



Process of Coordination of Financial Statements in Banks to International Standards (IFRS)

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Abstract

This article reveals the specifics of the practical application of the transformation of state-owned banks, their reorganization in accordance with market principles and international standards, as well as the expansion of private capital in the banking system and strengthening the competitive environment. Within the framework of the topic, laws and decisions, as well as research of economists were studied and conclusions and recommendations on the topic were given.

Keywords: *Accounting; Financial Reporting; National Accounting Standards; International Financial Reporting Standards; International Auditing Standards; Business; Investment*

Introduction

The analysis shows that the lack of full control over the activities of financial institutions in the country, the accounting system is insufficiently organized at the level of international financial reporting standards and there are serious shortcomings in the activities of audit services that confirm the reliability of financial statements. Therefore, recommendations based on scientific research in this area are important.

During the reporting year, important steps were taken to transform state-owned banks, reorganize their activities in accordance with market principles and international standards, and expand the participation of private capital in the banking system and strengthen the competitive environment.

In particular, in 2020, the Decree of the President of the Republic of Uzbekistan No. PF-5992 approved the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025. In this strategy, ensuring the financial stability of the banking system, increasing the popularity of financial services and reducing the share of the state in the banking sector have been identified as key areas for reform of the banking system over the next five years. Within the framework of these directions, special attention was paid to the complex transformation of commercial banks with a state share and reduction of the state share in the banking system, and banks were divided into banks with state participation and privatization. In order to ensure the territorial coverage of banking services, to implement the socio-economic policy of the state and to meet the demand of the population for financial services, state participation will be maintained in 3 banks - the National Bank, Agrobank and Microcredit Bank. [3]

In turn, the state share in Ipoteka Bank, Uzpromstroybank, Asaka Bank, Alokabank, Qishloq Qurilish Bank and Turonbank will be privatized in Phase 2, in particular in Phase I through the transformation of banks with the support of international financial institutions and in Phase II through the sale of state shares to strategic investors.

The Ministry of Finance has set up a project office to actively involve international financial institutions and foreign consultants specializing in the transformation process, to negotiate and conclude agreements with international financial institutions and foreign investors on the privatization of state-owned shares. At the same time, cooperation was established with international financial institutions and foreign consulting companies to conduct an in-depth analysis of the financial condition of state-owned commercial banks, identify existing problems and develop appropriate transformation strategies and roadmaps.

In particular, the International Finance Corporation was involved in the transformation of Ipoteka Bank, Uzpromstroybank and Turonbank, the European Bank for Reconstruction and Development Asaka Bank, Alokabank and Uzpromstroybank and the Asian Development Bank Agrobank, Qishloq Qurilish Bank and Alokabank. International consulting companies such as PWC, KPMG, Deloitte and McKinsey & Company have begun transformation processes at Microcreditbank, People's Bank and the National Bank. In order to organize the activities of banks on the basis of market principles, measures are being taken together with international financial institutions and foreign consulting companies to introduce modern information technologies in banks, improve corporate governance and risk management, optimize their organizational structure and business models. [3]

Especially in the banking system, in particular, a system that includes accurate and complete information about the bank's assets (funds) - requires the organization and maintenance of accounting in accordance with the requirements of International Financial Reporting Standards (IFRS). Uzbekistan's attempt to join the world economic community, to expand its participation in the activities of international organizations requires the unity of national accounting standards with the methodological principles adopted in world practice, the coordination of national indicators with these indicators used abroad.

In the organization of accounting work in commercial banks, first of all, they need to create methods such as the formation of a perfect accounting policy, the preparation of financial statements that are understandable to any user and provide effective management.

Analysis Of The Relevant Literature

The Resolution of the President of the Republic of Uzbekistan Shavkat Mirziyoyev dated February 24, 2020 PQ-4611 " On additional measures to transition to international financial reporting standards" stipulates that joint-stock companies, commercial banks, insurance companies and large taxpayers. Accounting from 2021 and preparation of financial statements from the end of 2021 will be carried out only on the basis of IFRS [4]. The application of IFRSs in the preparation of financial statements of commercial banks and the disclosure to interested users on this basis increases confidence in banks and plays an important role in the development of direct relations with foreign partners. and address a number of systemic issues that hinder development in line with the needs of society. [3].

