

Features of the Process of First Application of International Financial Reporting Standards in the Accounting and Reporting System of the Republic of Uzbekistan

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Abstract:

The article reveals the features of the adoption of IFRS in accounting and reporting of the Republic of Uzbekistan. The main problems are revealed, mandatory exceptions and optional exemptions are considered in relation to the first application of IFRS, as well as requirements for disclosure of information in the first statements prepared in accordance with IFRS

The article describes the provisions of IFRS 1, which must be observed by companies when applying IFRS for the first time, and also discusses their impact on the main stages of transition to IFRS.

Key words: International Financial Reporting Standards, reporting, transparency, assets, liabilities, exclusion.

Introduction

Today, one of the necessary requirements for business entities of the Republic of Uzbekistan to attract foreign investment, as well as to enter international capital markets, is the formation of reporting information in accordance with International Financial Reporting Standards (IFRS). Reporting prepared in accordance with IFRS reduces uncertainty and provides confidence to a foreign investor when making decisions on the provision of financial resources to an enterprise, and increases the

likelihood of such a transaction being implemented. The procedure for applying IFRS has been introduced in the manner prescribed by the Law “On Accounting”. [1] To enter the world market, obtain an international loan, and attract foreign investment, it is advisable to prepare financial statements in accordance with IFRS.

Likewise, in our country the number of companies that prepare financial statements based on their IFRS is growing, because it will be possible to achieve increased transparency of financial reporting only by switching to IFRS.

The first financial statements according to international standards are the first annual financial statements in the preparation of which an enterprise uses international financial reporting standards.[3]

Literature review.

General approaches to considering the process of the first application of IFRS in accordance with the IFRS 1 standard, as well as its use in practice, have been studied by a number of foreign and domestic scientists. In particular, the theoretical, methodological and practical aspects of this process were studied in the works of such foreign economists as A.N. Konyakhina, G.I. Alekseeva, whose works talk about the peculiarities of presentation and disclosure of information in the first financial statements under IFRS .V. Generalova, who reveals the main exceptions and exemptions that companies can use when applying IFRS for the first time, as well as E.K. Dzhermakovits, who conducted research in the field of application of the provisions of the IFRS 1 standard in practice in foreign countries.

In recent years, research has also been carried out in the republic on the implementation of IFRS in the preparation of financial statements and, in this regard, published scientific articles, monographs and textbooks. These are, in particular, the works of scientists F.A. Zulunova, where the prospects for the transition of the Republic of Uzbekistan to IFRS are revealed, as well as T. Dargacheva and T. Shaidanov, where the results of the first stage of the transition of companies of the Republic of Uzbekistan to IFRS were analyzed and assessed.

Existing problems on the subject of research.

Attracting foreign investment, as well as entering international capital markets, in turn, requires business entities of the Republic of Uzbekistan to prepare reporting information in accordance with International Financial Reporting Standards (IFRS).

Indeed, today IFRS is recognized throughout the world as an effective tool for providing transparent and adequate information about the activities of an enterprise.

However, it must be borne in mind that the process of implementing IFRS in enterprises and organizations is a rather complex process that requires a lot of costs,

time and labor resources. For this reason, in each country, including ours, certain problems may arise related to the application of international standards.

In addition, today there is no single methodological approach to the preparation of the first financial statements under IFRS and assessment of its significance. Thus, the imperfection of the legislative framework, insufficient theoretical development, lack of clear structure and consistency in the preparation of the first financial statements under IFRS - these and other problems are becoming very relevant for research today.

In this case, the “First-time Adoption of International Financial Reporting Standards” (IFRS1) standard is of particular importance, since it establishes the basis for the presentation of general purpose financial statements in order to ensure their comparability both with the financial statements of the enterprise for previous periods and with the financial statements of other enterprises.

