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ADJUSTING ACCOUNTING IN UZBEKISTAN IN COMPLIANCE WITH INTERNATIONAL REQUIREMENTS: SHIFT TO A NEW STAGE

Abstract

This article is devoted to the considerations of the measures undertaken to execute the objectives set in the Resolution of the President of the Republic of Uzbekistan №PR-4611 "On additional measures to the transition to the International Financial Reporting Standards" dated February 24, 2020. The Ministry of Finance of the Republic of Uzbekistan developed the National Financial Reporting Standards (NFRS) based on the International Financial Reporting Standards (IFRS) for small and medium-sized businesses, and the project was subject to discussion. The article discusses issues of harmonization of National Accounting Standards in accordance with international standards. with International Financial Reporting Standards and also presents scientifically grounded conclusions on this project. The article also examines the structure of the national financial reporting standards of Kazakhstan NSFR.

Keywords: International Financial Reporting Standards, National Financial Reporting Standards, small business, medium business, financial reporting.

Introduction

It is known that the prospects of economic cooperation of the member countries of the Organization of Turkic States (OTS), including strengthening of interdependence, expansion of cooperation in the fields of tourism, industry, energy and agriculture require to ensure mutual integration of accounting and financial reporting between the countries. In Uzbekistan recently regulatory legal framework has been created and practical measures are being constantly undertaken to adjust existing accounting and financial reporting system in compliance with International Financial Reporting Standards (IFRS).

In the Republic of Uzbekistan the following two stages launched the period of essential reforms on transition to International Financial Reporting Standards (IFRS) and setting compliance with its rules:

first, according to the Decree of the President of the Republic of Uzbekistan dated April 24, 2015 №PD-4720 "On measures to introduce modern corporate management methods in joint-stock companies" and its paragraph 9, the annual financial reports of all joint-stock companies in 2015-2018 have to be presented and published in compliance with the International Financial Reporting Standards. In addition, external audit has to be conducted in compliance with International Auditing Standards. By this Decree №PD-4720, the executive body of joint stock companies is assigned with the right to appoint foreign managers. The interest in studying and reviewing financial reports of commercial banks cooperating with joint-stock companies is constantly increasing. This requires that commercial banks prepare their annual financial reports based on the requirements of the IFRS in due time;

second, the Resolution of the President of the Republic of Uzbekistan №PR-4611 "On additional measures to the transition to the International Financial Reporting Standards" was adopted on February 24, 2020 and this Resolution launched a new stage in the history of preparing financial statements. According to this Resolution, it is necessary to shift to the IFRS, to provide foreign investors with reliable and necessary information about the financial activities of operating joint-stock companies, commercial banks, insurance organizations in our republic, to expand the opportunities for enterprises to enter international financial markets, to train experts in the fields of accounting and financial reporting and auditing according to international standards.

For this purpose, there are joint-stock companies, commercial banks, insurance organizations and large taxpayers must:

- *to organize accounting on the basis of the IFRS from January 1, 2021 2021;*
- *to provide adequate accounting staff for quality application of international standards.*

As a result, from the end of 2021 entities included in this list, will prepare financial statements in reliance upon the IFRS. That is, these entities have to transform there financial statements to international standards.

Moreover, as the *third stage*, the International Financial Reporting Standards (IFRS) were translated into the official state language and adopted for practical use (April 2022) and the National Financial Reporting Standards (NFRS) for small and medium-sized enterprises were developed (September 2022).

Uzbekistan has shifted to the next stage of the major work on the harmonization of the accounting and financial reporting system with the international standards of financial reporting (IFRS). The reason is that the Ministry of Economy and Finance of the Republic of Uzbekistan, as the body in charge for the introduction of the IFRS, is fully ensuring the implementation of the tasks specified in the Resolution of the President of the Republic of Uzbekistan №PR-4611 “On additional measures to the transition to the International Financial Reporting Standards” was adopted on February 24, 2020. In particular, during the past period, the Ministry signed an agreement with the Fund for International Financial Reporting Standards on November 11, 2020, providing for the right to translate the documents of the Financial Reporting Standards into the state language and to obtain the right to use them in other languages.

