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PROBLEMS AND PRACTICAL SOLUTIONS OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Abstract. In order to effectively organize the activities of enterprises, the formation of financial information in a way that meets the correct, accurate and universal requirements is one of the main factors that determine the reputation of the enterprise, the trust of investors and its competitiveness in the market.

Therefore, in many countries, especially the Republic of Uzbekistan, the transition to international financial reporting standards is not only a technical process, but also an important strategic decision, which fundamentally changes the principles of the company's operation. In this article, the main positive aspects of the transition to international standards, that is, the advantages, as well as the difficulties that arise in practice and ways to overcome them, are extensively covered.

Keywords: financial information, digital economy, investors, creditors, state bodies, International Financial Reporting Standards, company investment, tax authorities, creditors, banks.

In today's globalization and digital economy, effective organization of enterprises' activities, ensuring transparency before investors, creditors and government authorities is becoming one of the most urgent issues. In particular, the formation of financial information in a way that is accurate, clear and meets universal requirements is one of the main factors determining the reputation of the enterprise, investor confidence and competitiveness in the market.

Currently, large companies in more than 140 countries of the world are required (or permitted) to prepare their financial statements based on International Financial Reporting Standards (IFRS). All companies whose securities are traded on EU stock exchanges are required to prepare their financial statements based on IFRS. This requirement also applies to their subsidiaries and controlled companies.[2]

Therefore, many countries, in particular the Republic of Uzbekistan, have begun to transition to international financial reporting standards since 2021. The transition to international financial reporting standards is not only a technical process, but also an important strategic decision that fundamentally changes the principles of the enterprise's operation. This article will provide a comprehensive overview of the main positive aspects of the transition to international standards, namely, its advantages, as well as the difficulties that arise in practice and ways to overcome them.

International Financial Reporting Standards are a system that provides a unified approach to accounting. Their main task is to present financial information in an open, understandable and comparable form. Many companies around the world prepare their financial statements based on these standards, thereby attracting investments and strengthening confidence in the business environment.

Uzbekistan has also taken serious steps in this regard, and a number of large enterprises are preparing their financial statements based on these standards.

The Resolution of the President of the Republic of Uzbekistan No. PQ-4611 dated February 24, 2020 “On additional measures for the transition to international financial reporting standards” set the goal of gradually transitioning our country’s enterprises to international financial reporting standards and, as a result, increasing the transparency of their activities.[1] This will allow not only investors, but also tax authorities, creditors, banks and other interested parties to have a complete

picture of the real financial condition of the enterprise. It is transparency and openness that increase investor confidence. Foreign investors may not know local accounting standards, but a report prepared based on international standards will be clearly understandable to everyone.

The Resolution of the President of the Republic of Uzbekistan No. PQ-4611 “On Additional Measures on the Transition to International Financial Reporting Standards” brought the transition to IFRS in the country to a new stage. This Resolution established that joint-stock companies, commercial banks, insurance organizations and legal entities included in the category of large taxpayers should maintain accounting records based on IFRS and prepare their financial statements based on IFRS.[1]

Also, according to this Resolution, business entities that voluntarily prepare their financial statements in accordance with IFRS were exempted from submitting financial statements according to national accounting standards.

Organizations that have transitioned to IFRS use the “Text of International Financial Reporting Standards and Explanatory Notes Recognized for Application in the Territory of the Republic of Uzbekistan” (09.12.2022, p/r. 3400) when maintaining accounting records based on IFRS and preparing their financial statements. This regulatory legal document translates the IFRS into the state language, which consists of the Conceptual Framework for Financial Reporting, sixteen International Financial Reporting Standards (IFRS), twenty-five International Accounting Standards (IAS), fifteen International Financial Reporting Interpretations Committee Interpretations (IFRIC Interpretations), and five Standing Interpretations Committee Interpretations (SIC Interpretations).[6]

The conceptual framework for financial reporting is used to provide guidance on the development of financial standards, improve the quality of financial reporting, ensure consistency and comparability, assist in decision-making, and resolve emerging issues. It is also used in cases where existing standards are not applicable.[6]

International Financial Reporting and Accounting Standards consist of guidelines and principles for the recognition, measurement, presentation, and disclosure of financial transactions in financial statements, which are reflected in accounting records using the appropriate IFRS or IASB, depending on the type, form, and substance of the transaction being recognized. These standards ensure the consistency, comparability, and transparency of financial reporting across organizations and jurisdictions.

IFRIC Interpretations and SIC Interpretations provide guidance on how to apply IFRS to specific accounting issues or transactions not specifically covered by the standards. They provide explanations and practical guidance on accounting issues, and help entities overcome uncertainties and ensure consistency in their financial statements.[6]

Reporting based on international standards also strengthens a business’s internal governance system. When information is recorded clearly and systematically, it helps management make decisions. An enterprise can clearly analyze its financial position, obtain detailed information on cash flows, profits and losses, assets and liabilities. This creates a reliable basis for making strategic decisions.

The transition to international standards also provides specific advantages for enterprise employees. By studying these standards, employees improve their skills and have the opportunity to work in international companies. In our country, international standards are also being taught to accounting students in higher education institutions, which serves to increase the potential of personnel.

Nevertheless, the transition to international financial reporting standards also poses a number of problems.

