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PREPARING FOR INTERNATIONAL FINANCIAL REPORTING STANDARDS IN UZBEKISTAN

***Abstract**: International financial reporting standards bring transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions from many objectives. In this research it has been studied concept of financial report, priority and perspectives for Uzbekistan. Main purpose was explained by giving defining and studying IFRS from many points of view and approaches. Results obtained by using international report by analyzing advantages and disadvantages of being a membership. As for conclusion an article pushes forward Uzbekistan perspectives for improvement financial sector effectiveness.*

***Key words**: finance, report, international practice, integration, globalization.*

***Language**: English*

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Introduction

In 1973, an organization known as the International Accounting Standards Committee (IASC) was formed to address the need for standards that could be used by smaller nations in creating their own accounting standards. This group was succeeded by the International Accounting Standards Board (IASB) in 2001. The IASB is based in London and is the private sector standard setting body for non-government and not-for-profit entities. All fifteen members are selected based on technical skills and background from many different countries. At this time, four of the members are American. Two of the sitting members are always part-time. The IASB is primarily funded by fundraising activities. One of the challenges facing the conversion to IFRS is ensuring that the IASB has a stable source of funds for the future. The primary purpose of the IASB is to promulgate IFRS. The governance structure is very similar to the Financial Accounting Standards Board (FASB) in the United States. The IASB reports directly to the IASC Foundation.

Methods and Materials

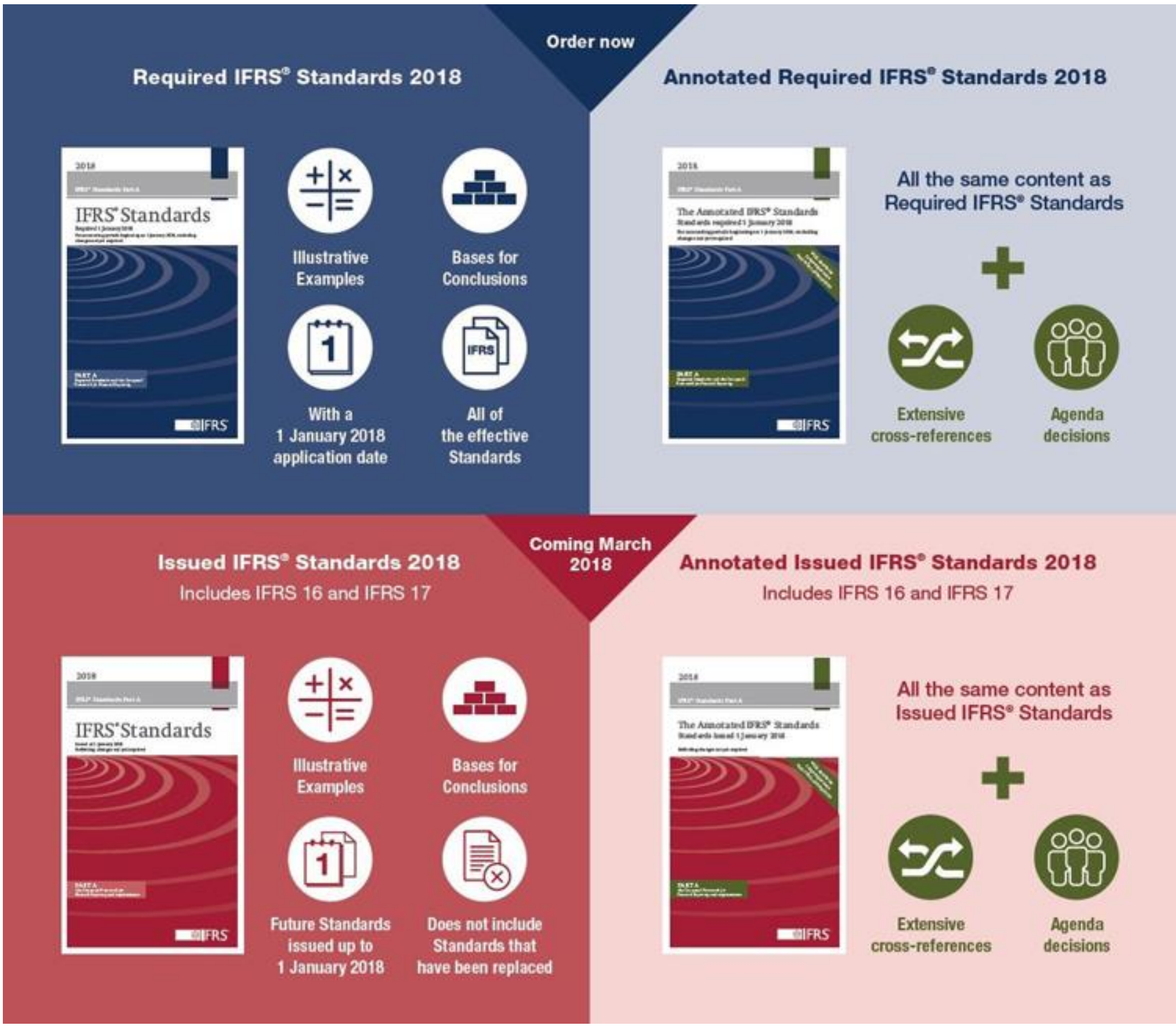
Current article has been explained in ground theory qualitative methods and some descriptive analyses about financial reporting standards. For the main instrument it is used International Financial Standards and Reports recognized world wide.

