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ISSUES OF PREPARATION OF QUALITATIVE FINANCIAL REPORTING IN THE REPUBLIC OF UZBEKISTAN

MatkarimovDavronbekMatyakubovich*

Key words : International Financial Reporting Standards (IFRS), First-time Adoption of IFRS, Parallel accounting, Transformation.

Introduction.

The development of integration processes imposes certain requirements for uniformity and transparency of the principles of financial reporting formation applied in different countries. Therefore, with the aim of entering international capital markets many Uzbek companies to enter international capital markets face the need to prepare their financial statements in accordance with the IFRS principles.

This is due to the adopted decrees and resolutions of President and the government of Uzbekistan. The aim of these documents is the creation of favourable conditions for wide attraction of foreign direct investment, sharp increase of efficiency of joint-stock companies' activity, ensuring their transparency and attractiveness for potential foreign investors, introducing modern corporate governance practices, strengthening the role of shareholders in the strategic management of enterprises.

Literature review.

In Uzbekistan "during 2015 – 2018 all joint stock companies will start publishing annual financial statements and conduct its external audit in accordance with International standards on

*** Senior researcher of the Banking and Finance Academy of the Republic of Uzbekistan**

auditing and International financial reporting standards"[1]. Moreover, "joint-stock companies, which lack the share of foreign investors in the amount of not less than 15 percent in the authorized capital, until July 1, 2016 have to implement the requirements (attract foreign investors)"[2].

It should be noted, that the focus on access to international capital markets is a positive trend. However, the difference between the international and current Uzbek national accounting standards is quite big.

International financial reporting standards are the particular rules of recognition, assessment and disclosure of the information on the facts of financial - economic activities for formation of the financial reporting of the companies around the world. They provide the comparability of accounting documentation between companies on a global scale, and are also considered to be the condition for available reporting information for external users.

To prepare reporting according to the IFRS requirements, joint stock companies of the Republic of Uzbekistan can use one of two ways – transformation or parallel accounting and possible options of the company on preparing reporting according to the IFRS are statedTable 1.

Table 1.

Options of obtaining reporting in the format of the IFRS[3].

Ways of receiving the reporting in the IFRS format	Executers	
	Own potential	Externalemployees(firm)
Parallel accounting	1	2
Transformation	3	4

[1] Decree of the President of the Republic of Uzbekistan № UP – 4720 "On measures on implementing of modern methods of the corporate governance in the joint-stock companies" dated from April 24, 2015

[2] Decree of the President of the Republic of Uzbekistan № UP – 4720 "On measures on implementing of modern methods of the corporate governance in the joint-stock companies" dated from April 24, 2015.

[3]RojnovaO. Transformation of the reporting in the IFRS format: Practical workbook for the accountant. – Publishing house "Jurisprudence", 2005. p 7.

The preparation of financial statements in accordance with the IFRS in the shortest period possible time can be implemented only with the transformation of financial reporting prepared according to the national standards according to the IFRS. All joint-stock companies of the Republic of Uzbekistan are unable to transform their own financial reports in accordance with the IFRS. The transformation is carried out after completing of the reporting period and does not require daily efforts over the reporting period on accounting according to the IFRS.

Analysys.

Indeed, facing the challenges of preparing reporting according to the IFRS, the majority of Uzbek companies implement it through the process of transformation without taking into account another effective way of solving this problem which is the development of qualitative accounting policies, containing methodological rules of accounting and reporting, focused on the implementation of the IFRS. If we analyze the content of adjustments made by joint-stock companies, transformation of the Uzbek reporting into the international one, it turns out that the majority of them are justified by the actual content of accounting policy, not the National Accounting Standards (NAS) requirements.

Parallel accounting requires the preparation of accounts in accordance with the IFRS, the transfer of the residuals from the Uzbek accounts to the accounts of the new chart of accounts with simultaneous adjustments and further daily maintenance of parallel accounting.

Transformation of financial reporting is a process of preparing financial statements in accordance with the IFRS by reorganization of accounting information and adjustments of items of financial statements prepared in compliance with the rules of the NAS.

Transformation is essentially the same parallel accounting, but entries are made once during the reporting period by the total sum and on the basis of the difference between the data of the NAS and the IFRS. It should be noted that due to the fact that the transformation is generally conducted by not the accounting system of the company (most often in Excel), the risk of technical erroris higher, but smoothly running monitoring procedures can reduce this risk to a minimum. And fundamentally, any data obtained as a result of conducting parallel accounting can also be received by the reporting transformation.

Moreover, there is no uniform transformation algorithm, and an individual approach is required in each case. Due to this reason, currently there are a number of approaches to the transformation. Any person, transforming reporting, has the right to determine the methods and stages of transformation in relation to the reporting of each organization.