It is based on indicative requirements such as International Financial Reporting Standards (IFRS) 6 and International Standards on Auditing (IAS 7), as well as international experience and best practices in the field of accounting and auditing regulation. [10] The transition to international financial reporting standards will ensure that large enterprises, companies, commercial banks and the world's stock markets will become subjects, increasing their investment attractiveness and credit rating in terms of attracting foreign capital. IFRS reports also allow financial institutions in developed countries to join the important

information space. Most importantly, IFRS provides a more reliable way to see and know the real potential of a business than national standards. [8]

Research Methodology

In the process of organizing and conducting the research, methods such as expert assessment, comparative analysis, systematic and factor analysis were used on the basis of accounting methods. In particular, the method of factor analysis was used in the identification of more internal and external factors, taking into account the recommendations of the new international standards of financial reporting and accounting in commercial banks. The method of systematic analysis is to improve the chart of accounts of commercial banks based on the requirements of International Financial Reporting Standards;

Analysis and Results

Ensuring that banking structures in Uzbekistan are included in the banking systems of developed countries and applying the achievements of world practice in this area directly to the banking system, developing and applying the conceptual and specific framework for financial reporting of banks in the world banking system will directly contribute to the development and strengthening of banks. It should be noted that the significant increase in foreign investment in recent years indicates a further increase in confidence in the banking system. This, in turn, means that commercial banks need to further improve the quality of financial reporting and transparency of information provided to different potential users, and the application of International Financial Reporting Standards (IFRSs) [1] is of great importance (Table 1).

Table 1
Grouping IFRS ¹

№	IFRS grouping name	MHXS number
1	Access standards	MHXS (IAS) 1, MHXS (IAS)7, MHXS (IAS) 8
2	Basic standards	MHXS (IAS) 18, MHXS (IAS) 2, MHXS (IAS) 37, MHXS (IAS) 12
3	Standards that take into account long-term assets and liabilities	MHXS (IAS) 16, MHXS (IAS)36, MHXS (IAS) 40, MHXS (IAS)17, MHXS (IAS) 38, MHXS (IAS)11, MHXS (IAS) 23, MHXS (IAS) 20
4	Private standards	MHXS (IFRS) 1, MHXS (IAS) 21, MHXS (IAS) 5, MHXS (IAS) 29
5	Remuneration standards	MHXS (IAS) 19, MHXS (IAS) 26, MHXS (IFRS) 2
6	Standards for companies	MHXS (IAS) 14, MHXS (IAS) 33, MHXS (IAS) 34
7	Information disclosure standards and network standards	MHXS (IAS) 10, MHXS (IAS) 24 MHXS (IFRS) 4, MHXS (IFRS) 6, MHXS (IAS) 41
8	Banking standards	MHXS (IFRS) 7, MHXS (IAS) 32, MHXS (IFRS) 1

The main tasks of the International Accounting Standards Committee (IASB) are clearly defined in its Charter, including:

first , the development and presentation of international financial reporting standards in the public interest;

second , the publication of accounting standards, compliance with the presentation of financial statements, monitoring their application and implementation around the world;

third , work to improve and harmonize accounting standards and processes related to the submission of financial statements.

The Committee also sets out the main requirements for the quality of these standards, including:

- comprehensibility,
- continuity,
- reliability,
- comparability.

It is noteworthy that these requirements are reflected in our legislation in the form of key elements of financial reporting.

The measures of gradual transition of accounting in commercial banks operating in the country to international standards will be carried out with the technical assistance of the Central Bank of the Republic of Uzbekistan and the World Bank. The main tasks are as follows:

first , further improvement of financial reporting and accounting in commercial banks, taking into account the recommendations of the new international financial reporting standards;

second , to improve the chart of accounts of commercial banks based on the requirements of international financial reporting standards;

third , regular publication of key performance indicators of commercial banks, including annual financial statements, in the media and on Internet sites.

It should be noted with satisfaction that these standards (IFRS) today provide the Central Bank with the most favorable conditions for the rational implementation of monetary policy and adequate control over commercial banks. [7]

Looking at the activities of the banking system of Uzbekistan, control over the preparation of financial statements of banks is carried out directly on the basis of a number of regulations developed by the Central Bank of the Republic of Uzbekistan. The use of IFRSs in the preparation of financial statements of commercial banks and, on this basis, disclosure to interested users increases confidence in banks and plays an important role in the development of direct relations with foreign partners (Table 2).

