



TRANSFORMATION OF FINANCIAL STATEMENTS ACCORDING TO IFRS

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ABSTRACT

The article considers the steps of transformation financial statements from National Accounting Standards of Uzbekistan to IFRS through transformation, ways of preparing financial statements in accordance with IFRS, advantages and disadvantages of preparing reporting method in each methods.

IFRS (International Financial Reporting Standards) is a specific set of international accounting standards that indicate how to reflect different types of business transactions in financial statements. IFRS prescribes the procedure for maintaining accounts by an accountant. This is necessary, first of all, in order to have a «common language» of accounting, since accounting can differ both in different companies and in different countries. The main goal of IFRS is aimed at maintaining 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 cooperation.

According to the Decree «On additional measures for the transition to international financial reporting standards» No. PP-4611 of February 24, 2020, it was established that joint-stock companies, commercial banks, insurance organizations and enterprises that are large taxpayers starting from the results of 2021, in mandatory the order will prepare financial statements in accordance with IFRS. All of the above organizations must implement accounting based on IFRS from January 1, 2021 and provide the accounting department with the appropriate personnel. In order to apply IFRS in Uzbekistan, the Cabinet of Ministers approved the «Regulation on the procedure for the recognition of international



financial reporting standards and the text of explanatory notes to it» (No. 507 of 08.24.2020). This document defines the order of work aimed at the recognition of IFRS and the texts of explanatory notes to them for subsequent application in Uzbekistan.

International financial reporting standards currently have about 43 standards. They cover all financial and accounting activities of the company. For example, there are standards that describe the accounting for inventories, fixed assets, revenue, earnings on shares, intangible assets, etc.

Transformation is the process of drawing up reports in accordance with IFRS on the basis of reporting data compiled in accordance with national standards (*accounting standards in Uzbekistan*), by changing the parameters of the classification and assessment of accounting objects and disclosing information about them in order to bring them to international standards. Thus, the distinguishing feature of this method can be considered that it can be applied only after reporting in accordance with National rules.

There is no single methodology for transforming National financial statements into IFRS-compliant financial statements. In each specific case, the reporting process will be influenced by a significant number of subjective factors, including the specifics of financial and economic activities, the specifics of the organization of accounting and the applied accounting policy, the required level of reporting detail, the availability of time, financial and human resources, etc.

Many enterprises and organizations have long ago determined for themselves the need for organizing accounting and tax accounting within the framework of an international standard.

A very important stage of reporting is the assessment of assets and liabilities in

accordance with IFRS requirements. Indeed, in accordance with international standards, the initial cost of an asset must be determined at the date of acquisition or at fair value. For this, an independent appraiser must be invited.

And when drawing up and submitting National financial statements in accordance with IFRS, one should not forget that they should not only be drawn up in accordance with IFRS requirements, but also be confirmed by an audit company. When drawing up the reporting, you will surely face a problem, because there are differences in NASU and IFRS.

A distinctive feature of National accounting standards in Uzbekistan, based on NASU, is their detailing and compulsory execution. The basis for its maintenance is the normative Chart of Accounts. The chart of accounts is strictly regulated and practically does not differentiate depending on the characteristics of the economic entity. This is what distinguishes it from international standards. International standards have a freer approach to the chart of accounts. In addition, National regulations clearly describe the procedure for reflecting certain types of transactions. And this method of accounting is due to the need to combine it with tax accounting, because National accounting is mainly intended for tax purposes.

Based on the above, we can identify two fundamental differences between National accounting regulations and IFRS.

These are, first of all, international standards and regulations. They, as a rule, regulate the procedure for drawing up public reporting, and National legislation determines the procedure for the very methods of conducting primary accounting.

And second, international financial reporting standards and accounting regulations may not fully meet the



requirements of tax legislation, and this entails the identification of different results in both accounting and tax accounting.

