International Journal of Research in Social Sciences
Vol. 9 Issue 10, October 2019,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

# ISSUES OF BRINGING REPORTING ON FINANCIAL RESULTS IN COMPLIANCE WITH INTERNATIONAL STANDARDS

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***Abstract.*** *This article is devoted to the consideration of issues related to the reflection of financial results of economic activities, in particular, income, expenditures, profit and loss in the international financial reporting standards. This issue has been investigated as a case-study of the requirement of the international standards. In addition, the article presents improved form of the reporting of financial results on the basis of the requirements of international standards, which has been developed by the author.*

***Key words.*** *Financial results, income, expenditures, profit, loss.*

**Introduction.** The concept of the international experience of accounting objects implies International Financial Reporting Standards (IFRS). In particular, considering foreign experience of accounting we do not imply a certain system for accounting objects, but International Financial Reporting Standards. Therefore, we have reconsidered the methodology of income accounting based on national accounting standards. Below certain requirements set out for income accounting in the International Financial Reporting Standards are analyzed. Currently the differences in the notions of income, expenses, profits and losses, as well as the differences related to these notions in requirements of national and international standards are available. In particular, the presentation of information in our financial statements based on our national standards is slightly different from international standards (Table 1).

**Table 1**
**Report on Financial results**

| **Indicators** | **Code of line** | **In this period of the previous year** | | **In the reporting period** | |
|---|---|---|---|---|---|
| | | **Income** | **Expenditures** | **Income** | **Expenditures** |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Net proceeds from the sale of products (goods, works and services) | 0.10 | | x | | x |
| Prime-cost of the products (goods, works and services) sold | 0.20 | x | | | |
| **Gross profit (loss) from sale of products (goods, works and services) (line 010-020)** | **0.30** | | **x** | | x |
| Recurring costs, total (line 050+060+070+080), in particular: | 0.40 | x | | x | |
| Selling expenses | 0.50 | x | | x | |
| Administrative expenses | 0.60 | x | | x | |
| Other operating expenses | 0.70 | x | | x | |
| Recurring deferred expenses deducted from the taxable base | 0.80 | x | | x | |
| Other income on the core business | 0.90 | | x | | x |
| **Profit (loss) on the core business (line 030-040+090)** | **100** | | | | |
| Income obtained from the financial activities, total (line 120+130+140+150+160), in particular: | 110 | | x | | x |
| Income in the form of dividends | 120 | | x | | x |
| Interest-bearing income | 130 | | x | | x |
| Income obtained from long-term rent (financial leasing) | 140 | | x | | x |
| Income obtained due to the difference of the currency exchange rates | 150 | | x | | x |
| Other income from financial activities | 160 | | x | | x |
| Expenses by the financial activities (line 180+190+200+210), in particular: | 170 | x | | x | |
| Interest expenses | 180 | x | | x | |
| Interest expenses by long-term rent (financial leasing) | 190 | x | | x | |
| Loss occurred due to the difference of the currency exchange rates | 200 | x | | x | |
| Other expenses by financial activities | 210 | x | | x | |
| **Profit (loss) of common economic activities (100+110-170)** | **220** | | | | |
| Profit and loss from extraordinary sources | 230 | | | | |
| **Profit (loss) before paying income (profit) tax (line 220+\-230)** | **240** | | | | |
| Income (profit) tax | 250 | x | | x | |
| Other taxes and charges from profit | 260 | x | | x | |
| **Net profit (loss) of the reporting period (line 240-250-260)** | **270** | | | | |

Therefore, this fact necessitates further improvement of these concepts and the form of reporting in which they are reflected.

**Literature review.** International Financial Reporting Standard №15 provides the following definition to the concepts of "income" and "proceeds": Income is the increase in economic benefits in the form of an inflow or quality of assets or a decrease in liabilities during the reporting period which results in the increase in equity regardless the equity participants' contributions. Proceeds are the income that a company earns during performance of its regular operations.

International Accounting Standard 18 provides the definition that the concept of income includes income generated from regular activities and other income. Income from regular activities is generated within the normal course of business and is named differently, including sales proceeds, fees, interest, dividends and royalties. The key issue in income accounting is to determine when this income should be admitted. Income is admitted as earning when there is high probability of future economic benefits and these benefits can be adequately and reasonably estimated.