As a practical implementation of this agreement, the Ministry of Finance recommended a total of 41 international standards (IFRS), including comments to 19 standards, to be translated into the state language and put into practice, together with the “Conceptual basis of financial statements presentation” (according to the conclusion of the group of the IFRS experts). As a result, the regulation “On the procedure for recognition of International Financial Reporting Standards and the wording of explanations” approved by the Resolution № 507 of the Cabinet of Ministers of the Republic of Uzbekistan on August 24, 2020 was adopted by the IFRS Fund. It determined the procedure for recognition of the text of the IFRS and its explanations for use in the territory of the Republic of Uzbekistan.

As mentioned above, the Ministry has started the next stage of activities on the transition to the IFRS. That is, a new contract was signed with the IFRS Fund to develop a National Financial Reporting Standards (NFRS) harmonized with international standards by summarizing the 24 national accounting standards (NAS) effective in our republic. As a result, the Asian Development Bank (ADB) supported the Ministry of Economy and Finance in the framework of the Small and Medium Business Development Program, which is being implemented in order to enhance the capacity of small and medium-sized businesses of Uzbekistan to prepare financial reports based on the IFRS.

The issue of the accounting system in the member countries of the Organization of Turkic States, including the Republic of Kazakhstan, and its alignment with international standards has been considered below.

Accounting for small businesses in Kazakhstan is regulated by the Law “On Accounting and Financial Reporting” (*February 28, 2007, № 234-III LRK*) and the Order of the Ministry of Finance dated December 31, 2013 № 50 “On National Financial Reporting Standards” *(Ministry of Justice of the Republic of Kazakhstan №8328 dated February 8, 2013).* In addition, business entities operating in Kazakhstan may apply international financial reporting standards (*IFRS*) or the international financial reporting standards for small and medium-sized enterprises (*IFRS for SMEs*).

Compilation of financial statements by large entities and organizations of public interest is formed on the IFRS basis. In this case, the rules of the international standard are fully observed.

Financial reports for medium-sized business entities, as well as enterprises with the public share in operational management - small and medium-sized business entities are prepared in reliance upon the IFRS. These standards belong to the IFRS Foundation and follow the rules developed by the Foundation. Moreover, if desired, these enterprises will be able to develop their financial reporting fully on the IFRS. Therefore, accounting and financial reporting in Kazakhstan are implemented based on the above three types of rules.

We will discuss the structure of National Financial Reporting Standards (NFRS) in Kazakhstan below. This standard defines the principles and quality characteristics of financial reporting and includes the following sections and paragraphs:

1. *General provisions.*

2. 1. Paragraph. Scope of application. 2. Paragraph. Definitions used in the standard. 3. Paragraph. Principles and quality characteristics of financial reporting.

2. *Accounting.*

1. Paragraph. Accounting documents. 2. Paragraph. Accounting for fixed assets and intangible assets. 3. Paragraph. Accounting of inventories. 4. Paragraph. 5. Accounting of leasing. 6. Paragraph. Accounting for long-term production costs and assets under construction. 7. Paragraph. Accounting for investments and exchange rate differences. 8. Paragraph. Income and expense accounting.

3. *Preparation of financial statements.*

1. Paragraph. Financial reporting. 2. Paragraph. Elements of financial reporting.

4.Provisions for transition period.

It can be concluded that the accounting system in Kazakhstan is also at the stage of transition to international standards, which ensures mutual integration with the accounting system of the member states of the Organization of Turkic States.

Materials and Methods

Currently in reliance upon the contract concluded with the IFRS Fund, the project of the National Financial Reporting Standards (NFRS) developed by the Ministry of Economy and Finance based on the IFRS for small and medium-sized business entities is scheduled to be put into practice from January 1, 2024.