The IFRS do not contain any requirements and/or recommendations regarding the reporting transformation. However, IFRS 1 "First implementation of the IFRS" contains the indication that the company while preparing of the initial statement of financial position regarding the IFRS should:

-admit all assets and liabilities which recognition is required in the IFRS;
-not admit (quit admitting) the items as assets or liabilities if the IFRS do not allow this recognition;

- reclassification of the items recognized by the company according to previous accounting principles as one type of assets, liabilities or components of equity, but which are other kind of asset, liabilities or components of equity according to the IFRS;

- apply the IFRS while assessing all recognized assets and liabilities (re-evaluate all assets and liabilities in compliance with the IFRS).

The adjustments occur as a result of events and transactions happening prior to the date of transition to the IFRS. Therefore, the company should recognize those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to the IFRS. Applying these principles by analogy to other forms of reporting we will get a description of the transformation process.

Hereby, the IFRS imply that incoming residuals for the first financial statements in any case are formulated by the method of transformation, as there are no any alternatives. In future the company may choose either to conduct parallel accounting according to the IFRS or to do the transformation at every reporting period. This subsequent transformation will be easier because it the transformation model will be ready and its possible analogy can be applied for the following periods. In addition, many of the original calculations (e.g. discounting of long-term debt, financial lease, etc.) can be used to carry out adjustment entries during the next periods of time.
That is, in fact, the transformation is every single time the application of the IFRS for the first time (only this time without exceptions from retrospective application), as all transformation transactions are carried out in worksheets and in each new reporting period the data of the NAS, which do not contain all previous adjustments made in previous reporting periods, are subject to adjustments. In other words, many of the adjustments that would be reflected in the accounting under the IFRS (and therefore automatically can be included in the reporting), have to be done from period to period at the transformation.

Discussion and conclusion

Toarrange the process of transformation some general recommendations can be highlighted:
- all adjusting entries must be accompanied with the comments to the extent necessary for the transformation of the next period and for the comprehension by the auditors. The more detailed comments will be, the easier it will be to sort out their adjustments next year and the fewer questions the auditors will have;

- on complex transactions, including those involving different interpretations, references to the statements of specific IFRS and justification of the calculation amount and the correspondence in the correcting entries must be shown;

- all professional assumptions used in preparing the financial statements, for example, to make “screens” of market quotations’ securities, etc. must be recorded. In addition, due to the fact that not all the information required for calculation can be obtained by the accountant himself, there might be the need to get official statements (memos) from other departments. For example, the duration of the software can be identified and registered by the chief of the IT-Department;

- regulation of the company – if the transformation process is complex and voluminous, it is desirable to establish (by orders of the company) the methodology of transformation (policy and regulations), the duties of the specialists of all involved units, their interaction, timing of works etc.

The transformation process involves several stages – preparatory stage, direct transformation and post-transformation procedures. The stages are not strictly fixed with respect to their sequence because on each following step the results of the previous stages may beadjusted. For example, while detailed analysis of the accounting data, the NAS and the primary documents,there can be identified further adjustments that will lead to the expansion of the list of amendments to statements. In turn, it may require adjustments to the reporting forms in accordance with the IFRS and the transformation table.

Itshouldbenotedthattheadjustmentsmaybeconnectednotonlywiththeprincipledifferences between the IFRS and the NAS (concerning any concrete company) but also with correcting errors in the statements according to the NAS. TheIFRS 1 providesaprecisedefinitionofthefirst annual financial reporting of the enterprise on the IFRS. The first annual financial reporting is the reporting in which the organization admits the IFRS and makes a clear and unambiguous assertion about the compliance of the reporting with the IFRS.

It shouldbenoted that atthefirstsubmittingofthe reporting under the IFRS,the first financial statements of the company prepared under the IFRS must include at least the followings:
-three reports on the financial position (balance);

-two profit and loss accounts and other components of the consolidated financial results;
- two profit and loss accounts (if these are provided separately);
-two reports on the cash flows;
-tworeportsonthechangesinequity;
-corresponding notes including the comparative information about all submitted reports.
For example:

1.Period during which the reporting will be compiled for the first time according to the IFRS — 2015.

2.Reporting date correspondingly — December 31, 2015.

3.If the comparative information is provided for one year – this year will be 2014.

4.Consequently, the data of the transformation to the IFRS is the beginning of the economic activities – January 1, 2014 (or, the completion of the economic activities – December 31, 2013). Preliminary balance must be prepared on the date of the transformation to the IFRS, i.e. January 1, 2014 (or December 31, 2013).