Firstly, one of the most important problems in this regard is the lack of sufficient human resources. Accountants working in many organizations do not have full knowledge and skills in preparing reports based on international standards. This can lead to inaccurate reports, errors, and, worst of all, distrust among investors.

Secondly, the software used in enterprises does not always fully meet international standards. For example, the UZASBO system, which is widespread in Uzbekistan, is designed for state organizations and may sometimes not meet international requirements. This situation creates the need to introduce new, modern, international standard programs. However, such programs are expensive and can be a serious financial burden for small businesses.

The third problem is the high cost of transition. The transition to international standards requires a lot of resources: advanced training courses, new software tools, audit services, etc. Small and medium-sized enterprises are not ready for such costs and there is a need to financially provide for them.

In addition, there are differences between the national legislative framework and international standards. For example, existing differences in the criteria for recognizing income and expenses, depreciation methods, and revaluation of assets can throw enterprises out of balance. Therefore, it is necessary to gradually bring the legislation closer to international standards.

Nevertheless, the reforms underway to transition to international financial reporting standards are yielding results. Banks, large enterprises, in particular, Uzbekneftegaz, Uzbek Railways, Uzbektelecom, Uzbek Airlines, and other entities of state importance have begun to report on the basis of international standards. This is of great importance in increasing the country's investment attractiveness and ensuring the effectiveness of economic reforms.

Transition to international financial reporting standards is not a simple technical process, but an important strategic step that reflects the level of management culture, financial discipline and adaptability of the enterprise to the global economic environment. Financial statements based on these standards provide transparency, accuracy and reliability, strengthening the reputation of the enterprise in the international arena. Attracting investments, improving management efficiency, and strengthening the skills of employees - all this is achieved with the help of international financial standards.

However, the existing problems on this path cannot be denied. Improving the skills of personnel, introducing modern technologies, improving legislation, and creating mechanisms for state support are urgent issues. By solving them, the economy of Uzbekistan can become a competitive and investment-attractive system that meets world standards.

Therefore, every accountant, manager and economic participant must understand the essence of international financial reporting standards and be able to apply this approach in their activities. This will serve as one of the important steps towards strengthening the foundation of a digital and transparent economy in our country.

Another important aspect of international financial reporting standards is that through them, enterprises will be able to present their financial position to investors around the world in an understandable form. This is especially important for organizations operating in international financial markets. For example, for companies planning to place their shares on foreign stock exchanges, reports based on international standards are considered one of the most important documents in demand.

Also, through international financial reporting standards, significant results can be achieved in assessing the state of the enterprise's activities, improving the internal control system, planning activities and effective use of resources.

Financial statements are not only a document prepared for government agencies or tax authorities, but also a means through which the internal management of the enterprise can analyze its activities, identify its strengths and weaknesses, and see problematic aspects.

Reforms in Uzbekistan to transition to international financial reporting standards are deepening from year to year. Based on laws and resolutions adopted by the state, many state organizations and large enterprises have begun to gradually adapt their accounting procedures to international standards. This process is supported by the Ministry of Economy and Finance, the Ministry of Higher Education, Science and Innovation, as well as training and certification programs conducted in collaboration with international financial institutions.

Higher educational institutions in our country, in particular universities specializing in economics and accounting, are now also introducing subjects that deeply teach international financial reporting standards into their curricula. The fact that international certification processes for accountants are being organized in accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 38 dated January 26, 2021 "On approval of the Interim Regulation on the procedure for reimbursement of expenses for training on international standards of financial reporting and passing exams within the framework of international certification of accountants"[3] is a clear solution to these problems. This will serve to train accountants and financiers of an international level in the future. Personnel who have mastered international standards will be competitive not only in the domestic market, but also in the international labor market.

Another advantage of international standards is their flexibility. That is, they are constantly updated in accordance with changes in the global economy. This allows for quick and effective solutions to modern economic problems. Each standard is developed on the basis of in-depth analysis and extensive discussions, which facilitates their implementation in practice.

Also, by switching to international financial reporting standards, tax authorities and state control institutions will be able to operate more effectively. Because standardized and unified reports simplify not only the internal analysis of the enterprise, but also the external audit and control processes. Therefore, the effectiveness of financial control increases, corruption and financial secrecy are prevented.

International financial reporting standards also serve as an important tool in forming an economic culture and openness in society. Financial transparency is not only a concept at the enterprise level, but also a factor determining the general economic environment. The openness of financial information strengthens the atmosphere of trust in society, which is necessary for long-term sustainable economic growth.[5]

Based on the above, it can be said that international financial reporting standards are not only a technical tool in accounting, but also an important factor in increasing economic stability, financial discipline, investment attractiveness and the quality of public administration. This gives grounds to view the process of their introduction as a strategic reform at the country level.

In Uzbekistan, the successful implementation of the transition to international financial reporting standards requires, first of all, the cooperation of all stakeholders. There must be close cooperation between government agencies, the private sector, higher education institutions and audit firms.[3] Such cooperation covers all stages, from training personnel to improving legislation. In the future, it is expected that digital technologies, artificial intelligence and automated audit tools

will be introduced in this area. This will further facilitate the implementation of international financial reporting standards in practice.

International experience shows that these technological solutions have great potential in ensuring the accuracy and speed of financial reporting.

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