This draft of the National Financial Reporting Standards is open to the general public for feedback, which will ultimately result in the further improvement of the the NFRS. Below we provide some considerations about the NFRS project developed for small and medium-sized business entities.

According to the developed project, the NFRS Foundation and the Ministry of Finance will enable the NFRS users to publish the standard for the following purposes:

- *professional application by the user;*
- *self-study and education.*

In this regard, professional application means the use of this standard in the user's professional capacity in connection with the provision of accounting services to the user's clients as a user accountant or for the purpose of applying this standard to the organization for the preparation of financial statements or analysis of financial statements.

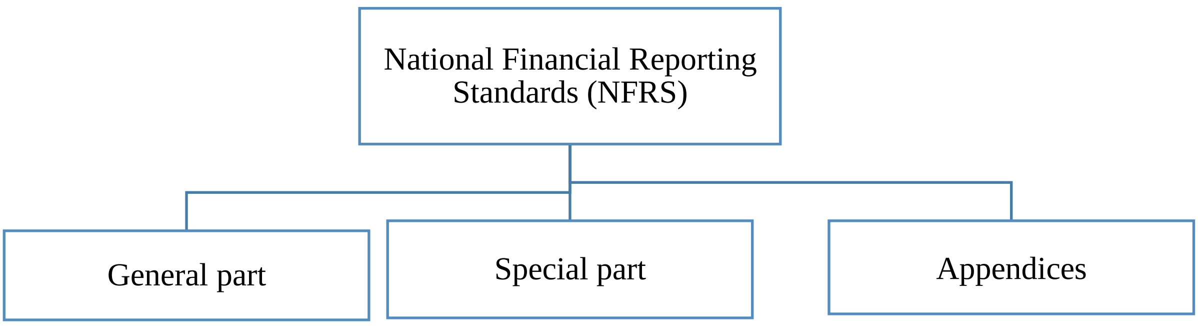

Figure 1. Structure of Natonal Financial Reporting Standards (NFRS)

Moreover, non-professional users will need to contact the Ministry of Finance and the IFRS und for a separate individual license in accordance with mutually agreed terms and conditions.

Discussion

The *"General part"* of the National Financial Reporting Standard consists of 13 chapters. It covers the purpose, scope, concepts and fundamental principles of the standard, presentation of financial statements, statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, notes to financial statements, consolidated and separate financial statements, accounting including policies, estimates and errors, events after the reporting period and transition to this NFRS. So, it can be seen that in this part, the main focus is made on the issues of drawing up financial statements and developing accounting policies.

The "*Special part"* of the NFRS includes 23 chapters. These chapters fully reveal the objects of direct accounting, that is, the elements of financial reporting. This part includes fixed assets (property, plant and equipment), investment property, intangible assets other than goodwill, business combinations and goodwill, investments in related entities, joint venture arrangements, impairment of assets, reserves, leases, financial instruments, fair value measurements, liabilities and equity, estimated liabilities and contingencies, income, government grants, borrowing costs, share-based payment, employee benefits, income tax, accounting for foreign currency transactions, hyperinflation, related party disclosures, and special activities.

The "*Appendices part"* of the NFRS consists of 3 appendices, Appendix 1 "Glossary of Terms", Appendix 2 "Practical instructions on the procedure for conducting inventory" and Appendix 3 "Practical instructions on the classification of expenditures".

It should be noted, this draft of the NFRS includes or changes the name of some provisions on the application of international standards in addition to the existing 24 NAS. For example, instead of a single NAS № 7 "Intangible assets", it is envisaged to use two rules in the "Special part" of the NAS:

- *intangible assets other than goodwill;*
- *business combinations and goodwill.*

It is obvious that goodwill is recognized separately in international standards, for this purpose it is recommended to apply goodwill and intangible asset separately in the NFRS. Definitely, inclusion of rules or concepts in this will eliminate uncertainties in the procedure for recognition, classification and valuation of intangible assets for users, on the other hand, the specific characteristics of goodwill and aspects of its formation and valuation will be fully disclosed.