Awareness of companies about the main problems of the first application will allow them to prepare in advance for such difficulties and reduce the costs of preparing the first financial statements under IFRS. For this reason, there is a need for a detailed study of the essence and meaning of this standard with a view to subsequently presenting financial statements by enterprises of the Republic of Uzbekistan that are as consistent as possible with the provisions of the application of international standards.

Scientifically based proposals and recommendations.

The application of international financial reporting standards (IFRS) is not a mandatory document; it is advisory in nature.

It does not prescribe the forms of financial reporting that enterprises are required to provide, as in national standards. IFRS define the composition of the main components of financial statements and the minimum information reflected in them. The application of IFRS is a matter of the exclusive competence of the company. The transition to IFRS or the preparation of financial statements based on national standards, but clearly one compiled on the basis of IFRS, makes it possible to:

- increases the transparency of the company's performance;
- users have the opportunity to conduct a comparative analysis of financial indicators for periods within one company, as well as for several different companies;
- attracting foreign investment and increasing cooperation with foreign investors;
- company managers are given the opportunity to receive reliable, objective, harmonious and timely systematized financial information for making management decisions.

The process of first-time adoption of IFRS is governed by IFRS 1 First-time Adoption of International Financial Reporting Standards. The purpose of this standard is to describe and simplify as much as possible the procedure for companies to

transition to IFRS while ensuring high-quality information presented in the first financial statements under IFRS.

In accordance with paragraph 3 of IFRS 1, the first financial statements of an enterprise under IFRS are the first annual financial statements prepared in accordance with the requirements of IFRS and containing a clear and unconditional statement of the enterprise about compliance with the requirements of international standards.

An enterprise that applies IFRS for the first time needs to determine which financial statements will be considered the first under IFRS. However, based on its characteristics, conditions and development, each country determines its own path to implement international standards and compile its financial statements based on them.

Also in the case of the Republic of Uzbekistan, several factors contributed and continue to contribute to the implementation process. The process of preparing the first financial statements under IFRS is quite costly and requires significant time, financial and labor resources. In this context, one of the objectives of IFRS 1 is to reduce the cost of preparing reporting information, as well as to facilitate the process of preparing the first financial statements. Important for understanding IFRS 1 is the definition of such concepts as the first reporting period and the date of transition to IFRS. The first reporting period is the most recent reporting period covered by the first reporting period.

The first reporting period is the earliest reporting period covered by the first IFRS financial statements.

Let's look at the above statements with an example. Let's assume that the company submits its first financial statements for 2020. In this case, the transition date is considered to be 01/01/2019, the reporting date will be 12/31/2020. The first reporting period will accordingly be 2019. At the same time, for reporting for 2020, the enterprise must prepare comparative information for 2019. So you can see that according to IFRS 1 there is a requirement to prepare financial statements for at least 2 years.

It should be noted that the process of compiling the first reporting can be carried out in several ways. This means that an enterprise has the right to decide to prepare all reporting forms retrospectively for a short period of time or to organize this process in stages over a certain period of time. The final choice will be influenced by the scale of the enterprise's activities, the availability of resources necessary for the preparation of reports and the deadlines established for the preparation of reports by management or the owners.

Also, an enterprise that applies IFRS for the first time, according to the rules of the IFRS 1 standard, will need to comply with the following sequence of actions:

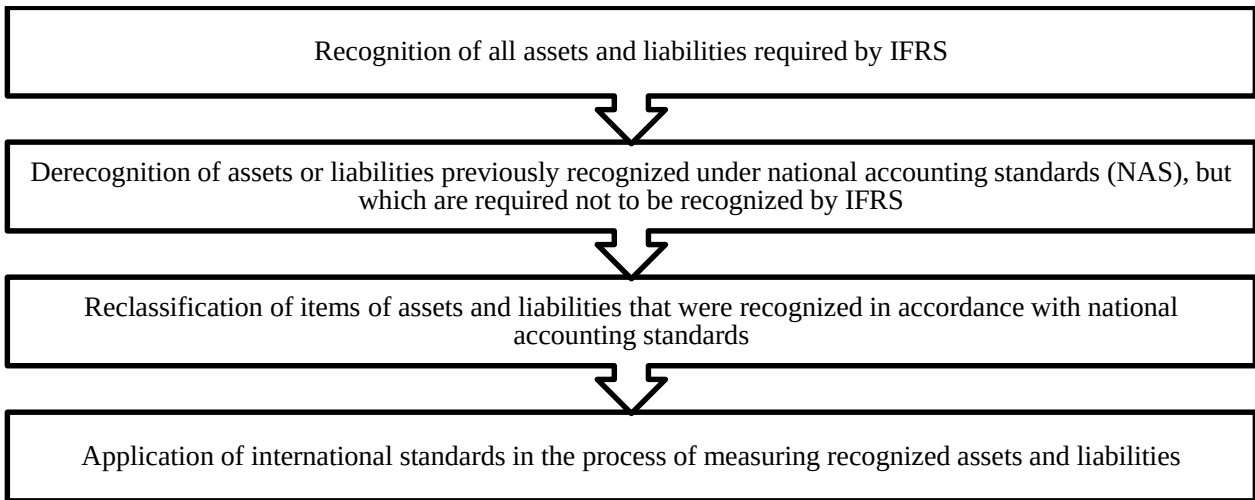


Figure 1. Process of first application of IFRS [4]

In the process of recognizing assets and liabilities, an entity recognizes in its opening statement of financial position under IFRS those assets and liabilities that it did not recognize under NAS. These include assets in the form of the right of use received under lease agreements, including fixed assets that were received under financial lease, reserves for the decommissioning of objects belonging to fixed assets.

Derecognition of assets and liabilities in an entity's opening statement under IFRS previously recognized under NAS may include intangible assets that do not meet the recognition criteria under IAS 38, such as internally created trademarks, research costs that have yielded a positive result, i.e. capitalized research costs.

When switching to IFRS, an enterprise needs to reclassify assets and liabilities previously recognized in accordance with NAS. In this case, the item of fixed assets according to national standards may include investment property, which, according to IFRS, is allocated as a separate line in the statement of financial position. Property, plant and equipment held for sale may also be reclassified. According to the recognition criteria available in IFRS 5 Non-current assets held for sale and discontinued operations, these property, plant and equipment are allocated in a separate line in the opening statement of financial position.

IFRS requires that assets and liabilities that are to be recognized in the opening statement of financial position must be remeasured. Based on this, inventories should be recorded at the lower of cost and net realizable value, and real estate investments should be measured at fair value.

If the first IFRS statements are prepared immediately, then there is a need to retrospectively reflect in the statements all provisions and applicable standards that will be in force at the reporting date. This means that these provisions are applied retrospectively to the opening statement of financial position, to the statements of the first reporting period, and to comparative information to the statements.

An integral element of the preparation of the first financial statements under IFRS is the application of existing mandatory exceptions and optional exemptions provided for by the IFRS standard¹.

So, in accordance with IFRS 1, mandatory exceptions include (Figure 2):

