

Development of Financial Statements on the Basis of International Financial Reporting Standards

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Abstract: This article is devoted to the consideration of the theoretical and practical aspects of financial statements developed by economic entities based on international financial reporting standards (IFRS). In addition, the article highlights possibilities of financial statements in the implementation of the investment policy of the digital economy are highlighted. Moreover, various aspects of financial statements prepared according to national accounting standards (NAS) and international financial reporting standards, as well as the ways for their preparation are demonstrated. As a result of the research, the author has developed proposals and recommendations on the financial reporting forms based on international standards.

Key words: financial reporting, International Financial Reporting Standards (IFRS), National Accounting Standards (NAS), financial position, profit, loss.

Introduction.

Goal 26 of the new development strategy of Uzbekistan determines further improving investment environment in the country and raising attractiveness, as well as necessity to undertake the measures to attract 120 billion USD, including 70 billion USD of foreign investments in the next five years[1]. In order to execute these tasks, comprehensive activities are being undertaken in our country to establish and develop beneficial economic relations with international organizations and companies. In particular, necessary statutory acts have been adopted in the field of accounting in order to provide foreign investors with the required information environment, to expand the opportunities of participating in international stock exchanges. Economic entities in our country are required by law to organize accounting on the IFRS basis starting from January 1, 2021, and to prepare financial statements based on the IFRS from the end of 2021[2].

International financial reporting standards are the rules of accounting procedures that create opportunities for the preparation of financial statements of joint-stock companies, banks, credit entities, insurance companies, investment funds and many other large companies and their data in a clear, transparent, globally understandable accounting language around the world. Financial reporting is characterized by easy analysis of the data for timely decision-making by company owners and investors.

Methods. Economic entities that develop financial statements within the framework of the IFRS requirements prepare the reports shown in Figure 1 in compliance with international standards.

Results. According to the requirements of the International Accounting Standard (IAS) No. 1 "Presentation of Financial Statements," financial statements should include separate items to present the nature, liquidity, and function of assets in the enterprise, as well as the amount, nature, and terms of liabilities. The statement of financial position, also known as the balance sheet, is a type of statement that provides a summary of a company's assets, liabilities, and equity at a specific point in time. In line with IFRS recommendations, the statement of financial position is typically presented in the following format:

- Assets: This section includes a breakdown of the company's assets, which are typically classified into current assets (such as cash, inventory, and accounts receivable) and non-current assets (such as property, plant, and equipment).

- Liabilities: This section outlines the company's liabilities, which are also classified into current liabilities (such as accounts payable and short-term debt) and non-current liabilities (such as long-term debt and lease obligations).

- Equity: This section represents the residual interest in the company's assets after deducting liabilities. It includes components such as share capital, retained earnings, and other reserves.

Alongside the statement of financial position, companies also prepare a statement of profit or loss and other comprehensive income. This statement provides information about the company's income, expenses, and overall profit or loss for a specific period. In accordance with IFRS requirements, the statement of profit or loss and other comprehensive income is typically presented in the following format:

- Revenue: This section includes the company's operating revenue from sales of goods or services.

- Expenses: This section outlines the company's operating expenses, including costs related to production, marketing, administration, and finance.

- Profit or Loss: This section shows the difference between the company's revenue and expenses, resulting in either a profit or loss.

- Other Comprehensive Income: This section separates the other comprehensive income from the profit or loss reported. Other comprehensive income encompasses items that may be reclassified or not reclassified to profit or loss in the future.

Items that may be reclassified to profit or loss in the future include profit or loss from available-for-sale investments.

Analyses. According to the requirements of the International Accounting Standard (IAS) No. 1 "Presentation of Financial Statements", the nature, liquidity and function of assets in the enterprise, the amount, nature and terms of liabilities, should be presented by including separate items in the financial statement.