Such changes include the procedures "Employee income", "Profit tax", "Hyperinflation", "Related party disclosure" and "Special activities", which were not previously available in the NAS.

Conclusion

In conclusion, it can be noted that this standard is put into practice by small and medium-sized business entities operating in the Republic of Uzbekistan republic:

firstly, to provide comments for users of National Financial Reporting Standards (NFRS) on their practical application;

secondly, adjusting the academic curricula of higher education institutions with international (IFRS) and national (NFRS) standards;

thirdly, full adaptation of curricula, textbooks and manuals based on current National Accounting Standards (NAS) to National Financial Reporting Standards (NFRS).

Therefore, nowadays the Ministry of Economy and Finance, as the authorized body for the harmonization of the accounting and financial accounting system with international standards, including the introduction of the Intetnational Financial Reporting Standards, is actively implementing activities on harmonizing the National Accounting Standards in compliance with the Intetnational Financial Reporting Standards.

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ӨЗБЕКСТАНДАҒЫ БУХГАЛТЕРЛІК ЕСЕПТІ ХАЛЫҚАРАЛЫҚ ТАЛАПТАРҒА СӘЙКЕС ТҮЗЕТУ: ЖАҢА КЕЗЕҢГЕ ӨТУ

Түйін

Бұл мақала Өзбекстан Республикасы Президентінің 2020 жылғы 24 ақпандағы "Қаржылық Есептіліктің Халықаралық Стандарттарына көшудің қосымша шаралары туралы" №PR-4611 Қаулысында белгіленген міндеттерді орындау үшін қабылданған шараларды қарастыруға арналған. Өзбекстан Республикасының Қаржы Министрлігі шағын және орта бизнеске Арналған Қаржылық Есептіліктің Халықаралық Стандарттарына (ҚЕХС) негізделген Қаржылық Есептіліктің Ұлттық Стандарттарын (ҚЕХС) әзірледі және жоба талқылауға шығарылды. Мақалада Бухгалтерлік Есептің Ұлттық Стандарттарын халықаралық стандарттарға сәйкес үйлестіру мәселелері талқыланады. халықаралық Қаржылық Есептілік Стандарттарымен, сондай-ақ осы жоба бойынша ғылыми негізделген қорытындыларды ұсынады. Сондай-ақ, мақалада ҚАЗАҚСТАННЫҢ NSFR қаржылық есептілігінің ұлттық стандарттарының құрылымы қарастырылған.

Кілттік сөздер: Қаржылық Есептіліктің Халықаралық Стандарттары, Қаржылық Есептіліктің Ұлттық Стандарттары, шағын бизнес, орта бизнес, қаржылық есептілік.

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ПРИВЕДЕНИЕ БУХГАЛТЕРСКОГО УЧЕТА В УЗБЕКИСТАНЕ В СООТВЕТСТВИЕ С МЕЖДУНАРОДНЫМИ ТРЕБОВАНИЯМИ: ПЕРЕХОД НА НОВЫЙ ЭТАП

Аннотация

Данная статья посвящена рассмотрению мер, принятых для выполнения задач, поставленных в Постановлении Президента Республики Узбекистан №ПР-4611 “О дополнительных мерах по переходу на международные стандарты финансовой отчетности” от 24 февраля 2020 года. Министерство финансов Республики Узбекистан разработало Национальные стандарты финансовой отчетности (НСФО) на основе Международных стандартов финансовой отчетности (МСФО) для малого и среднего бизнеса, и проект был предметом обсуждения. В статье рассматриваются вопросы гармонизации национальных стандартов бухгалтерского учета в соответствии с международными стандартами. с Международными стандартами финансовой отчетности, а также представлены научно обоснованные выводы по данному проекту. В статье также рассматривается структура национальных стандартов финансовой отчетности НСФР Казахстана.

Ключевые слова: Международные стандарты финансовой отчетности, Национальные стандарты финансовой отчетности, малый бизнес, средний бизнес, финансовая отчетность.

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