Results

International Financial Reporting Standards (IFRS) are a set of international accounting standards that specify how specific types of transactions and other events should be reflected in financial statements. IFRSs are published by the International Accounting Standards Board and they define exactly how accountants should maintain and present accounts. IFRS were created in order to have a "common language" in accounting, because business standards and accounting practices can differ from company to company and from country to country. The goal of IFRS is to maintain stability and transparency in the financial world. This allows businesses and individual investors to make expert financial decisions as they can see exactly what is happening to the company, they want to invest in.

IFRS are standard in many parts of the world, including the European Union and many countries in Asia and South America, but not in the United States. The Securities and Exchange Commission (SEC) is in the process of deciding to adopt standards in America. The countries that benefit most from the standards are those that do and invest in international business. Experts suggest that the global implementation of IFRS will save money on opportunity comparative costs, as well as allow more freedom to transfer information.

Figure 1. International financial reporting standard issues [1]



In countries that have adopted IFRS, both companies and investors benefit from using this system as investors are more likely to invest in a company if the company's business practices are transparent. In addition, the investment cost is usually lower. Companies that do business internationally benefit the most from IFRS (Fig.1).

International Financial Reporting Standards (IFRS) is a set of standards and interpretations in a documentary form that regulates the rules for preparing financial statements. The following standards are currently in force: IFRS IAS and Interpretations.

- set of international accounting standards that specify how specific types of transactions and other events should be reflected in financial statements;
- published by the International Accounting Standards Board;
- define how accountants should maintain and present accounts;
- allow unification of accounting, as business standards and accounting can differ from company to company, and from country to country;
- This allows companies and businesses to make qualified financial decisions;
- IFRS are adopted in the European Union, many countries in Asia and South America;

- In the US, IFRS is not adopted, but the Securities and Exchange Commission (SEC) decides whether to adopt the standards.

Standard IFRS Requirements

IFRS covers a wide range of accounting activities. There are certain aspects of business practice for which IFRS set mandatory rules.

- **Statement of Financial Position:** This is also known as a balance sheet. IFRS influences the ways in which the components of a balance sheet are reported.
- **Statement of Comprehensive Income:** This can take the form of one statement, or it can be separated into a profit and loss statement and a statement of other income, including property and equipment.
- **Statement of Changes in Equity:** Also known as a statement of retained earnings, this documents the company's change in earnings or profit for the given financial period.
- **Statement of Cash Flow:** This report summarizes the company's financial transactions in the given period, separating cash flow into Operations, Investing, and Financing [2].

Figure 2. International Financial Reporting Standards Road Map

The roadmap spells out seven milestones that would influence the SEC’s 2011 decision on whether to move forward. The milestones are:

- Improvements in accounting standards;
- The accountability and funding of the International Accounting Standards Committee Foundation;
- Improvement in the ability to use interactive data for IFRS reporting;
- Education and training in the U.S. relating to IFRS;
- Limited early use of IFRS, beginning with filings in 2010, where this would enhance comparability for U.S. investors.

Eligibility would be based on both the prevalence of the use of IFRS and the significance of the issuer in a given industry. The SEC estimates that a minimum of 110 companies could be eligible.

• The anticipated timing of future rulemaking by the Commission;

• Implementation of the mandatory use of IFRS, including considerations relating to whether any mandatory use of IFRS should be staged or sequenced among groups of companies based on their market capitalization.

