attract employees with experience in preparing such financial statements;
- develop an action plan for the preparation of financial statements in accordance with IFRS, which will meet the requirements of disclosure and transparency (UK Disclosure and Transparency Rules);
- develop a strategy for the integration of information systems to automate the preparation of financial statements under IFRS.

The conceptual feature of changing the information space generated by the accounting system is to improve the quality of the information received and ensure guaranteed access to it for all interested users. Therefore, changes in the field of accounting and reporting that have occurred in recent years are aimed at creating organizational prerequisites for the generation of up-to-date information based on the main instrument for reforming accounting—International Financial Reporting Standards(IFRS).



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