In order to transform the financial statements of enterprises in accordance with IFRS standards, it is necessary to carefully study and give a detailed description of this economic entity and its accounting policies. And already on the basis of the data obtained, a very thorough analysis of all the differences identified should be carried out. It is necessary to bring all the necessary elements of reporting in accordance with IFRS. It is also just necessary to determine the degree of conformity of accounting policies and the basic principles of international standards. Accordingly, the more the principles of the accounting policy of a National enterprise coincide with the principles of drawing up an accounting policy in accordance with IFRS, the easier the process of transformation of financial statements will be.

The transition of National accounting systems to IFRS should be gradual. In this case, the need for transformation of financial statements should be determined.

During the transition, it is necessary to conduct a thorough analysis of the costs of transforming financial statements in accordance with IFRS.

The very process of transforming financial statements in accordance with IFRS consists of three main stages.

First, there is the preparation of accounting information on the main elements of accounting and information about the economic entity as a whole.

Further, the received accounting information is analyzed for completeness and compliance with the requirements of national standards, in accordance with NASU.

And only then the accounting (financial) statements are formed in accordance with the requirements of

international standards. And in order to do all this, you must:

- 1) change the reporting items related to the peculiarities of accounting in accordance with international standards. That is, to create a balance sheet with changed items in rubles;
- 2) it is necessary to group the items of the balance sheet and the income statement by main elements and sections for further compilation of the balance sheet in rubles in accordance with IFRS;
- 3) it is necessary to translate the generated statements, in accordance with the requirements of IFRS, into the required currency;
- 4) add detailed explanations to all items of the received financial statements.

In short, IFRS allows companies to provide additional information accompanying accounting (financial) statements. It can disclose in more detail certain indicators of reporting and information about the enterprise, if such information may be of interest to other users of the reporting.

IFRS regulate the preparation of financial statements and do not require accounting "in accordance with IFRS". That is, they describe only the rules for preparing financial statements in accordance with IFRS. Thus, the standards prescribe and clarify the issues of recognition, measurement and disclosure of various reporting items - balance sheet, income statement, statement of changes in equity, cash flow statement and notes.

There are a number of steps that need to be taken before embarking on the actual process of bringing financial statements into conformity with IFRS through transformation. In particular, it is necessary:

- 1) draw up documents describing the existing accounting system at the enterprise;
- 2) check the financial statements prepared in accordance with the existing accounting system (in this case, RAS);



- 3) assess the amount of work to be done and draw up a timetable for the transformation;
- 4) draw up a request for information on the main activities of the enterprise and receive the specified information directly;
- 5) analyze the organizational structure of the subject;
- 6) determine the scheme of relations with branches or subsidiaries (subject to their availability);
- 7) determine the scheme of relations with third parties;
- 8) obtain documentary evidence of the cycle of receipt and payment of funds;
- 9) obtain documentary evidence of the cycle of origin of accounts payable and receivable;
- 10) collect data on any revaluation of intangible assets or fixed assets, on its results, method and directly by the appraiser;
- 11) determine the methods and procedures of accounting policies.

Therefore, the company can keep records in accordance with national standards, and then, at each reporting date, make amendments (adjustments) to prepare financial statements in accordance with IFRS. This process is called IFRS reporting

transformation, and it is most often used in practice.

In general, we can talk about three ways of preparing financial statements in accordance with IFRS:

- Transformation outside the accounting system (external transformation model);
- Transformation within the accounting system (when a special module is built into it, which reflects amendments for transformation, both automatic and "manual");
- Parallel accounting.

Transformation is possible only after the National financial statements have been drawn up, which increases the time required to obtain financial statements in accordance with IFRS. During the transformation, the accuracy of IFRS reporting data often decreases, since in its process only the so-called material items are adjusted and a lot of value judgments and professional judgment are used (for example, various accruals without primary documents, the amount of asset impairment, determination of fair value in the absence of a liquid market for this type of assets, etc.).

Figure 1. Advantages and disadvantages of each reporting method.

