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Introduction

In 2014, more than 500 new businesses, primarily small businesses were involved in export activities. Foreign trade balance was the surplus of 180 million dollars, the country's gold and foreign currency reserves increased by 600 million to \$ 1 billion.¹

In spite of the fact that achieved progress, we must develop our national economics rather than most recent years. This aim requires of us to find new directions and methods, which help to develop economy of our country in future.

Nowadays, the world is changing very quickly and so is Accounting Practices. As free movement of capital and other resources is very important for the economic and political integration of the countries, harmonization and convergence of accounting and financial reporting can be considered as an integral part of this development. Furthermore, shareholders and other stakeholders can be better able to compare financial information of different firms around the world, which can be hardly achieved by different accounting and financial reporting practices. The creation of a more apparent and efficient capital market that will assist a lower cost of capital. That is why the convergence of international accounting standards to the national accounting system has already become an issue, need and problem in Uzbekistan.

When market economy is adopted instead of planned, there occurred the need for infrastructure related to the development of this system, and it is gradually improving from the independence.

The development and problems in the field of accounting also can be seen in the market economy. The need of conducting all organizations' accounting based on uniform standards is increasing around the world day by day. This is one of the main ways for attracting the large-scale flow of capital and maximizing profits. Now let us look through different triggers turn by turn in order to understand better the real need and problem of converging international accounting standards to the national accounting system.

¹ И. А. Каримов. Доклад на заседании правительства по итогам социально-экономического развития страны в 2014 году и важнейшим приоритетам на 2015 год. –Т.: Узбекистан, 2015. -2-3 стр.

Firstly, large foreign investors who have lots of capital try to increase their capital and want to invest to a safely business. Then, they begin searching for profitable organizations that have enough property and good history of doing business. Having found several of them, potential investors compare their financial situation and try to choose the best of them. Financial data and indicators in the statements allow of carrying out this comparison, only if they are prepared in the same manner. It is possibly only according to financial statements prepared in accordance with international financial reporting standards.

Secondly, the financial statements prepared in accordance with international financial reporting standards will decrease the costs associated with the learning of local standards. Not only investors, but also everybody does not like to spend extra money.

Thirdly, financial statements of companies must be prepared in accordance with international financial reporting standards to have access to an international financial market and to sell their securities there.

Fourthly, the transition to international accounting standards or converging of national accounting standards encourages foreign investors begin their business in our country.

Based on the above, it can be said that the preparation of financial statements in accordance with international financial reporting standards helps to attract the capital of investors indeed.

The reason why I am writing my diploma work on this topic is to speed up the development of our country with the help of foreign investors' capital. Therefore, the development of our accounting systems should be carried out. Our national accounting standards have been developed based on international accounting standards in early years of independence, and now they need to be improved.

The object of my diploma work is the national accounting standards and international financial reporting standards.

President I. A. Karimov said that "It is necessary to define clearly the ways of improving stability and future reformations for the reason of:

- improving stability of banking & financing system and going on deep reformations for completely changing of approaches and systems of evaluation of banks and banking & financing system;
- providing for banking organizations to get high position according to generally accepted international norms, standards and evaluating indicators²".

This is not surprising, because our country is one of the developing countries. It has passed not too much time after our country entered into the world community. We are strengthening our position in the world community according to our country's potential and the steadfastness of our nation. Therefore, we should help to develop financial and banking system for providing the stability of the economy. To achieve these goals as well as the applications and routes must be clearly defined.

The purpose of writing my graduation diploma work on topic "International accounting standards (IAS) and the implementation problems of national accounting standards" is to develop our national accounting standards based on international financial reporting standards and to reveal the problems associated with this.

Method of graduation diploma work: observation, grouping, selection, comparison, an induction and deduction, analysis and synthesis.

Several achieving goals should be clearly defined:

1. The national accounting system, the application of international financial reporting standards and the need to identify the problems.
2. Determining the harmony and developing methods of national accounting standards with the international financial reporting standards.
3. Choosing the term plans of future convergence of national accounting standards with the international financial reporting standards.

