

## Convergence of the National Accounting System with Ifrs: Problems and Prospects

*Associate Professor G.S. Jambakieva*

(Tashkent Financial Institute)

Iriskulov Temur Xayrulla o'g'li student of TIF

### ABSTRACT

The article is devoted to the issues of the need for convergence of national accounting based on the achievements of European practice, in particular International Financial Reporting Standards (IFRS). The necessity and main directions of accounting reform are described. The problems of using IFRS in practice in the accounting of companies and, as a result, maintaining parallel accounting according to national accounting standards and international financial reporting standards are outlined. This article discusses the international convergence of accounting standards, the stages of its development, the need to analyze international experience. For Uzbekistan, this is a necessary study, since we are in the period of accession to the World Trade Organization (WTO). We need to take into account all the nuances of joining the WTO, eliminate some shortcomings and apply recommendations for the organization of national accounting.

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IFRS are standards in many parts of the world, including the European Union and many countries in Asia and South America. The idea of **global standards** has always been openly supported by international organizations, including the G20, the World Bank, the International Monetary Fund, the Basel Committee on Banking Supervision, the International Organization of Securities Regulators and the International Federation of Accountants.<sup>1</sup>

In a general sense, **convergence** is the development of international standards of a descriptive rather than prescriptive nature, which can serve as a model for the creation of national standards, define general principles, but not too detailed to avoid contradictions.<sup>2</sup>

**Convergence** may be an appropriate short-term strategy for individual jurisdictions, and may indeed ease implementation in transition period. At the same time, **convergence** is not a complete replacement for implementation. Implementation mechanisms may differ among countries and in some cases require a period of time of a substantial length, but whatever the mechanism, it should allow organizations, who are concerned, or require them to certify that their financial statements comply with **IFRS** in the form in which they are issued by the **IASB**.

Entering the international market during the period of globalization and erasure of state borders makes it possible for the Republic of Uzbekistan to introduce into this process, in which it is necessary to improve

<sup>1</sup> [https://gaap.ru/articles/Standarty\\_finansovoy\\_otchetnosti\\_v\\_mirovoy\\_ekonomike/](https://gaap.ru/articles/Standarty_finansovoy_otchetnosti_v_mirovoy_ekonomike/)

<sup>2</sup> <https://cyberleninka.ru › konvergentsiya-msfo-i-opbu-ssha>

the procedures for generating information that are necessary when making managerial decisions by a wide range of users.

In the 2000s, the government of the Republic of Uzbekistan decided to reform accounting. The reasons for the transformation of the national accounting system were fundamental differences in the organization of domestic accounting and many international standards.

For more than seven years, the country has been continuously working on the convergence of national accounting standards of the Republic of Uzbekistan with IFRS in the form of the adoption of both new regulatory legal acts and adjustments to existing ones.

This was preceded by a number of adopted normative acts.

For the first time, the idea of introducing International Financial Reporting Standards into domestic legislation in the field of accounting took shape in the early nineties - the first step in this direction was taken with the adoption of the State Program for the Transition of the Republic of Uzbekistan to an internationally accepted system of accounting and statistics in accordance with the requirements of the development of a market economy, approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan, dated August 24, 1994 No. 433. On January 1, 1995, the Ministry of Finance, together with the State Committee for Forecasting and Statistics and the State Tax Committee of the Republic of Uzbekistan, "Regulations on the composition of costs for the production and sale of products (works, services) included in the cost of products (works, services) and on the procedure for the formation of financial results." Subsequently, this Regulation was approved by the Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated 05.02.1999 No. 54 "On approval of the Regulation on the composition of costs for the production and sale of products (works, services) and on the procedure for generating financial results" in a new edition, taking into account changes in the legislation. In the opinion of the authors, this Regulation meets modern requirements and complies with international financial reporting standards (IFRS).

