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FEATURES OF THE USAGE OF REPORTS PREPARED BASED ON IFRS FOR THE FINANCIAL ANALYSIS OF THE ACTIVITIES OF ENTITIES

Khabiba Arifkhanova
Fiscal Institute under State Tax Committee, PhD researcher

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Abstract. *This paper reflects features of financial reports according to IFRS, and investigates divergence in financial analyses based on reports, prepared in compliance with national accounting standards and IFRS.*

Keywords: *international financial reporting standards, national accounting standards, financial analysis, cost recognition.*

ОСОБЕННОСТИ ИСПОЛЬЗОВАНИЯ ОТЧЕТОВ, ПОДГОТОВЛЕННЫХ НА ОСНОВЕ МСФО, ДЛЯ ФИНАНСОВОГО АНАЛИЗА ДЕЯТЕЛЬНОСТИ ОРГАНИЗАЦИЙ

Аннотация. *В данной статье отражены особенности финансовой отчетности по МСФО, а также исследованы расхождения в финансовом анализе на основе отчетов, подготовленных в соответствии с национальными стандартами бухгалтерского учета и МСФО.*

Ключевые слова: *международные стандарты финансовой отчетности, национальные стандарты бухгалтерского учета, финансовый анализ, признание затрат.*

INTRODUCTION

Business processes related to the integration and transformation of business entities in the context of globalization have a significant impact on the formation of financial information intended for different users.

The determination of the enterprise strategy requires bringing financial statements into a single system for business expansion and the attraction of funds from foreign investors and international financial institutions.

In this regard, the decree of the president of Uzbekistan on additional measures to switch to International Financial Reporting Standards #4611, dated February 24, 2020, was adopted to accelerate the work related to the transition to International Financial Reporting Standards (IFRS) and consequently to provide foreign investors with the necessary information environment and expand access to international financial markets.

MATERIALS AND METHODS

Although some economists (Soderstrom & Sun, 2007) argues that the adoption of unified standards for financial reporting, including IFRS, is not enough to improve the quality of accounting, most scientists state that the IFRS adoption is the key step to the improve the quality of accounting information.

According to the IFRS, financial reporting is regulated by following standards:

- **IAS 1 “Presentation of Financial Statements”**. This standard establishes the general requirements for presenting financial reports, guidelines for reporting, and minimum requirements for its content in order to ensure that the financial statement of the organization can be compared with its reports for previous periods and the financial statements of other organizations..

- **"IAS 7 Statement of Cash Flow.** This standard serves as a basis for users of an entity's financial statement to assess the entity's ability to generate cash and cash equivalents and the necessity to use these cash flows. The purpose of this standard is to ensure that information about changes in the cash and cash equivalents flow of an entity for the past period is presented in a statement of cash flows, classifying them into cash flows related to operating, investing, and financing activities.

According to IFRS and NAS, the entire set of financial statements include:

1. a statement of financial position;
2. a statement of profit or loss and other comprehensive income;
3. a statement of changes in equity;
4. a statement of cash flows;
5. notes, comprising material accounting policy information and other explanatory information;
6. a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D of IFRS 1.

In addition to the above-mentioned reports, according to the forms recommended in IFRS 1, the presentation of financial and economic comments by the management of the enterprise which describes and explains the main features of the financial results of the entity, is encouraged.

The following provisions play a significant role during the compilation of financial statements according to the requirements of IFRS1 for the purpose of financial analysis to:

- ensure the mutual comparison of the entity's financial statement with reports of the entity for previous periods and the reports of other entities.
- reflect the fair value of the financial condition, financial results, and cash flow of an entity.

RESULTS

The purpose of the analysis of financial statements, prepared according to IFRS, is to assess precisely the results of the financing activities of the entity and develop current and strategic business plans based on an analysis of external and internal influencing factors.