My graduation diploma work consists of three chapters, conclusion, bibliography and some appendixes. In the first chapter, I outlined the need and

² The decision of the President of the Republic of Uzbekistan. On priority directions of further reforming and increasing sustainability of financial-banking system of the republic in 2011-2015 and achieving high international rating indicators. Collection of Laws of the Republic of Uzbekistan, 2010, № 48, Art. 442.

problems of the converging of international accounting standards to the national accounting system. In the second chapter, I tried to describe the state of the national financial reporting standards in harmony with the international financial reporting standards. In the third chapter, I advised the prospects of converging of NAS with the international accounting standards.

In conclusion, I gave some recommendations for the development of national accounting system.

Moreover, I am trying to offer my own suggestions and provide with information for the implementing of the above goals and objectives. They are:

- the current state of the national accounting system;
- associated problems with the preparation of financial reports;
- harmony of the existing standards and international standards;
- national standards, international standards on different aspects of financial reporting;
- national standards based on international financial reporting standards.

CHAPTER 1. THE NEED AND PROBLEMS OF THE CONVERGING OF INTERNATIONAL ACCOUNTING STANDARDS TO THE NATIONAL ACCOUNTING SYSTEM

1.1. The need for the converging of international accounting standards to the national accounting system

Nowadays, the accounting system in the Republic of Uzbekistan is in the process of reform. According to experiences of developing countries in international accounting standards, the Republic of Uzbekistan is currently being implemented gradual orientation of national accounting standards to international accounting standards and financial reporting. The convergence of national legal acts regulating the accounting methodology in the Republic of Uzbekistan with international standards resulted in increased requirements for professional qualifications of accountants and auditors. The use of national accounting and auditing practice, international experience and knowledge of the basics of construction, principles and content of the international financial reporting standards (IFRS) will ensure the transparency of the financial statements of business entities, as well as the degree of user confidence in audited financial statements.

The studying of IFRS is based on basic knowledge of general theoretical and general economic subjects, in particular the theory of accounting, bookkeeping and accounting in industry, and audit³.

According to the Presidential Decree "On measures for the introduction of modern methods of corporate governance in joint stock companies⁴" for 2015 - 2018 years of all joint stock companies will be transferred to the publication of the annual financial statements and conduct of its external audit in accordance with International Standards on Auditing and International Financial Reporting Standards.

³ <http://www.ifrs.org/Pages/default.aspx> - International Accounting Standards Board and IFRS Foundation.

⁴ Decree of President Islam Karimov of Uzbekistan about "On measures on introduction of modern methods of corporate management in joint stock companies" on 24 April 2015.

Commission to improve the efficiency of joint stock companies and improve the corporate governance system up to July 1, 2015 to approve the schedule of publication of the annual financial statements of joint stock companies in accordance with international standards.

The last decade of the XX century and the beginning of XXI century was marked by increased attention to the issue of international harmonization of accounting.

Business Development, accompanied by the increasing role of international integration in the economic sphere, certain requirements for uniformity and transparency applied in the different countries of the principles of formation and calculation algorithms profits tax base, conditions for investment and capitalization of earnings and so on. That is the problem faced by our experts in the field of accounting in the transition to a market economy and the establishment of business contacts with foreign investors at the level of organizations (companies), corporations and so on.

Currently, the best known are two approaches to its solution: the harmonization and standardization. They first differ in embedded in their ideology and the principles of implementation. However, in recent years, the two terms are often used interchangeably or as complementary concepts.

The idea of harmonization of the various accounting systems implemented in the framework of the European Community (EC). Its essence lies in the fact that each country can have its own model of organization and system of accounting standards governing it. The main thing is that these standards do not conflict with the same standards in member countries community, in a relatively "harmony" with each other. Work in this direction is underway since 1961. In order to create the concept of development of accounting in the European Union (EU) was formed a research group on accounting. Its activities are viewed as an integral part of the program of harmonization of national versions of the Companies Act. The results of this work are published in the form of regulations, which have been

incorporated by every member of the EU in their national legislation in terms of accounting⁵.

The idea of standardization of accounting procedures implemented as part of the unification of accounting, which carries the International Accounting Standards Board - IASB (International Accounting Standards Committee, IASC), developing and publishing the International Financial Reporting Standards - IFRS (International Accounting Standards - IAS). The essence of this approach is to develop a uniform set of standards applicable to any situation in any country, which is why there is no need to establish national standards. With regard to the introduction of uniform standards, then this should be achieved not by legislation, but by voluntary agreement of the professional organizations.