In terms of our research, Table 2 presents the opinions of different scholars and economists and the International Financial Reporting Standards regarding the concept of income and its structure (Table 2).

**Table 2**

**Income classification[1]**

| Source or author | Types of income |
|---|---|
| International Accounting Standard 18 | Income generated from regular activities and other income |
| O.V.Butkova | Income generated from the core business and other income |
| I.T. Abdukarimov | Income from core business and other income |
| L.V. Eykhler | Income obtained from the core business, as well as other proceeds |
| M.B. Kalonov | Income associated with the business activities and other types of income |

[1] Developed on the basis of the previous research and proposal of the author

**Analysis and results.** It should be noted, that the majority of scholars divided the income into two groups, that is the income generated from the core business and other income. However, they included the income which is not related to the basic activities, in the category of “other income”. In this regard possibility of adding the income from non-core activities in the category of “other income” or category of “income from core business” is also eliminated. For example, automotive businesses can operate on a contractual basis rendering one-time services, such as, for example, bus repairs, but these activities are not referred to the core business. Consequently, the income generated from such activities is included neither in the basic income, nor in other income.

International Financial Reporting Standards also include income from regular activities and other income. In our opinion, “regular activities” imply basic activities, or core business.

If we focus on the “income” notion and provide its short description, it should be noted, that according to the definition of “income” and “proceeds” available in international standards, income associated with the core business of the enterprise is admitted as proceeds. As for other income, all these types are represented by the notion of “income”. In addition, as income is referred to regular activities, it seems that income can also be obtained from so-called “irregular activities” of the enterprise. In addition, the division of income into income and proceeds, as well as its essence, are not precisely defined in some extent.

Now we analyze IAS 1 “Financial reporting submission” standard, as well as the issues regarding accounting of income and expenses therein and develop our opinion in reliance upon our conclusion.

Considering the definition of the concepts of “profit” or “loss” in this standard, we can make a conclusion that profit or loss is the result of deducting expense from the income. Other consolidated income represents changes arisen in the capital as a result of transactions and other events during the period of time except for changes arisen in the process of transactions performed by the property owners. Other consolidated income covers all components of “profit and loss: or “other consolidated income”. Despite using such notions as “other consolidated income”, “profit or loss”, and “total consolidated income”, entrepreneurship entities also have the right to use other notions to describe the final amount in case if they have the same meaning. Having studied scientific papers on the IFRS and issues related to transition therein, we usually witness such a fact that the notions presented in the IFRS are directly translated and further used in practice. However, in some cases, there are controversial issues of the name of a certain IFRS and its proposed translation into Uzbek in term of translation or stylistics. This eliminates the possibility of knowing the meaning of the proposed concepts, as well as abolishes the compliance of sentences. However, as mentioned above, the international standard itself enables to use quite a different term. This issue will be considered in details in the following section.

Standard I of the IAS combines all the basic rules and regulations for preparation and submission of financial statements that can ensure its compatibility with the statements of the enterprise, for example, for previous periods or with the current statements of other companies. The standard discloses generally accepted provisions for the presentation of data on accounting activities and financial indicators of a company, recommendations on the structure and semantic content of statements, as well as basic requirements for filling out reporting forms. Strict adherence to this standard is applied to all forms of statutory financial statements. The exception is the condensed interim reporting generated throughout the reporting year. In addition, it determines the basic aim of the financial statements, where the responsibility for its preparation and submission is assigned to the top management bodies, the board of directors or managers. The standard is applied to all forms of commercial entities and companies (including banking institutions, holding structures and insurance companies). To achieve this aim, financial statements provide the following information necessary for entrepreneurship entities:

assets;

liabilities;

equity;

income and expenses, in particular, profit and loss;

placements made by the property owners acting as property owners and the amount distributed thereto;

cash flows.

This information, along with other information in the comments, enables users of the financial statements to predict future cash flows of the business entity, in particular, their terms and accuracy.