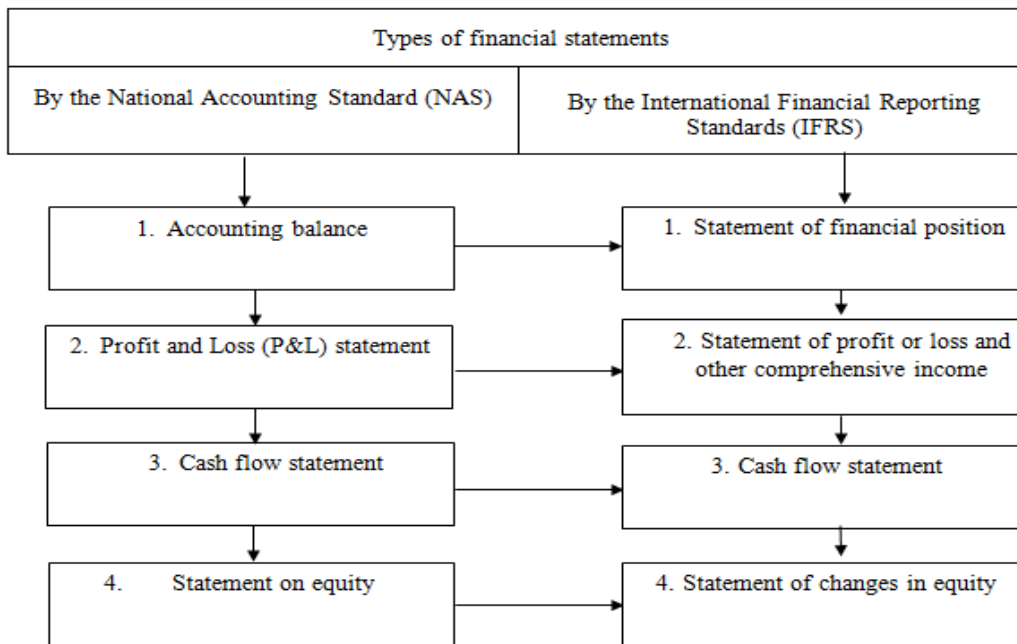


Fig. 1.Types of statements according to the NAS and the IFRS.

A statement of financial position is considered a balance sheet according to the NAS and is a type of statement that provides a summary of a company’s assets, liabilities, and equity at a given point in time. According to the IFRS it is recommended to compile the “Statement of financial position” in the following form.

In thousands of US Dollars	Notes	31 December 2021	31 December 2020	In thousands of US Dollars	Notes	31 December 2021	31 December 2020
ASSETS				EQUITY			
Non-current assets				Share capital			
Property, plant and equipment				Additional paid in capital			
Intangible assets				Other reserves			
Restricted deposits				Accumulated deficit			
Loans issued				Cumulative translation differences			
Other non-current assets				TOTAL EQUITY			
				LIABILITIES			
Total non-current assets				Non-current liabilities			
				Borrowings			
Current assets				Deferred income tax liability			
Cash and cash equivalents				Deferred income			
Restricted cash				Total non-current liabilities			
Restricted deposits				Current liabilities			
Loans issued				Borrowings			
Trade and other receivables				Trade and other payables			
Advances paid to suppliers				Other taxes payables			
Inventories				Advances received			
Other current assets				Other liabilities			
Total current assets				Total current liabilities			
				TOTAL LIABILITIES			
TOTAL ASSETS				TOTAL EQUITY AND LIABILITIES			

Fig. 2.Statement of financial position.

According to the requirements of the International Accounting Standard (IAS) № 1 “Presentation of Financial Statements”, the nature, liquidity and function of assets in the enterprise, the amount, nature and terms of liabilities, should be presented by including separate items in the financial statement.

The second report submitted by enterprises is called “Statement of profit or loss and other comprehensive income” and this report is similar to the report on financial results prepared according to the National Accounting Standards and provides information about the income, expenses and total profit or loss of the enterprise for a certain period. Taking into consideration the IFRS requirements, we recommend the following form for presenting the “Statement of profit or loss and other comprehensive income”:

<i>In thousands of US Dollars</i>	Notes	31 December 2021	31 December 2020
Revenue from contracts with customers			
Cost of sales			
Gross profit			
Selling, general and administrative expenses			
Other operating expenses			
Other operating income			
Operating profit			
Finance income			
Finance costs			
Net foreign exchange loss			
Profit before income tax			
Income tax (expense) / credit			
Profit for the year			
Other comprehensive loss for the year			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			

Fig. 3. Statement of financial position.

In this report the other comprehensive income section is separated from the report developed in accordance with the national standard. The other comprehensive income section will often consist of reclassified and non-reclassified profit or loss line items. Items that will be reclassified into profit or loss in the future include:

- profit or loss from available-for-sale investments;
- profit or loss from changes in fair value;
- profit or loss from sale;
- profit tax on items that will be reclassified in future profits and losses.