The IFRS 1 defines that the company must prepare the initial balance under the IFRS for the date of transition to this type of reporting. It should be noted that submitting of the initial balance in the first financial statements isn't required (i.e. the initial balance according to the IFRS (on the case-study of January 1, 2014) isn't published "on the face" of the reports, but is disclosed in the notes). However, in order to properly prepare reporting for the years presented in it, it is necessary to prepare it. The IFRS require the submission of all items with their corresponding comparatives for the previous period both in the "face" of the report and in the notes. No figure must be represented without its accompaniment with such information for the previous accounting period (respectively year, half year or quarter) (Figure 1).

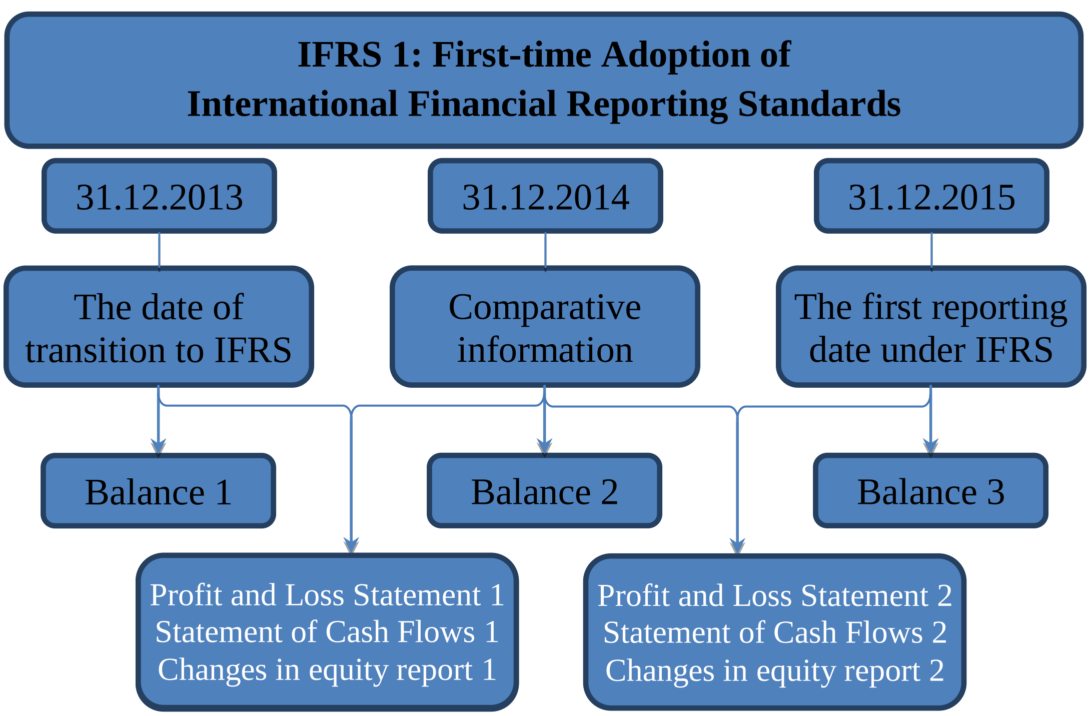

Figure1.IFRS 1. The first application of the IFRS.

With this aim the National Association of accountants and auditors of Uzbekistan has developed "Methodological recommendations on transforming the financial reporting of the NAS to the IFRS at first application of the IFRS". Theserecommendationshavebeendevelopedwiththeaimofexecuting theDecreeofthePresidentofthe RepublicofUzbekistan № UP – 4720 "On measures on implementing of modern methods of the corporate governance in the joint-stock companies" in compliance with the IFRS 1 "First application of the international financial reporting standards". Current recommendations regulate the order of correcting differences between the IFRS and the NAS in the accounting. Adjustmentsofdifferenceswiththeaccountoftaxpurposes are conducted according to the statements of the Tax Code. Theserecommendations can facilitate the economic entities at preparing accurate and qualitative financial reporting according to the IFRS.

Recommendation

Recommendations aimed at solving practical problems of transformation of financial statements according to the IFRS, proposed in this article, are based on the best international experience of international reporting. They will enable many Uzbek businesses to effectively resolve problems related to the reporting under the IFRS.

Reference

1.DecreeofthePresidentoftheRepublicofUzbekistan№ PP-2454 «On additional measures on attracting foreign investors to the joint-stock companies»datedfromDecember 21, 2015.

2.DecreeofthePresidentoftheRepublicofUzbekistan № UP – 4720 "On measures on implementing of modern methods of the corporate governance in the joint-stock companies" dated from April 24, 2015.

3. RojnovaO. Transformation of the reporting in the IFRS format: Practical workbook for the accountant. – Publishing house "Jurisprudence", 2005. p 7.