Depending on the purpose of financial analysis, the following might be the tasks of financial reports:

- analysis of the structure of income and expenses and the profit generation;
- assessment of the composition and the structure, dynamics and quality of the property of the entity;
- analysis of the structure and changes in the sources of capital, which are the basis of the entity's activities;
- determination of the most desirable structure of the equity and liabilities;
- analysis of the solvency of the entity and the state of assets liquidity;
- assessment of the effectiveness of cash flow management;
- assessment of the degree of bankruptcy risk;
- identification of factors affecting the results of the activities of the enterprise and analysis of indicators of the efficiency of the enterprise and their changes;

- assessment of the effectiveness of dividend policy and the use of net profit;
- formation of a rational investment policy on the attracted capital.

Economists state that financial analysis may be conducted using reports prepared on basis of both standards, i.e. IFRS and national accounting standards (NAS). However, while conducting financial analysis, it is important to take into account the specific features of reports prepared on the basis of these standards.

The difference between IFRS and NAS is mainly related to the composition of users of financial information and the intended purpose of reports. NAS and legislation in the field of accounting have historically been formed to optimize the taxation system and keep statistical records for supervisors and regulators (tax and statistical bodies).

Moreover, national companies pay more attention to the set of strict rules by the legal acts on accounting rather than to the professional judgment of the accountant during the formulation of their accounting policy, based on NAS. It could be explained that historically the state-owned enterprises have a significant share in the economy.

On the contrary, the financial report based on IFRS is prepared mainly to satisfy the information needs of the entity's stakeholders, i.e. the managers and owners, investors and creditors, and other external users. In this case, financial statements based on the IFRS rely primarily on the professional judgment of the person responsible for bookkeeping.

Therefore, the differences between IFRS and NAS are reflected in financial evaluation, recognition, and disclosure procedures of certain types of assets, liabilities, capital, income, expenses, cash flows, and financial results.

One of the significant analytical features of financial reports prepared based on IFRS is the possibility to study the long retrospective dynamics of various indicators. This type of statement makes it possible to identify the development trends of business activity, and analyze changes in certain financial and economic indicators and forecast the entity's activity based on these indicators.

Another difference between IFRS and NAS can be observed in cost recognition. According to IFRS, the entity shall recognize all items of income and expenses for the reporting period in profit or loss *(IAS 1 Presentation of Financial Statements)*.

In the case of Uzbekistan, an additional mandatory condition for the recognition of expenses is the formalization of some necessary documents according to legislative acts. The necessity to fill out documents often does not allow entities to reflect all transactions related to the respective period. This non-recognition leads to significant deviations among the different financial statements.

DISCUSSION

There are several essential requirements in international standards on the formation of reliable information and its presentation, the mandatory fulfillment of which leads to a fair assessment of financial indicators. In particular, according to IAS 36 Impairment of assets, the organization should reflect the balance sheet value of assets at no more than their recoverable amount.

According to this standard, if the carrying amount of an asset exceeds the recoverable amount from its use or sale, the asset is carried at more amount exceeding its recoverable amount. If there is such a case, the asset is considered impaired and this standard requires the entity to recognize an impairment loss.

The standard also specifies when an impairment loss should be reversed and what information should be disclosed by the entity. This ensures the financial statement reflects the fair value of the asset, meanwhile, the profit and loss statement reflects the actual financial result.

Comparability of data is one of the most necessary conditions for creating a reliable and complete picture of the entity's financial status, changes in financial position, and the effectiveness of the entity's activities.

In conditions of inflation, complying with the IFRS requirements during the preparation of the financial statements is vital. Financial statements are made comparable by deducting the inflation-driven components of cost amounts.

There are several differences in the comparison of methodologies for analyzing financial statements based on IFRS and NAS. The main difference appears in the interpretation and evaluation of the reporting objects items during the analysis and in the impact of the professional judgment on the financial reporting indicators during the report preparation. Thus, a professional judgment plays a significant role in the interpretation of report data during the analysis process.

CONCLUSIONS

There are significant differences in financial reporting according to the national accounting standards and the IFRS, which influence the analysis and evaluation activities of the legal entities.

The improvement of the accounting and financial reporting system in Uzbekistan and bringing legislative acts in line with the IFRS will make it possible to form accurate information about the financial status of entities and ultimately make more precise and accurate financial and management decisions.

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