At present, there are several accounting systems, particularly the Anglo-American, European, and others. However, according to experts, the standards developed by the IAS, will be used by most countries of the world in the near future. The rise in popularity of international standards was driven by two events. The first event was the signing of an agreement between the IASB and the International Organization of Securities Commissions - IOSCO, which reflected the desire of financial circles and the US Congress to attract more foreign companies to quote their shares on US stock exchanges.

The second event, to accelerate the transition to IFRS, occurred during the unification of Germany. This fact largely predetermined growth needs to attract capital into the country. In this regard, the financial statements of companies should focus more on the external user, such as a stock exchange or international investors. That is why companies that were included in the listing of stock exchanges and to prepare consolidated financial statements, were forced to accept IFRS.

Currently, there are several uses of the countries of the International Financial Reporting Standards. They are in Table #1.

⁵ *International Business & Economics Research Journal* (2010). IFRS Adoption in the EU, Accounting Harmonization And Markets Efficiency: A Review by Gabriele Gugliola, University of Insubria, Varese, Italy Vol. 9, No. 12.

Countries that uses IFRS⁶

№	Type of using	Countries
1	Adoption of IFRS as national standards.	Cyprus, Kuwait, Latvia, Malta, Pakistan, Trinidad and Tobago, Croatia.
2	Use of IFRS as national standards, but with the condition that the questions are not affected by international standards, developing national.	Malaysia and Papua - New Guinea, as well as Uzbekistan .
3	Use of IFRS as national standards, but in some cases, to modify them in accordance with national characteristics.	Albania, Bangladesh, Barbados, Zambia, Zimbabwe, Kenya, Poland, Sudan, Thailand, Uruguay, Jamaica.
4	The national standards based on IFRS and they provide additional clarification.	China, Iran, Slovenia, Tunisia.
5	The national standards based on IFRS, but some standards may be more detailed than IAS.	Brazil, India, Ireland, Lithuania, Mauritania, Mexico, Namibia, Netherlands, Norway, Portugal, Singapore, Slovakia, Turkey, France, Switzerland, South Africa.
6	The national standards based on IFRS, except for the fact that each national standard includes a provision comparing the national standards with IFRS.	Australia, Denmark, Italy, New Zealand, Sweden.

Consider the positive and negative features of the IFRS.

Their objective advantages over national standards in some countries are as follows:

- A clear economic logic;
- Compilation of the best of contemporary international practices in the field of accounting;
- Simplicity of perception for the users of financial information around the world.

At the same time, the international standards make it possible to not only reduce costs for companies to prepare their reporting, particularly in the consolidation of financial statements of companies operating in different countries, but also reduce the cost of raising capital. It is known that the market price of

⁶ Сейдахметов Л.Д. Международная стандартизация и гармонизация учета и отчетности. А., 2006. – 200с

capital is determined by two major factors: risk and return perspective. Some of the risks really are characteristic of the activity of the companies, but there are those that are caused by lack of information, lack of accurate information on the impact of investments. One reason for the lack of information is the lack of standardized financial statements that, to preserve capital, effectively multiplies it. Therefore, investors are willing to get a little more low-income, knowing that the greater openness of information reduces their risks.

The totality of the data provides benefits in many respects the desire of various countries to the use of IFRSs in the national accounting practices.

However, it should be noted also disadvantages of IFRS. These, in particular, may include:

- Generic nature of the standards, providing a sufficiently large variety of methods of accounting;
- The lack of detailed interpretations and examples of application of standards in specific situations.

In addition, the introduction of standards worldwide impede such factors as national differences in levels of development and traditions, as well as the reluctance of national institutions to waive its priority in the field of regulation and accounting methodology.

Committee on the International Accounting Standards Board takes into account these negative factors and is actively working to address them. For example, on January 1, 1989, the Committee issued a document E32 "Comparability of Financial Statements⁷", which lists 29 proposals to limit the choices of accounting methods permitted by applicable IFRS. This document is considered by many experts as one of the best projects of the IASB. It allows to some extent to eliminate a number of differences in the content of reporting and simplify its transformation during the comparative analysis in the international context.