According to Essien-Akpan (2011), the components of IFRS Financial Statements includes fair representation, accounting policies, going concern, accrual basis of accounting, consistency, materiality, offsetting, comparativeness as set out in the diagram above and described below:

a. Fair Presentation: Is the appropriate application of IFRS result in financial statements that achieve fair presentation resulting from the selection of appropriate accounting policies and application.

b. Accounting Policies: are the specific principles, bases, convention, rules and practice adopted by an entity in preparing and presenting financial statements. Policies selected must comply with the interpretation of IFRIC. A company’s Financial Statements should disclose the accounting policies that have been selected and used [3].

c. Going Concern: Is described as an entity’s ability to continue operating in the foreseeable future, usually one year and especially if certain conditions ceases to exist. An entity prepares financial statement on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternatives but to do so. Management, when preparing financial statement, makes an assessment of an entity’s ability to continue as a going concern.

d. Accrual Basis of Accounting: Recognizes transaction and events when they occur and not when cash is received or paid. They are recorded in accounting records and reported in the Financial statements of the period to which they relate. An enterprise should prepare its financial statements under the accrual basis of accounting except for cash flow statements. Cash flow statements look at the cash transaction within the period [4].

e. Consistency: Arises when an item's presentation and classification is returned from one period to the next.

f. Materiality: Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statement. Each material class of similar items should be presented separately in the financial statements. Materiality depends on the size and nature of the item. Items of dissimilar nature shall be presented separately unless they are immaterial.

g. Offsetting: Emphasizes that assets and liabilities and income and expenditures shall not be offset unless required or permitted by a standard or interpretation.

ADVANTAGES AND DISADVANTAGES

There are many advantages and disadvantages of converting from GAAP to IFRS.

Table 1. Advantages

1	The use of one common global reporting language	(Flynn, 2008)
2	Investors will have better information for decision making	(SEC, 2008)
3	All levels of management, including the audit committee, will have to be more involved in financial reporting and aware of transactions	(AICPA online video, 12/09/08)
4	Companies will have more flexibility for applying accounting principles. IFRS is more principles based, whereas GAAP is more rules based. Transactions will be required to be reported using substance over form criteria. More professional judgment will be exercised which will lead to better disclosure to support those judgments	(Flynn, 2008)
5	In the end, companies should be more efficient and have the advantage of cost-savings	(AICPA online video, 12/09/08)
6	It will allow for comparability over all financial markets, regardless of the country of origin	(Flynn, 2008)
7	There is the potential for reduced financial reporting complexity, especially for large, multinational companies that currently prepare many different sets of financial statements in many different forms	(Flynn, 2018)

Disadvantages

• Small companies that have no dealings outside of the United States have no incentive to adopt IFRS unless mandated (Olson, 2008).

• Incompatibility may arise as companies claim to have converted to IFRS but in reality, have only selected the portions that best fit their needs (Olson, 2008).

• There is an extremely high price-tag – "…the SEC estimates the costs for issuers of transitioning to IFRS would be approximately $32 million per company and relate to the first three years of filings on Form 10-K under IFRS. Total estimated costs for the approximately 110 issuers estimated to be eligible for early adoption would be approximately $3.5 billion" (SEC, 2008) [5].

• Although it is unlikely, Commissioners have three years to change their minds. A definite decision will not be made until 2011. There is no incentive for early adoption due to the fact that it could be a colossal waste of time and resources. Also, companies would be required to have two sets of records, one GAAP, one IFRS, during this time just in case IFRS is not adopted (Johnson & McCann, 2008).

• Many feel that during this financial crisis that the world is currently experiencing, a conversion of this magnitude is too much to ask of executives and management (IFRS, 2008).

• A minimum of two years of financial information prior to conversion would need to be maintained on two sets of books, both GAAP and IFRS, to meet the requirement of financial statements to contain three years of financial data (IFRS, 2008).

Companies using IFRS are preferred by investors.

- Standards:
- IFRS / IAS 1
- Presentation of financial statements
- IFRS / IAS 2
- Stocks
- IFRS / IAS 7
- Cash flow statement
- IFRS / IAS 8
- Accounting policies, changes in accounting estimates and errors
- IFRS / IAS 10
- Events after the end of the reporting period
- IFRS / IAS 12
- Income taxes [6]

IFRS principles:

- accrual principle. In accordance with this principle, events are recorded in the period when they occurred, regardless of the cash flow.
- the principle of going concern, which implies that the company will continue to operate in the near

future, and the management has neither plans nor the need to wind down operations.