In reliance upon the topic of our research and the aim of our work, we pay a particular attention to the income part and expenses part. Consequently, according to international statements, financial reporting provides information on financial results. Its purpose is also to provide the information on financial results. This, in turn, corresponds to the reports on financial results used in our country and their content. From my point of view, in the data provided in financial reporting, the expression “income and expenses, including profit and loss” is used for designating financial results. It also highlights key elements of the financial result and emphasizes the basic information about income and expenses. Expression of profit or loss by the word “including” means that it is included in the income and expenses. However, most researchers pay a particular attention to the profit and loss and find it necessary to reflect them in the report. Herein there arises the question if it is more appropriate not no “divide” the data on profit and loss in financial reporting, but taking into account, that they represent financial results it would be more efficient to name them with the single name because any company may have income and expenses at the same time, bur it may not have profit and loss simultaneously.

According to standards, the complete set of the financial reporting covers the following:

- report on the financial position as for the end of the reporting period;
- report on profit or loss and other consolidated income for the reporting period;
- report on the changes in the capital for the reporting period;
- cash flow report for the reporting period;
- notes, including explanations on the significant aspects of the accounting policy and other explanatory information;
- comparative data for the reporting period and others.

In this regard it should be noted that the option how to name the report should be made by the will and dicretion of the economic entity. In addition, Standard 1 of the IAS enables entrepreneurship entities to use the name for reporting which is different from the regularly used names.

There is a requirement for financial statements to be presented in a fair manner with the correct reflection of income and expenses by definition and admission criteria.

In accordance with International Financial Reporting Standards, the data that represent financial results during the reporting period should include the following items:

income received from regular activities;

profit and loss occurred due to termination of admitting financial assets by the amortization value;

financial expenses;

share of profit or loss of individual entrepreneurs or joint ventures accounted on the accrual basis;

if to account by the fair value, after re-classification of financial assets, any profit or loss that can occur due to the difference between the value in the former balance and its actual value on the date of re-clasification;

single amount by all accomplished activities.

According to the requirements of the IAS to financial reporting, if the data on the profit, loss or other generalized income contained in reports or notes is important, entrepreneurship entities must reveal their peculiarities and amounts separately. The following cases are considered to be necessary for revealing income and expense items separately:

reduction of the balance value of inventories to the net sales value or reduction of balance value of fixed assets to their covered value, as well as further recovery of such reduction;

restructuring of the performance of entrepreneurship entities and creation of reserves by the expenses on restructuring;

writes-off fixed assets;

writes-off from investments;

types of activities which are not in progress any more;

settlements under the court consideration;

recovery of created reserves in some other events.

The data on expenses admitted as either profit or loss incurred by the entrepreneurship entities should be submitted in reliance upon the fact which is more reliable and appropriate with the account of their peculiarities and objectives of entrepreneurship entities.

When classifying expenses by their peculiarities, the expense borne by entrepreneurship entities can be united on the basis of profit or loss peculiarities (for example, depreciation, purchase of raw materials, transport expenses, paying salaries to the employees and promotion and advertising costs) and re-distributed by the functions of the entrepreneurship entities. This technique may seem simple for practical application because herein it is not necessary to classify expenses by the functional groups. The following table illustrates the example of the standard classification of expenses by their peculiarities:

| | |
|---|---|
| Income received from the regular activities | X |

| | | |
|---|---|---|
| Other income | | |
| *Changes in the reserves of finished and semi-finished goods* | X | X |
| Raw materials and consumables used | X | |
| Expenses on paying salaries to employees | X | |
| Expenses on depreciation and amortization | X | |
| Other expenses | | |
| Total expenses | X | (X) |
| Profit before tax | | X |

Expenses may also be classified on the basis of the principle of the function of expenses or selling prime-cost, for example, selling expenses or administrative expenses. According to this technique, entrepreneurship entities reflect the selling prime-cost in the ways other than other expenses. Classification of expenses in reliance upon this technique will enable to provide users with more accurate and reliable information. However, classification of expenses on the basis of their functions represents rather controversial issue and can lead to the voluntary distribution. Below we can see the example of classification of expenses by their functions available in the IFRS 1:

| | |
|---|---|
| Income gained from common activities | X |
| Selling prime-cost | (X) |
| Gross profit | X |
| Other income | X |
| Selling expenses | (X) |
| Administrative expenses | (X) |
| Other expenses | (X) |
| Profit before tax | X |

From this data it is obvious that according to the international standards, the data representing financial results designate income and expenses. In particular, income is divided into 2 major groups: income received from regular activities and other income.