⁷ <http://www.iasc.org.uk> - International Accounting Standards Committee (IASC)

Regarding the development of interpretations, then the solution of this problem has been recognized as one of the priorities of the IASB in the coming years. Moreover, in 1996 it was decided to establish in the framework of the IASC Standing Interpretations Committee (SIC)⁸.

The active position of the country, defending their views, can change the point of view of the IASB, as the Committee seeks to obtain and generalize the experience of various countries in the organization of accounting systems. It is possible that in the coming years the constitution of the Committee will undergo some changes in the direction of enhanced cooperation between the IASB and national standard-setting organizations in their countries.

International Accounting Standards Committee (IASC) was established on June 29, 1973 representatives of the professional organization of the major developed countries⁹: Austria, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, USA. Between 1983 and 2001, members of the IASB includes all professional accounting organizations, consisting members of the International Federation of Accountants.

In 2001, the IASC was transformed into the International Accounting Standards Board (IASB¹⁰), which is a non-governmental professional organization.

In general, as stated in the charter of the organization, its work has the following objectives:

1) Development of a unified system of high quality, understandable and applicable in practice, global accounting standards that provide the formation of financial reporting quality, transparent and comparable information in order to assist participants in the global capital markets, and others. Information to users in making economic decisions;

2) Dissemination of standards and ensure their uniform interpretation;

⁸ <http://www.ifrs.org/Pages/default.aspx> - International Accounting Standards Board and IFRS foundation

⁹ Мошенко Н.П. Международные стандарты учета и финансовой отчетности: Учеб. пособие. — М.: Финансы и статистика, 2007. -272 стр.

¹⁰ <http://www.accaglobal.com/home/> - Association of Chartered Certified Accountants (ACCA)

3) The active work in the direction of convergence of national standards with IFRS.

IASB has a definite hierarchical structure. It consists of four bodies: the Board of Trustees, the Board, the Advisory Council and the Interpretations Committee (Illustration #1).

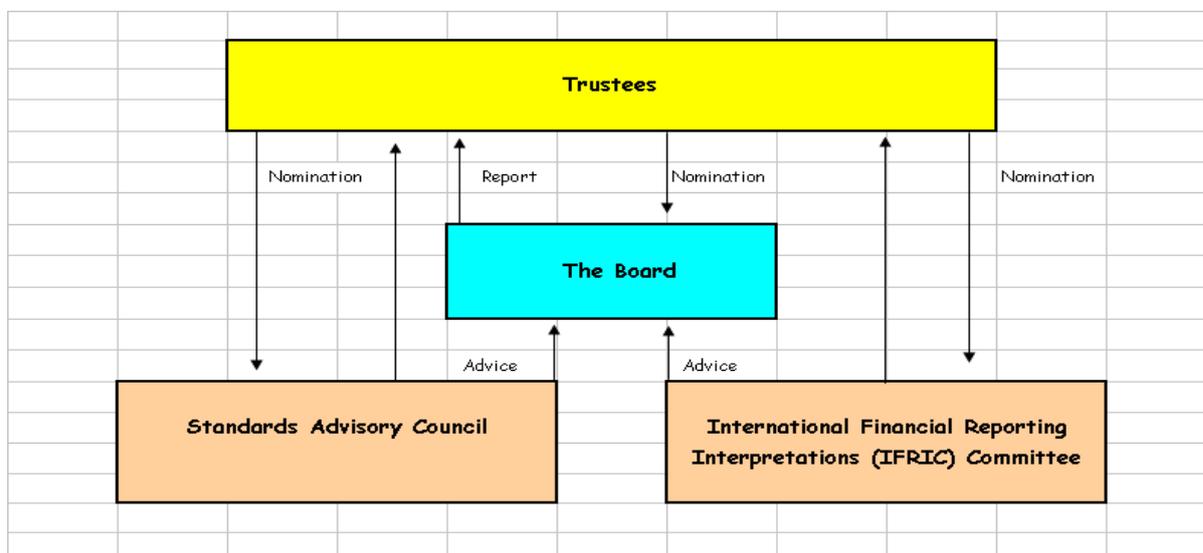


Illustration # 1. IASB Structure & Governance¹¹

IFRS are developed with the participation of accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, the academic community and other interested individuals and organizations around the world. At open meetings, the IASB consults Standards Advisory Council. Rules of project activities, as a rule, but not necessarily, involves the following steps shown in Table #2.