Items that will not be reclassified to profit or loss in the future include:

- profit or loss from revaluation of fixed assets;
- profit or loss other than revaluation of fixed assets;
- share of subsidiaries in other comprehensive income;
- profit tax on items that will not be reclassified in future profits and losses.

A cash flow statement is a report that shows the amount of cash inflows and outflows from the company’s operational activities, investment and financial activities during a certain period of time.

Operational activity is the main income-generating activity of the company and other types of activities except for investment and financial activities.

Investment activity is defined as the purchase and disposal of long-term assets and other investments that are not included in cash equivalents.

Financial activity is an activity that results in the changes in the amount and composition of capital and debt funds invested by the organization.

We offer a form of report demonstrating the movement of funds for the above three types of activity:

<i>In thousands of US Dollars</i>	Notes	31 December 2021	31 December 2020
Cash flows from operating activities			
Profit before income tax			
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment			
Amortisation of intangible assets			
Losses from disposal of property, plant and equipment and intangibles			
Allowances for bad and doubtful accounts			
Recovery of allowances on doubtful accounts			
Net foreign exchange loss			
Finance income			
Finance costs			
Other non-cash operating income			
Other non-cash operating costs			
Operating cash flows before working capital changes			
(Increase) / decrease in trade and other receivables			
(Increase) / decrease in advances paid to suppliers			
Increase in inventories			
Investment in of restricted deposits			
Increase in other non-current assets			
(Decrease) / increase in trade and other payables			
Increase in advances received			
Increase in taxes and related charges payable			

<i>In thousands of US Dollars</i>	Notes	31 December	31 December
Increase / (decrease) in other liabilities			
Changes in working capital			
Interest paid			
Interest received			
Income tax paid			
Net cash from operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment			
Proceeds from sale of property, plant and equipment			
Purchase of intangible assets			
Loans issued			
Repayment of loans issued			
Net movement in restricted cash			
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from borrowings			
Repayment of borrowings			
Net cash used in financing activities			
Effect of exchange rates on cash and cash equivalents			
The effect of translation to presentation currency			
Cash and cash equivalents at the beginning of the			
Cash and cash equivalents at the end of the year			

Fig. 4. Cash flow statement.

Companies present cash flows for operating, investment and financial activities in compliance with their activities. Classification by type of activity provide users of financial statements with the information that enables them to assess the impact of these activities on the entity’s financial position and the sum of its cash and cash equivalents. This information can also be used to assess the interrelation between these activities.

The same economic processes in enterprises may involve cash flows of different classifications. For example, if a loan repayment includes the principal and interest, the interest portion may be classified as an operating activity, while the principal portion may be classified as a financing activity.

The fourth form of financial reporting provided by enterprises is called “Statement of changes in equity” and it represents the report that shows changes in the capital of the enterprise over a certain period of time.

This report is a type of report that classifies the distribution of dividends for common and preferenceshares, from the change in equity or the change in market value, formation of reserve funds, from retained earnings.

<i>In thousands of US Dollars</i>	Share capital	Additional paid in capital	Other reserves	Currency translation differences	Accumulated deficit	Total
Balance at 1 January 2021						
Profit for the year						
Other comprehensive loss for the year						
Balance at 31 December 2021						
Profit for the year						
Other comprehensive loss for the year						
Balance at 31 December 2022						

Fig. 5. Statement of changes in equity.

For each part of equity the company must present the analysis by item of other comprehensive income in the statement of changes in equity or in the notes. It will be required to provide the amount of dividends recognized as the amount distributed to owners during the period and the amount of dividends per share in the statement of changes in equity or in the notes.

Discussion

In financial reports, together with information such as assets, liabilities, capital, income and expenses of the company it is appropriate to present the following information to consumers of financial reports:

- location of the company;
- the organizational legal form of the company;
- the country where the company has been established, legal address;
- the description of the nature of the company's organizational operations and core business;
- the name of the parent organization and the final parent organization of the company;
- information about the period of the company's activity if this period is limited.

It can be concluded that financial statements are the source of comparative indicators that are the first and main assessment of the company. If the financial statements are prepared in a way that entirely meets the international standards, the information environment required for the investors will be provided, as a result, the investment attractiveness and investment flow will increase.

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