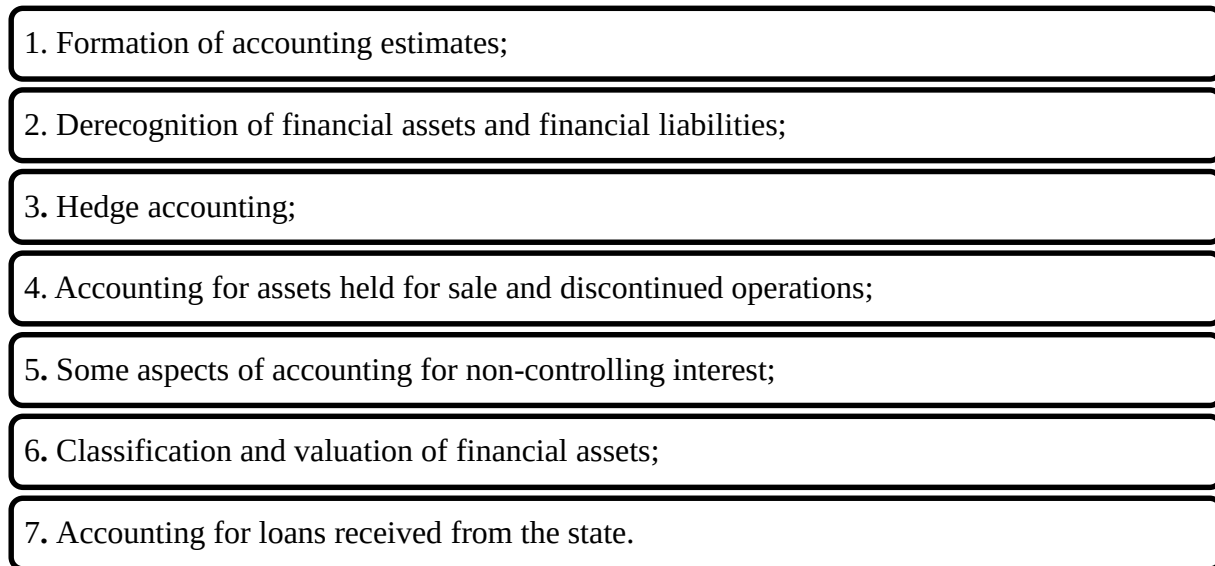
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1. Formation of accounting estimates;
 2. Derecognition of financial assets and financial liabilities;
 3. Hedge accounting;
 4. Accounting for assets held for sale and discontinued operations;
 5. Some aspects of accounting for non-controlling interest;
 6. Classification and valuation of financial assets;
 7. Accounting for loans received from the state.

Figure 2. Mandatory exclusions under (IFRS)1

As for voluntary releases, they include:

1. Fair value or revaluation value as the estimated cost of non-current assets.
2. The total difference from the translation of financial statements from one currency to another.
3. Investments in subsidiaries, associates and joint ventures.
4. Assets and liabilities of subsidiaries, associates and joint ventures.
5. Liabilities for decommissioning of assets and restoration of the site included in the cost of fixed assets
6. Initial measurement of financial assets and financial liabilities at fair value.

Thus, based on the above, it can be noted that the first reporting under IFRS is a rather complex concept, which has its own characteristics and nuances. Regulated by IFRS 1 “First-time adoption of international financial reporting standards”, it can have a different structure based on the characteristics of its constituent enterprises and organizations.

Conclusion

Having considered the main provisions of the IFRS 1 standard, as well as the features of its application, it can be noted that the process of preparing the first financial statements under IFRS has its own difficulties. Companies that are going to start preparing financial statements under IFRS must determine in advance the resources necessary for the preparation of financial statements, anticipate future changes in the

preparation of accounting policies, and comply with all IFRS requirements in terms of preparing the opening balance sheet, comparative information, and first financial statements. The use of exemptions when preparing reports will reduce the time and financial costs of preparing reports. Further improvement of IFRS 1 will allow enterprises applying IFRS for the first time to optimize the process of preparing their first financial statements and provide reporting users with high-quality information about the financial position, performance of the company and cash flows.

As can be seen from the above, over the past time, the Republic of Uzbekistan has developed its own ways and methods of adopting IFRS, taking into account the peculiarities of accounting based on national standards. At the same time, there are a number of difficulties that arise during the first application of IFRS in the accounting and reporting of enterprises and organizations of the Republic of Uzbekistan. The difficulties arise mainly due to the lack of capital, labor resources and time. For this reason, it is desirable that the transition process proceed in accordance with the pace of real economic development and relate to the current national accounting system and specialists in this field to relevant innovations.

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