In compliance with the requirements of IAS 18, income received from regular activities includes the revenue generated from regular activities and can be named in different ways, in particular, proceeds from sales, charges, interest, dividends and royalties. The standard provides the following definition to the income received from regular activities: income from regular activities - this is proceeds from the sale of products and goods, as well as revenues associated with the performance of works and rendering services which can result in the increase of the capital which is not associated with the placement in this capital of funds of property owners.

According to IAS 18, proceeds from the sale of goods must be admitted if all of the conditions provided below are satisfied:

the company transferred to the buyer significant risks and rewards related to ownership of the goods;

the company no longer participates in management to the extent that is typically associated with ownership, and does not control the goods sold;

the amount of revenue can be reliably estimated;

it is likely that the economic benefits associated with the transaction will enter the entity;

the costs incurred or expected for the transaction can be reliably estimated.

If the result of a transaction involving rendering services is subject to reliable assessment, revenue from such a transaction should be admitted in accordance with the stage of the transaction completion at the end of the reporting period. The result of the transaction can be reliably evaluated if all of the following conditions are satisfied:

the amount of revenue is subject to reliable assessment;

it is likely that the economic benefits associated with the transaction will enter the entity;

the completion stage at the end of the reporting period can be adequately estimated;

the costs incurred in performing the transaction and the costs required to complete it can be reasonably estimated.

In addition, IAS 18 provides the following definition to the interest, royalty and dividends:

interest imply fees that are levied for the use of cash and cash equivalents or from amounts owed to the enterprise;

royalty - fees for the use of long-term assets of the enterprise, for example, patents, trademarks, copyrights and computer software;

dividends - distribution of profits between owners of equity in proportion to their participation in the capital of a certain class.

This income must be admitted on the basis of the following aspects:

interest is admitted using the effective interest method as determined in IAS 39, paragraph 9;

royalty is admitted on an accrual basis in accordance with the content of the relevant contract;

dividends are admitted when there is recognized the right of shareholders to receive payment.

The types of inome specified above, are considered to be the income received from the regular activities and results in the presence of other following type of income in accounting standards and International Financial Reporting Standards:

in accordance with IAS 17 – income from rental agreements;

in accordance with IAS 28 – dividends received from investments reflected on the accrual basis;

in accordance with IAS 4 – income received from insurance contracts;

in accordance with IAS 9 – income arisen due to changes of the actual value of financial assets and financial obligations; changes in the values of other current assets;

in accordance with IAS 41 – income arisen due to preliminary admission of biological assets related to the agricultural business, as well as changes in their actual value; income received from extraction of mineral resources.

As far as we know from the requirement of the IFRS, the income of the enterprise may be divided into the income received from regular activities and other income. However, in our opinion, it is advisable to take into account the difference and peculiarities between the income received from regular activities and other income. For example, as we have seen in the preceding paragraphs, the companies dealing with transportation of passengers and cargo sometimes have to repair their motor vehicles. In this regard these additional activities cannot be treated as irregular (not typical) activities, however, the requirements of the standard do not enable classify them as income. Therefore we can make a conclusion that with the aim of ensuring adequate classification of the requirement of international standards and national standards, it is recommended, that the income associated with the core business should be reflected in the financial reporting as the income which is not associated with the core business.

In addition, it is advisable to use words, not deviating from international standards, following the rules of grammar and stylistics of the Uzbek language. For example, the notion “selling prime-cost” does not fully meet the requirements of the standard. In this regard, to ensure better understanding of this notion it is recommended to use such choice of words as “prime-cost of the goods sold”.

Moreover, it is recommended to include and consolidate all the indicators in one report. For example, non-reflection of the income received from the rent, insurance and other types of activities necessitates development of another form of the report. In particular, if we divide income into two groups but if expenses are not divided in the same manner, there is no opportunity to illustrate “actual value” in the requirements of international standards. Thus with the aim of ensuring the transperancy of the fact if expense related to paying taxes, administrative and other commercial expenses are inherent to the core business or not, expense should also be subject to the appropriate classification.