Table #2

Stages of development and adoption of standards¹²

№	Contents stage
1	Definition of issues that need standardization, considering the possibility of applying to them the Principles of preparation and presentation of financial statements
2	The study of the requirements of national accounting standards and accounting practices, as well as exchange views with the national authorities, establishing these standards
3*	Consultations with the Advisory Council on Standards regarding the inclusion of the issue on the agenda of the IASB

¹¹ My own work according to Palea, V. (2007). The effects of the IAS/IFRS adoption in the European Union on the financial industry. *The European Union Review*, vol. 12, no. 1-2.

¹² Никифорова Е. А. Анализ рисков и проблем, связанных с переходом в Российской Федерации бухгалтерского учета и отчетности на международные стандарты финансовой отчетности // Вопросы анализа риска. 2008. № 3 – 4.

4	Formation of an advisory group, which will provide advice on the IASB project
5	Publication of the Discussion Paper (discussion document, DD) for public comment
<i>continued</i>	
6*	The publication for public comment of draft provisions (exposure draft, ED), approved by not less than eight members of the IASB, including the dissenting opinions of the members of the IASB
7	Publication in position to draft a basis for conclusions
8*	Consideration of all the comments that come within the prescribed period for the discussion paper and the draft provisions
9	Consideration of the need for public hearings and expert testing (approvals), and if such a need is established, the implementation of these measures
10*	Adoption of the standard is not less than the 8 th member of the IASB and inclusion in the published standard of the dissenting opinions of members of the IASB
11	Publication as part of the standard basis for conclusions and other explanations that reveal the stages of development of standards and public comments on the draft provisions
Steps marked with an asterisk are required to perform in accordance with the provisions of the Charter of the IASB.	

International Financial Reporting Standards (International Accounting Standards - IAS) developed an independent international organization - the Council of the International Accounting Standards (International Accounting Standards Board - IASB), which is located in London¹³.

International Financial Reporting Standards - are documents that reveal the content requirements of accounting information and accounting methodology to produce the most important characteristics based on harmonization of national standards of developed countries, developed and published by the International Accounting Standards Board.

IFRS make a great contribution in improving and harmonizing financial reporting around the world, so they are used:

- as a basis for national financial reporting requirements in many countries;
- as an international norm for countries that are developing their own requirements (including the major developed countries and a growing number of

¹³ Turner, L. (2001). *Disclosure and Accounting in a Global Market: Looking to the Future*. 34-56 p.

new markets, such as China and many other countries in Asia, Central Europe and the Commonwealth of Independent States – CIS);

- stock exchanges and regulatory bodies, allow foreign and national companies to submit financial statements in accordance with International Financial Reporting Standards;

- supranational bodies such as the European Commission, which announced that relies heavily on the IASB in the preparation of documents, reflecting the needs of the capital markets;

- increasing number of the companies (Introduction to International Financial Reporting Standards).

The basis of IFRS on the idea that the accounting is to control the flow of investments and the investor, whether the owner or lender. This is its main difference from the traditional account, which is maintained by the administrator, acting on behalf of the owner to reflect the economic activities of the facility property. This difference gives rise to the basic features that define the development of IFRS:

- priority of balance;
- rejection of the historical cost;
- replacement of the concept of ownership of the concept of control;
- transition from property records for accounting resources on gross valuation to net valuation;
- deregulation in favor of the regulation of accounting statements.

Until widespread accounting based on IFRS in the center of most accounting systems was a report, or as it is often called, profit and loss account.

The system IAS profit and loss plays a more modest role, which decreases with each new standard, because records are maintained for the benefit of investors who are interested in changes in the value of its property, the market capitalization of the objects of its investments, which depends more from the net assets than from profit . Thus, the user accounts, primarily in need of balance, and not in the income statement, because it is a balance to determine the growth of the company's capital

as a whole. Profit and Loss Account is required to conduct double entry. Sources of growth in net assets, in addition to the actual financial results, may make a capital increase of the company and increase the value of its assets.