Reporting method	Advantages	Disadvantages
Transformation within the accounting system	Usually lower costs than installing parallel metering. High level - especially important when there are a large number of small enterprises in the group). The link is visible between the reporting under the IFRS and NASU	Linkage (it is impossible to generate IFRS reporting with unclosed NASU accounts). The need to adjust the transformation program when changing accounting under NASU, which leads to additional costs for developers. The link between IFRS and NASU reporting is visible. Usually less transparency than outside the system. Difficulty conducting data analysis



<p>Transformation outside the accounting system</p>	<p>Minimum development costs (compared to parallel accounting and transformations in a single accounting system). Transparency is understanding by all employees working in the program. Flexibility - the ability to easily change the program when changing business operations or national accounting. Ensuring a clear link between NASU and IFRS data. Ease of data analysis / error prevention by employees Typically using Excel spreadsheets</p>	<p>Higher requirements for the qualifications of employees (knowledge of NASU and IFRS reporting is required). Higher training costs for employees (since everyone must understand how reporting is transformed). The need to have closed general ledger accounts and prepared reporting forms in accordance with NASU for the transformation. The need to transfer Russian data (additional time). Ease of data analysis / error prevention by employees Typically using Excel spreadsheets</p>
<p>Parallel accounting</p>	<p>Great accuracy (implementation of detailed analytics in the system). Automation (reducing the time required to prepare reports) is relevant when there are a large number of small enterprises in the group. Training of employees, limited to the department for the preparation of consolidated financial statements in accordance with IFRS. Integration of data verification into the accounting system</p>	<p>Significant cost of software, costs of methodology, problem statement, development of a chart of accounts, etc. Dependence on developers when changing operations - additional system tuning is required (additional setting of tasks) - especially important for a new business. Automation of control leading to that. that employees do not have an understanding of the essence of the requirements, -increased possibility of errors (misinterpretation of data)</p>

The transformation of National financial statements into statements that comply with international standards is carried out by specialized audit firms and consists in recalculating the data in the financial statements. However, the reporting that will result from the transformation still cannot be called fully consistent with international standards.

Thus, accounting in accordance with IFRS is an internal affair of each company and is not

regulated in any way by standards. They give the accountant only a general guide to action, without specific methods with standard postings or a "chart of accounts of IFRS." The company must independently develop and then constantly adhere to a certain accounting policy for preparing financial statements in accordance with IFRS (it can also be used as a basis for developing a chart of accounts for IFRS).



It should be noted that in order to assess the feasibility of conducting parallel accounting or transformation, the management of an economic entity must analyze what benefits specific divisions and the entity as a whole will receive from this process.

Conclusion

The quality of the information presented in the financial statements is established by National legislation and international standards. At the same time, compliance with all requirements should be based on a principle, the essence of which can be defined as follows: the benefits that the company receives from the information should be greater than the costs of obtaining the information itself. This principle is typical for commercial activities in general, therefore, in a market economy, it is decisive in many issues.

The practical significance of this article lies in the fact that the correct alignment of financial statements in accordance with IFRS requires specially trained personnel or the involvement of consultants "outside". Gaining the experience and knowledge of the organization itself is associated with time and money, and the involvement of consultants is costly. In addition to this, there are very few really worthy specialists in this field of accounting now. After all, regardless of whether the company will carry out the transformation of reporting or it is planned to conduct parallel accounting, specialists in IFRS will be

needed. And the training of such specialists should be a top priority. In addition, in order to reduce the cost of translating statements, you can resort to the help of company personnel, who at the initial stage can provide all possible assistance in this. So, the collected and processed primary information will become the foundation on which all further activities to transform the reporting will subsequently take place. At the same time, the cost of attracting third-party specialists will be significantly reduced. The management very quickly realizes the benefits of carrying out the transformation in this way, that is, using and applying the experience and skills of the company's own employees.

It should be especially emphasized that at National enterprises it is necessary to create all conditions for the possibility of keeping records in accordance with National and international standards in parallel.

In this context, financial information can be considered as the most important tool for making business decisions, because its quality depends on the efficiency of attracting investments and, ultimately, the financial condition of enterprises. Hopefully, National enterprises will speak the same language with international business and be treated as equal partners in foreign markets, which will make it possible to take full advantage of the wide opportunities offered by international capital markets.

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