



THE MAIN PROBLEMS OF TRANSITION TO IFRS IN THE REPUBLIC OF UZBEKISTAN

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Abstract: This article discusses the problems related to the full implementation of international financial reporting standards in the Republic of Uzbekistan. It has been established that the transition to International Financial Reporting Standards (IFRS) is an important element in the further development of both the economy as a whole and enterprises that are tasked with attracting private foreign capital, increasing competitiveness and entering international markets. It has been determined that the use of IFRS is necessary to simplify international comparisons on the elements of financial statements, allowing investors to make effective financial decisions, since they can reliably see and understand what is happening with the company in which they want to invest. An analysis of the possibilities of introducing IFRS into national practice has been carried out, positive and negative aspects of the implementation of international standards have been highlighted. The transition to international financial reporting standards can lead to both positive and negative consequences for companies. Among the positive aspects are increased transparency, improved comparability of indicators and, as a result, increased opportunities for analyzing their activities and facilitating access to international capital markets.

Keywords: international financial reporting standards; national accounting standards; financial statements; the concept of development of accounting.

Introduction

In 2020, the Republic of Uzbekistan decided to join the list of countries that have adopted IFRS. According to the Presidential Decree "On Additional Measures for the Transition to International Financial Reporting Standards" No. PP-4611 dated February 24, 2020, a decision was made that, starting from 2021, joint-stock companies, commercial banks, insurance organizations, and enterprises classified as large taxpayers must prepare financial statements in accordance with IFRS.

The irreversibility of the transition to IFRS is driven by the modern demands of the business community. The year 2020 was designated as a transitional period during which enterprises were advised to thoroughly prepare for the implementation of IFRS: assess the tax implications of the transition, develop an accounting policy, analyze the compatibility of IT systems with IFRS reporting requirements, and evaluate the business's readiness to change its financial reporting in line with IFRS standards.

The development of accounting is an integral part of the history of human society. Conflicting interests, the increasing complexity of economic activity, and the growing role of the state and law all contribute to the importance of accounting. Under current conditions, further development of the theoretical and methodological foundations of accounting is essential.

The issue of inconsistency between accounting models is not unique to Uzbekistan; it is a global challenge. Worldwide, both preparers and users of financial statements face the problem of unifying accounting practices.

Materials and Methods

International Financial Reporting Standards (IFRS) represent a continually updated system that is modernized through editorial revisions and periodic changes in terminology. At the core of these transformations lies the unification of accounting principles used by companies worldwide for preparing financial statements.

The further development of the accounting and financial reporting system should aim to improve the quality, transparency, and comparability of the information generated through accounting and financial statements in accordance with IFRS.

A phased transition to IFRS is planned, including:

Voluntary adoption of IFRS;

Mandatory adoption of IFRS starting from 2021 for a specified list of legal entities of public interest (joint-stock companies, commercial banks, insurance organizations, and legal entities classified as large taxpayers).

As with any other process, the implementation of IFRS is closely associated with challenges and accompanying difficulties. The transition to international financial reporting standards may lead to both positive and negative consequences for companies.

Among the positive aspects are increased transparency, improved comparability of indicators, and, as a result, expanded opportunities for analyzing performance and easier access to international capital markets.

(Source: Presidential Decree "On Additional Measures for the Transition to International Financial Reporting Standards" No. PP-4611, dated February 24, 2020)

However, financial reporting alone does not guarantee an inflow of investment [3]. Moreover, for example, net profit calculated according to international standards may be significantly lower than under national accounting standards.

Additionally, the transition to IFRS will require companies to incur extra labor and financial costs, and assessing the positive economic effects of the new system at the initial stage will be quite difficult.

Table 1
Structuring the IFRS Function²

Internal Staff	Newly Hired Staff
Advantages	
Good knowledge of the company's (group's) business operations; - Easier to address organizational issues (e.g., organizing data collection); - Some IFRS-related tasks can be added to current duties (e.g., national accounting) through reallocation of resources — lower financial costs; - The IFRS function is more easily	- IFRS knowledge and skills in preparing IFRS reports; - Responsibility for establishing the IFRS function is passed to a new team — no need to reorganize existing departments or reassign staff responsibilities; - May be a faster option — no time required for staff training.



<p>integrated into the company's (group's) business processes — not perceived as “foreign”; - Can be deployed in any geographic region of the company (group), especially where there is a shortage of qualified IFRS specialists in the labor market.</p>	
<p>Disadvantages</p>	
<p>Without proper reallocation of duties, there is a risk that objectives will not be met; - Need for additional training in IFRS reporting — often with consultants, which increases financial costs in the first year of IFRS implementation.</p>	<p>Lack of business knowledge — time needed for analysis; - A newly formed structure may face internal resistance as it is imposed from the top — difficulties in data collection and obtaining high-quality information; - May be a suboptimal structure (e.g., if staff are hired at the holding level but the group is geographically diversified); - Challenges in hiring qualified specialists and properly evaluating their qualifications.</p>

Results IFRS are principle-based rather than rule-based, which allows preparers of financial statements to fully reflect the economic substance of a company, its current state, and its future prospects. Key principles include: the accrual principle, the going concern assumption, prudence, relevance, and others.

A review of literature has shown that an increasing number of companies are recognizing the advantages of preparing financial statements in accordance with IFRS [4]. The main reasons include:

- The need to provide IFRS-compliant reporting to attract foreign investment;
- The company's intention to enter international financial markets.