**The Government of Uzbekistan has decided to develop National Accounting Standards (NAS) based on IAS/IFRS. The Ministry of Finance also issues regulations and guidelines based on standards or develops detailed accounting and record keeping procedures. The Ministry of Finance is developing NAS gradually, focusing on those standards that best meet the needs of the Uzbek market. Moreover, the Ministry of Finance accepts only those standards that do not contradict the civil, tax and company laws of Uzbekistan. As a result, there is a significant difference between NAS and IFRS, which leads to gaps in national standards.**

The process of reforming the accounting of the Republic of Uzbekistan in accordance with the International Financial Reporting Standards has intensified since 2016. Law No. L.R.U-404 dated April 13, 2016 amended and supplemented the Law "On Accounting" (No. 279-I dated August 30, 1996), its new version was approved. Innovations are aimed at improving the legal regulation of accounting in accordance with international principles and standards, increasing the responsibility of the heads of economic entities, their accounting services by clearly delineating their rights and obligations.<sup>3</sup>

The Decree of the President of the Republic of Uzbekistan No. P.D-4720 dated April 24, 2015 "On measures to introduce modern methods of corporate governance in joint-stock companies" notes that in the period 2015-2018, all joint-stock companies will switch to publishing annual financial (accounting) statements and conducting them external audit in accordance with International Auditing Standards and International Financial Reporting Standards.

On February 24, 2020, the President of the Republic of Uzbekistan signed a resolution "On additional measures for the transition to international financial reporting standards" No. P.D-4611, opening a new page in the history of the transition to IFRS in the Republic of Uzbekistan.

Traditionally, accounting and reporting is called the language of business communication. Obviously, the globalization of business causes the emergence of an international language - International Financial Reporting Standards. Today, this financial reporting system is understandable to all participants in the world community, therefore, companies of the Republic of Uzbekistan that have a need to be present in international markets are forced to keep accounting records and submit financial statements both in

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<sup>3</sup> [https://www.norma.uz/novoe\\_v\\_zakonodatelstve/zakon\\_o\\_buhgalterskom\\_uchete\\_prinyat\\_v\\_novoy\\_redakcii](https://www.norma.uz/novoe_v_zakonodatelstve/zakon_o_buhgalterskom_uchete_prinyat_v_novoy_redakcii)

accordance with national accounting standards and in accordance with IFRS. Today, there are two main models for reporting under IFRS in countries where such standards are not national - the transformation of reporting prepared according to national rules into IFRS reporting, and the implementation of parallel accounting.

A comparative analysis of NAS and IFRS shows that there are significant differences between the two sets of standards, thus, financial statements prepared in accordance with NAS are significantly different from those prepared in accordance with IFRS. If you approach the issue formally, then you need to immediately keep records according to IFRS. According to Art. 4 of the Law "On Accounting", accounting is an orderly system for collecting, registering and summarizing accounting information through continuous and documentary accounting of all business transactions, as well as drawing up financial and other reports on its basis. From No. P.D-4611 dated February 24, 2020, it follows that a business that has switched to IFRS must maintain accounting records and prepare financial statements in accordance with the requirements of IFRS.

And according to Article 76 of the Tax Code of the Republic of Uzbekistan, tax accounting is carried out on the basis of accounting data. Statistical reporting uses financial reporting and accounting data, i.e. - also according to IFRS. Upon transition, you must first conduct an inventory and report in accordance with IFRS for the last three years, i.e. – to form the initial data, as well as to develop a method of accounting for the company based on IFRS. And only after that you can start accounting according to IFRS.

But when you start to delve into this problem, everything turns out to be less simple and unambiguous. Many practitioners reasonably argue that when switching to IFRS, at least for the first time, it is advisable to keep records according to NAS. And use it for tax accounting purposes, as it was before January 1, 2021. This position is based on the fact that accounting according to NAS and IFRS has differences.

For example, unlike NAS under IFRS, advance payments for imported goods and services (including advance payments for fixed assets) are not monetary balance sheet items and, therefore, are not subject to adjustment (revaluation) when the exchange rate changes. This means that the cost of imported property, plant and equipment, supplies and services, and then the cost of goods sold and period expenses in IFRS accounting differ from NAS accounting. The same goes for exports.