Basic reporting should contain 4 reports:

- Statement of Financial Position: This is also called a balance sheet. IFRS affect how the components of the balance sheet are interconnected.
- Statement of Comprehensive Income: This can be one form, or it can be split into an IFRS income statement and a statement of other income, including property and equipment.
- Statement of Changes in Equity: Also known as retained earnings statement. It reflects changes in profit for a given financial period.
- Cash flow statement: This statement summarizes the financial transactions of a company for a given period, separating cash flows into operating, investment and financing flows. Recommendations for this report are contained in IFRS 7.

The IASB website has published a list of 100 European financial markets that require reporting in accordance with IFRS. All companies, whose securities (shares, bonds) are listed on the regulated financial markets of the European Union, are required to submit consolidated financial statements in accordance with the principles of IFRS, starting from 2005 financial statements.

This requirement also applies to the UK, whose financial markets are the largest after the US and Japan. To obtain a listing of depositary receipts on the London Stock Exchange, you must provide a prospectus and IFRS financial statements for the last 3 years. Russian companies account for about 10% of the volume of all securities transactions carried out on the London Stock Exchange. Among our companies, whose depositary receipts are traded in London, there are Lukoil, Gazprom, Novatek, Tatneft, Rosneft, Sberbank, AFK Sistema, RusHydro, VTB (full list as of December 2016)

IFRS is required to be listed on 14 regulated financial markets in Germany. Among them I will name the Frankfurt Stock Exchange, which, like the London one, is one of the largest and oldest in Europe. The requirement to provide consolidated financial statements in accordance with IFRS applies not only to foreign companies, but also to those companies registered in Germany. The following Russian companies are traded on the Frankfurt Stock Exchange: Aeroflot, Avtovaz, Bashneft, Gazprom, Lukoil, Norilsk Nickel, Magnit, Mail.ru Group, Mechel, Mosenergo, Rosneft, Rostelecom, Sberbank and others [7].

Mission of the standard

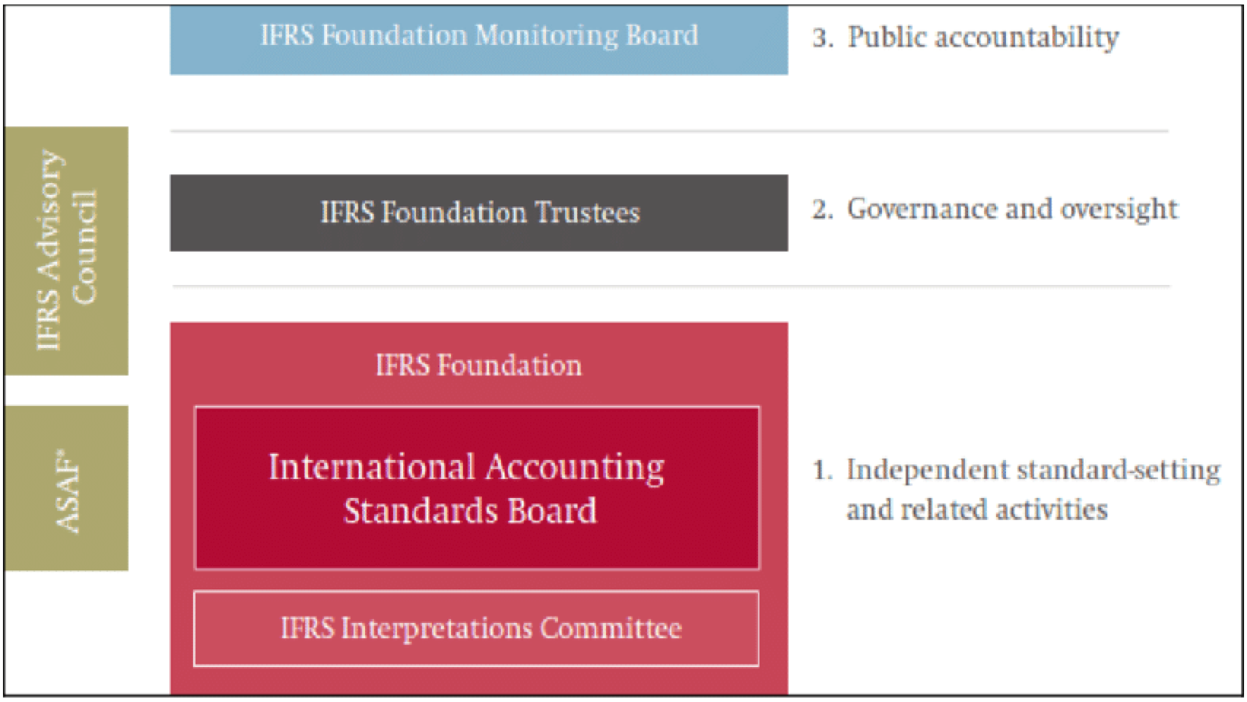
Our mission is to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.