It is important to note the positive factors for all interested users of financial statements:

1. For financial analysts and investors: improved clarity and comparability, transparency and reliability, and lower costs for financial analysis.
2. For companies: reduced costs of capital attraction, a unified accounting system, no need to reconcile financial information, and consistency between internal and external reporting.
3. For auditors: uniform reporting principles, the ability to participate in the standard-setting process, and access to global training opportunities.
4. For national standard-setters: knowledge exchange, a foundation for national standards, increased trust in local standards by foreign experts and investors, and convergence — the process of aligning national accounting systems with international ones.
5. For developing countries: reduced costs of developing national standards and improved ability to attract investors.

IFRS Reporting Can Be Conditionally Divided into Three Groups:

1. Companies Working with Foreign Partners

If a company actively cooperates with foreign partners, reporting prepared in a language they understand (i.e., IFRS) would be a significant advantage.

2. Companies in Need of Credit Resources

One of the main obstacles to business growth today is the lack of capital. Therefore, Western capital markets, which offer relatively lower interest rates and long-term loans, are becoming increasingly attractive. This category primarily includes capital-intensive enterprises from the most dynamically developing sectors (leasing, trading, industrial companies) [5].

3. Companies with a Developed Corporate Culture

IFRS application may also benefit organizations that do not currently plan to enter Western financial markets. The advantage lies in providing managers with high-quality information that enhances management effectiveness, improves communication with the market and shareholders, strengthens corporate governance systems, and thus increases trust in management. The use of IFRS is most effective in companies where owners are not represented in the company's leadership and rely on financial reports for insights. IFRS-based reporting allows interested users to assess the quality of company management and make economically justified decisions [6].

Discussion

There are several key challenges in the transition to IFRS in the Republic of Uzbekistan:

1. Lack of Qualified Personnel

Currently, the labor market lacks sufficient IFRS specialists, so few companies prepare IFRS reports independently. Most turn to consulting and auditing firms. It is particularly difficult to find skilled finance professionals capable of preparing IFRS reports, especially in the regions where the necessary training infrastructure is underdeveloped. In contrast, in Tashkent — where many seminars and conferences on IFRS are held and publications are more accessible — learning opportunities are significantly better.

2. Lack of Transparency

IFRS reporting must be transparent, particularly in disclosing information about holding structures and actual business owners. Many companies and their owners are not ready for this level of openness. Legal and organizational clarity of group structures is critical for IFRS, especially when preparing consolidated financial statements. IFRS standards regulate how to account for corporate groups, including parent and subsidiary companies. In Uzbekistan, many holdings are not formally organized into legal groups; they are often a set of companies registered under different individuals or legal entities but controlled by the same private owners. In such cases, to achieve correct IFRS consolidation, the group structure must be revised.

3. High Costs

The most significant expenses in preparing IFRS reports include hiring and training staff, as well as paying for consulting and auditing services. Professionals certified in IFRS command significantly higher salaries than general finance specialists. Costs are typically highest during the transition period, though they tend to decrease after the IFRS system is implemented.

4. Transformation of Financial Statements to IFRS

There are two main methods of preparing IFRS-compliant reports:

Transformation of national accounting data into IFRS format;

Parallel accounting using both national and international standards simultaneously.

Transformation means “translating” national reports into IFRS by adjusting certain items (due to differences in measurement methods). This method usually incurs lower financial and time costs and is often considered a temporary measure when transitioning to parallel accounting.

Parallel accounting involves recording every business transaction in accordance with IFRS. For large enterprises, this is technically unfeasible without implementing expensive automation systems. These complex systems also demand highly formalized and standardized business processes, requiring a restructuring of the entire accounting system.

The choice between methods depends on the anticipated costs and the purpose of IFRS adoption. The broader the intended use of IFRS data (e.g., for management accounting or budgeting), the more likely companies are to opt for parallel accounting. According to the author, this method is more effective, as it allows the company to build its internal reporting system on the same principles as its external reporting. The process of transitioning to IFRS is lengthy and costly.

At the very beginning of the project, it is necessary to choose a method by which the company will maintain IFRS accounting (transformation or parallel accounting). The chosen method will determine all subsequent steps in the transition to IFRS. At the same time, it should be noted that not only large corporations benefit from adopting IFRS. Accounting under IFRS is also advantageous for other enterprises, including small and medium-sized businesses [7]. In particular, transitioning to IFRS allows all companies to:

- Expand access to financing and reduce the cost of capital by increasing transparency and aligning accounting standards;

- Reduce long-term costs associated with software updates and staff training in accounting;

- Minimize the risk of managerial abuse and increase protection for minority shareholders;

- Enable better management decisions, based on the company’s actual economic situation, which in turn supports more efficient capital use and improved performance.

To summarize, the transition to IFRS may be a lengthy and complex process that requires addressing many methodological and accounting issues. Many companies will need to significantly revise their current accounting policies to comply with IFRS. This includes key accounting areas such as revenue recognition, inventory accounting, financial instruments, employee compensation plans, impairment testing, reserves, and share-based payments.

The transition to IFRS must be phased: an immediate switch is unrealistic, as it first requires numerous actions, including amendments to legislation and a comprehensive revision of the national accounting and reporting framework [8]. Currently, there is a positive trend toward adopting the new reporting standards, and it is believed that in the near future, all companies will be able to complete the transition to IFRS.

Conclusion.

The main solution in this case is the development of targeted programs and training courses for accounting and other financial department specialists. Their qualification improvement should focus on the preparation and independent analysis of financial

statements, rather than just the technical aspects of bookkeeping. There are several existing approaches to the adoption of IFRS:

1. Adopt IFRS as they are;
2. Adopt international standards with the possibility of "limited modification";
3. Develop national financial reporting standards that are as harmonized with IFRS as possible.

Thus, it is essential to understand that the transition to IFRS is a complex and multifaceted process. It must be aligned with the pace of economic development and correlated with the readiness of the current national accounting system and practicing accountants to accept and implement the corresponding innovations.

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