In addition, when an advance is received, revenue under national standards will differ from revenue recognized in accordance with IFRS. In turn, tax reporting requires a different recognition of revenue from the sale of imports. Here, the fact that the goods crossed the border from Uzbekistan is taken as a basis. It turns out that this is usually the third type of accounting. But if accounting is based not on judgments, but on primary documents and their literal reflection, it will be easier to compile and prove your case for tax reporting.

What to do in such situations? We believe that we should not abandon the established practice of accounting for the time being. There is a huge shortage of workers in the country. There are many issues related to the relationship between IFRS accounting and tax reporting that have not yet been resolved by law.

It is absolutely impossible to predict what quality of IFRS accounting will be achieved by a company that has just switched to IFRS. And the Automated Accounting program for many even large enterprises will still be unavailable.

Parallel accounting is a kind of guarantee. Accounting according to NAS in each case will turn out to be better and clearer, it will have fewer errors. The company will always have more understandable accounting documents, which can be referred to if necessary.

But after the auditors review the IFRS statements at the end of the year and express their opinion, it will be possible to decide whether to continue accounting in parallel with IFRS and NAS next year. We believe that in the future many companies will decide to keep parallel accounting.

The transition to IFRS is not a matter of one year. It is difficult to say how long it will take to resolve all issues.

The main obstacle to the full and widespread implementation of international financial reporting standards is the frequent conflict of requirements for the preparation of reporting documentation. Thus, in

accordance with international standards, reporting must meet the needs of owners, and national financial reporting standards establish legal requirements.

Demand for transparent financial reporting in Uzbekistan is still relatively low, partly due to the fact that the stock market is at an early stage of its development, and partly due to the low level of foreign investment. Private investors rely little on financial statements when conducting initial integrated survey on investment projects in Uzbekistan. Instead, during due diligence, they ask for special purpose financial statements prepared in accordance with IFRS.

The general conclusion of the analysis of financial reporting in Uzbekistan is that there is a certain difference between the way the standards were written and how they are implemented in practice, especially where it concerns the preparation of explanatory notes, and the provision of financial statements for general purpose to the public. This happens for the following reasons: (i) the lack of expertise in the preparation of explanatory notes by both compilers and regulators who are responsible for obtaining financial statements leads to non-compliance with the requirements; (ii) few understand the importance of explanatory notes to financial statements; (iii) low-skilled auditors perform audits of poor quality; (iv) lack of effective mechanisms to ensure compliance with financial reporting process requirements.

Since international financial reporting standards are much more complicated than NAS, in the first year companies will have to pay close attention to training staff in special courses, creating accounting programs, and developing a new version of accounting policies. Involve experienced consultants and auditors in these processes. It is very important that these processes actively involve specialists who have some experience and continue to maintain or help to maintain IFRS records within the company.

Many companies are already using external IFRS consultants, but they will quickly realize that the services of professionals are quite expensive. In this case, it is much more profitable to train your specialists within the organization.

The main advantages of switching to IFRS are:

- increase in the number of potential foreign investors, which in turn will lead to an improvement in the state of the country's economy as a whole;
- increase the competitiveness of the company by providing reliable information to external users;
- lowering the interest rate when attracting additional financing;
- improving the quality of management accounting by the owners of the enterprise, a more accurate assessment of the financial situation.

I would like to repeat once again: NAS accounting will be a kind of insurance and guarantee for the company. In the most extreme case, specialists will help convert the data collected in NAS into IFRS reporting. And this is a better option than at the end of the year, having identified many errors and inconsistencies in the data collected in accordance with IFRS, to make calculations from scratch, raising the entire matrix of primary documentation for the reporting period.

Summarizing the above, we can state that the international convergence of national accounting standards has become not only a global economic stage of development, but also an inevitable trend. There is no doubt that the introduction of new national accounting standards developed on the basis of international financial reporting standards will become a qualitatively new stage in the development of domestic accounting. A high-quality, internationally recognized system of accounting standards serves not only to maintain and strengthen global economic stability, but also for the healthy development of each country's economy and its important integration into the world economic system.

In countries that have adopted IFRS, both companies and investors benefit from using this system, as investors are more likely to invest in a company if the company's business practices are transparent. In addition, the cost of investment is usually lower. Companies that conduct international business benefit the most from IFRS.

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