- IFRS Standards bring transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.

- IFRS Standards strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information needed to hold management to account. As a source of globally comparable information, IFRS Standards are also of vital importance to regulators around the world.

- IFRS Standards contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. Use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs for businesses [8].

Figure 3. IFRS Strategic Map [9]



On February 24, 2020, the President of the Republic of Uzbekistan signed Resolution No. 4611 "On additional measures for the transition to International Financial Reporting Standards", which opens a new page in the history of the transition to IFRS in the Republic of Uzbekistan.

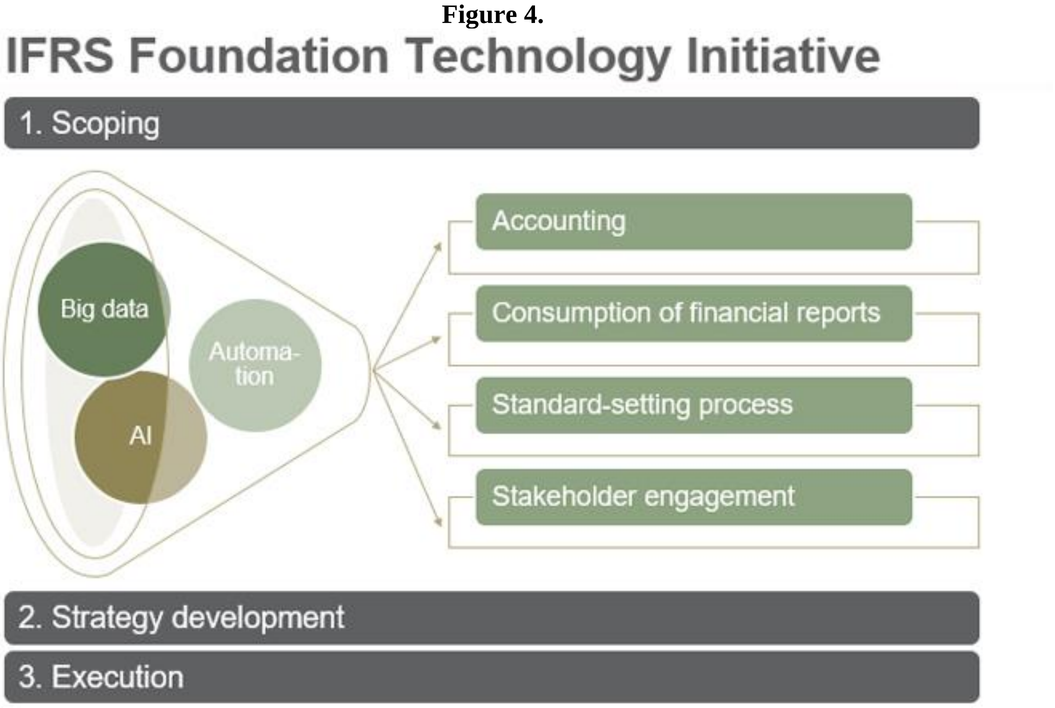
The adopted document provides for a radical overhaul of the process of preparation and coordination of business entities for the transition to IFRS.

In particular:

1) From the end of 2021, a list of legal entities that will be required to prepare financial statements in accordance with IFRS has been established. The list includes joint stock companies, commercial banks, insurance companies and legal entities included in the category of large taxpayers. To this end, from January 1, 2021, these legal entities will be required to organize accounting on the basis of IFRS, as well as to provide sufficient accounting services for the quality of IFRS. In addition, the State Assets Management Agency annually approves the schedule for the transition to accounting and preparation of financial statements on the basis of IFRS of companies and state-owned enterprises with a state share in the charter capital from 2020.

2) The Ministry of Finance of the Republic of Uzbekistan is designated as the authorized body for the implementation of IFRS with the relevant tasks, and for the implementation of these tasks within the Ministry will create a department for coordination of implementation of international financial reporting standards and external quality control [10];

Figure 4.



Given the training of many qualified professionals with sufficient knowledge and skills, the document envisages a completely new comprehensive approach to training local staff.