In the majority of the literary sources scholars try to divide the whole income into groups which enables to provide more comprehensive study of the income structure. In our opinion, it is more efficient to study income in line with expenses. For example, if income refers to the core business and is accounted in the structure of the income from core business, the same should be applied to the expenses, that is, expenses should be grouped and accounted in the same manner.

A far as we know, prime-cost of products (goods, services) and recurring expenses are important for determining profitability and market competitiveness of the products (goods, services) thus relevant measures should be undertaken to ensure their adequate reflection in the account and other financial reporting.

Summarizing all above-said it is possible to make a conclusion that accurate reflection of expenses in the financial reporting will provide not only reliable information to the users but also should constitute the basis for performance profitability, market competitiveness and calculation of the taxable base. Many economists and scholars have offered proposals on the improvement of the financial reporting and its existing forms.

In particular, according to the research by S. Tashnazarov on Improving theoretical and methodological bases of financial reporting under conditions of the economy modernization, the "Report on financial results" should be changed into the "Report on the profit and loss and other consolidated income". In his research the author proposes to reduce prime-cost and re-sale, to introduce relevant deductions in "Report on the profit and loss and other consolidated income". However, according to the current legislation, these deductions are taken into account in the internal analytical reporting when generating gross profit. Moreover, it is proposed to reflect expenses related to the research and development which are not directly associated with the core business separately in the reporting. However, these proceeds do not completely designate the name of the proposed report form.

**Conclusion and proposals.** In reliance upon above-stated considerations, we have developed the improved form of internal report for accounting financial results for transport companies (Table 3).

**Table 3**

**Internal report on the financial results**[2]

| Indicators | Code of line | In this period of the previous year | In the reporting period |
|---|---|---|---|
| | | **Income or expense** | **Income or expense** |
| 1 | 2 | 3 | 4 |
| Net proceeds from the sale of products (goods, works and services) | 0.10 | | |
| Prime-cost of the products (goods, works and services) sold | 0.20 | | |
| **Gross profit (loss) from sale of products (goods, works and services) (line 010-020)** | **0.30** | | |
| Recurring costs, total (line 050+060+070+080), in particular: | 0.40 | | |
| Selling expenses | 0.50 | | |
| Administrative expenses | 0.60 | | |
| Other operating expenses | 0.70 | | |
| Recurring deferred expenses deducted from the taxable base | 0.80 | | |
| Other income on the core business | 0.90 | | |
| **Profit (loss) on the core business (line 030-040+090)** | **100** | | |
| **Other income and proceeds not related to the core business** | **110** | | |
| **Income obtained from the financial activities, total (line 130+140+150+160+170), in particular:** | **120** | | |
| Income in the form of dividends | 130 | | |
| Interest-bearing income | 140 | | |
| Income obtained from long-term rent (financial leasing) | 150 | | |
| Income obtained due to the difference of the currency exchange rates | 160 | | |
| Other income from financial activities | 170 | | |
| **Expenses by the financial activities (line 190+200+210+220), in particular:** | 180 | | |
| Interest expenses | 190 | | |
| Interest expenses by long-term rent (financial leasing) | 200 | | |
| Loss occurred due to the difference of the currency exchange rates | 210 | | |
| Other expenses by financial activities | 220 | | |
| **Other expenses not related to the core business** | 230 | | |
| **Other taxes on profit and proceeds** | 240 | | |

[2] Developed on the basis of the author' proposals

| | | | |
|---|---|---|---|
| **Net profit (loss) of the reporting period (line 100+110+120-180+-230-240)** | **250** | | |

The introduction of the improved report form given above, first of all, will enable to provide accurate, complete and reliable information on the financial results, second, to accurately determine profitability indicators by types of activites of the enterprise.

In our opinion, if we manage to ensure overall coverage of such notions as income, expenses, profit and loss in the structure of financial results it won't be necessary to rename the form of the report. In addition, identifying profit and loss, and other consolidated income can lead to the restriction only by these notions. In our opinion, the name of the report "On profit and loss, as well as other gross income" which has been developed on the basis of the recommendations of the IFRS and is currently being used by many commercial banks does not thoroughly demonstrate the essence of this report. In particular, using particle "and" in the report name in the part "Profit and loss" indicates necessity of presence both profit and loss in each report, however, the ending of each report is presented either by profit or by loss.

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