The main problems in the implementation of international financial reporting standards in commercial banks are:

first, the analysis of the procedure for transferring accounting (financial) accounting to international standards (IFRS) and its incomplete disclosure;

Table 2
Procedure for applying IFRS in accounting and financial reporting of commercial banks ¹

Financial reporting elements	Regulatory Standards (IFRS)	Note
Assets	<i>IFRS №8 “Accounting policies, accounting estimates and errors”, IFRS №16 Property, plant and equipment, IFRS №36 Asset impairment, IFRS 40 Investment property, IFRS №17 Lease, IFRS №38 Intangible Assets, IFRS №32 Financial Support, IFRS №21 Changes between currencies</i>	<i>bank assets, their recognition, income, write-off, depreciation, exchange rate differences and the procedure for their financial results in giving</i>
Private capital	<i>IFRS №1 Submission of financial statements, IFRS №20 Government Subsidies and Grants.</i>	<i>Bank capital structure: charter, added and reserve capital, undistributed</i> <i>Taking into account the benefits.</i>
Liabilities	<i>IFRS 37 Contingent liabilities and contingent assets, liability assessment, IFRS 626 Retirement benefits accounting and reporting, IFRS №23 Loan expenses, IFRS №19 Employee incentives</i>	<i>Occurrence of bank liabilities, accounting for pension benefits and employee incentives, potential liabilities in the evaluation</i>
Earnings	<i>IFRS №33 Earnings per share, IFRS №18 Income</i>	<i>In the formation of income in banks and their accounting, as well as income per share account</i> <i>In receiving</i>
Costs	<i>IFRS №12 Income taxes, IFRS 1 Submission of financial statements</i>	<i>Occurrence of expenses in banks and in their accounting, as well as income taxes in the calculation</i>
When preparing financial statements:		
<i>IFRS №1 Preparation and Presentation of Financial Statements, IFRS 434 Interim Financial Reporting, IFRS №29 Hyperinflationary Financial Reporting, IFRS №27 Consolidated Financial Statements, IFRS №8 Accounting policies and changes therein, IFRS 7 Cash Flow Statement</i>		<i>Defines the conceptual framework for the preparation and submission of financial statements in banks. Principles of financial reporting explains.</i>

second , the problems with the differences between International Financial Reporting Standards (IFRSs) and National Accounting Standards (NAS) have not been resolved;

third , the lack of qualified personnel to conduct accounting in accordance with the requirements of accounting and IFRS in assessing trends in line with the current state of the accounting system;

fourth , the incomplete formation of practical skills in the use of information prepared in accordance with IFRS by bank accountants has the potential to use international standards (IFRSs) for each object of accounting of commercial banks, which can be seen from the table below.

Table 2

Relationship between international and national standards on the structure of financial statements

MHXS (international)	BHMS (national)
Financial Statement (Accounting)balance)	Balance sheet (Figure 1)
Gross Income Statement (Profit)and about losses)	Report on financial results(Figure 2)
Cash flow statement	Cash Flow Statement (Figure 3)
movement of capitalreport	Private equity report (Figure 4)
Accounting policy, accounting Policy changes and errors	Appendices , explanations andcomments
Not conditionally defined	Audit opinion (next) until May 1 of the reporting year)

Based on the above considerations, the following theoretical conclusions have been reached in order to fully implement and further improve the international financial reporting standards in commercial banks:

- It is necessary to continue the process of harmonization of the accounting system in commercial banks with international financial reporting standards.
- In the transition to IFRS, simplify as much as possible the forms of financial reporting of commercial banks in order to establish relations with foreign countries at the international interbank level and expand their activities.

There are differences between the forms of accounting (financial) reporting created in commercial banks in the country and the forms in the International Standards (IFRS) and their naming.

True, IFRS has this general description, with different countries developing their own standards based on their policies, economies, and social structures, but the process of international integration in the world requires that the information in the financial statements be as uniform as possible.

In our opinion, the organization and maintenance of existing accounting in commercial banks in accordance with the requirements of international standards should be as follows:

first, the harmonization of accounting and financial reporting with IFRS rules in a transformational way;

secondly, the maintenance of accounting and financial reporting procedures on the initial accounting of IFRS (in parallel with IFRS).

Adapting to IFRS in a transformational way may be convenient, but there is a lack of qualified professionals. The second way is simpler, but more labor intensive. [4]

In our opinion, the following issues should be addressed at the initial stage:

1. Review the general requirements for IFRS reporting;
2. Conduct a comparative analysis between IFRS and IFRS and develop appropriate conclusions;
3. Study the requirements of IFRS 1 “Presentation of Financial Statements”;
4. Develop an accounting policy based on IFRS.

Conclusions and Suggestions

The implementation of international accounting standards in the activities of commercial banks will lay the groundwork for the competitiveness of banks, as well as increase the level of banking services, encourage banking professionals to conduct regular research. In addition, the transition to IFRS is one of the most convenient for banks and one of the ways to attract foreign investors. [7] The transition to IFRS will serve as a basis for commercial banks to operate and expand their activities at the international interbank level. It will also increase the transparency of commercial banks' financial statements and expand users of financial statements. [7]

In conclusion, in the near future, the existing accounting system in commercial banks of the Republic will undoubtedly become an improved accounting system that can fully meet the requirements of international financial reporting standards.

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