1. For the first time in 2020-2025, the cost of training, advanced training, as well as registration for the initial registration and examination in the Republic of Uzbekistan in the framework of international certification of accountants covered from the republican budget of the Republic of Uzbekistan. It should be noted that this mechanism applies to teachers of higher education institutions on "Accounting" and "Audit", government officials, students and graduates of higher education institutions (within six months after graduation). applied.

2. Applicants with an international certificate of accounting have the right to be admitted to the master's degree programs in "Accounting" and "Audit" of higher education institutions without passing entrance examinations on a fee-for-service basis.

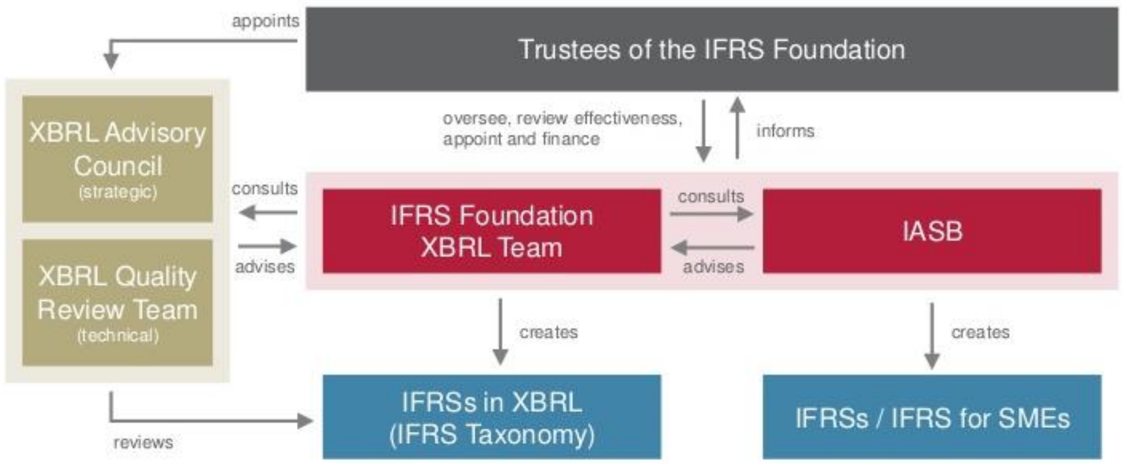
These events are expected to not only provide timely training of qualified practitioners in the field of IFRS, but also ensure the creation of a national system of training [11].

In addition, the document gives the following instructions to the Ministry of Finance:

Discussion

Reimburse the costs of concluding an agreement with the International Financial Reporting Standards Fund, an independent international organization that develops and approves uniform financial reporting standards, and translating IFRS and explanatory notes into the official language;

Figure 5. Structural foundation of IFRS [12]



Benefits of IFRS Standards

IFRS Standards address this challenge by providing a high quality, internationally recognised set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world.

IFRS Standards strengthen **accountability** by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS Standards are also of vital importance to regulators around the world.

And IFRS Standards contribute to economic **efficiency** by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs [13].

IOSCO recognised the benefits of global Standards when, in the year 2000, it recommended to its members that they allow IFRS Standards to be used on their exchanges for cross-border offerings.

Since that point, IFRS Standards have gone on to become the *de facto* global language of financial reporting, used extensively across developed, emerging and developing economies.

Perspectives in Uzbekistan

In order to provide foreign investors with the necessary information environment and expand access to international financial markets by accelerating the transition to international financial reporting standards (hereinafter - IFRS), as well as to improve the system of training specialists in accounting and auditing according to international standards:

To determine that joint-stock companies, commercial banks, the insurance organizations and the legal entities included in the category of large taxpayers:

Organizes accounting on the basis of IFRS from January 1, 2021 and prepares financial statements on the basis of IFRS from the end of 2021, except for legal entities, where the legislation provides for earlier periods of transition to IFRS;

Certificate of successful completion of the subject "IFRS Financial Reporting" in the framework of international certification of accountants by the end of 2021 or "Certified International Professional Accountant (CIPA)", "Certified Certified Public Accountant (ASSA)", "Certified Public Accountant (SRA) "and" International Financial Reporting Diploma (DipIFR) "(hereinafter referred to as" International Accounting Certificate ") with at least three specialists with sufficient accounting staff to qualitatively apply IFRS' [14].

Conclusion

Taking into all account and we can come to conclusion that Uzbekistan has already started integration into IFRS for improvement of the financial system. The State Assets Management Agency of the Republic of Uzbekistan annually approves the schedule of transition to accounting and preparation of financial statements of business entities and state enterprises with state share not specified in our the next research.

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