If we take into consideration, international standards of financial reporting and the development of their national accounting standards based on one of the most urgent problems of modern times.

1.2. The problems of the converging of international accounting standards to the national accounting system

In the course of its activities, a number of companies faced with the questions of preparation statements in accordance with the principles of International Financial Reporting Standards. Obviously, the application of the standards and principles of non-national causes certain difficulties. Thus, in practice, significant difficulties arise in matters not related to the valuation of assets and liabilities in accordance with IFRS, but in matters of classification of assets and liabilities, income and expenses.

It is no secret that during the transition to IFRS a company faced with a number of issues that may require a temporary outflow of economic benefits. For the organization - it is not one or two weeks, it requires considerable effort on the part of management and sufficient time for the successful transfer of the business on a new track. Experience has shown that organizations that first encounter with IFRS, surprised by the amount of additional information that they need to collect, and it is very often a laborious task. The bulk of the costs for the transition to IFRS will be in the following areas¹⁴:

- Consultancy services and training, or the search for new employees;
- Replacement or upgrade software;
- Additional costs for the collection of information.

¹⁴ Shima, K. M., & Gordon, E. A. (2011). IFRS and the regulatory environment: The case of U.S. investor allocation choice. *Journal of Accounting and Public Policy*, 30(5), 481-500.

All these costs should be considered in the budget of the transformation, the organization should reflect the magnitude of the possible costs for the budget year, which will be the transition to financial reporting under IFRS.

The Uzbek Company can implement transition to IFRS on their own. However, this will require highly skilled staff. On its own employees can save, and they had better understand the features of the mother company and the content of his statements. However, the Uzbek practice is such that companies involve outside experts. Attracted by the auditors and consultants have extensive experience, moreover, in case of mistakes they can make a claim, demand compensation. In any case, the company's own experts should monitor the process.

In connection with the transition to IFRS, there is an objective need to restructure the entire system of electronic record keeping. The restructuring can be carried out based on:

- Existing software
- The purchase of new software.

The first option would require less expensive, but it is possible that will be ineffective, since not all products lend themselves to the modernization or upgrading occurs when a large number of failures and program errors. In the case of the modernization of the company will have to turn to professional consultants for its implementation. The introduction of the new software requires significant financial costs, as currently there is no ready-made model developments in IFRS and in each case will require the development of individual settings. You will also need the help of experts to establish the integrity of the system, its implementation and support of its work, the training of personnel to work with her. To minimize errors and efficient use of financial resources for the automation of the process can be referenced to professional programmers with experience in this area.

The largest cost (both financially and time) - is the creation of appropriate flows and systems. Reporting under IFRS differs high volume and accurate disclosure. Costs for the collection occur even if the reporting staff will be engaged in the organization and not external consultants. Additional information is required

for each section reporting: transcript of payables and receivables of counterparties, the annual inventory of products and other supplies, primary accounting documents on essential items cost, tax returns, information on information systems in the enterprise, information on the state of the market, forecasts, budgets, data on the unused vacation. The more complex the organizational structure of the company, the greater will be the cost of collecting and verifying information. Particularly high costs are expected within two or three years of the transition period, due to the complexity of the organization and adaptation of the optimum system of communication between the different departments of the company.

Among the main problems of IFRS identified the following groups of problems¹⁵:

- *the scope of IFRS;*
- *institutional issues;*
- *issues of legal implementation (enforcement);*
- *technical issues.*

Scope of IFRS. Due to the fact that the application of IFRS beyond the national level, in many countries there is a problem of incorporating IFRS into national legislation. The introduction of IFRS in the business practices of the country may require changes in national legislation on various issues.

Since IFRS, primarily designed for large listed companies, which often consist of a group, clearly, make the consolidated financial statements, there is a problem of their application for the small and medium enterprises (SME). Widely debated questions about:

- whether an individual needs a set of international accounting standards for small and medium businesses;
- whether they should be based on the same methodological basis as the existing IFRS;

¹⁵ Никифорова Е. А. Анализ рисков и проблем, связанных с переходом в Российской Федерации бухгалтерского учета и отчетности на международные стандарты финансовой отчетности // Вопросы анализа риска. 2008. № 3 – 4.

- the use of IFRS does not exceed costs of medium and small enterprises contrasting benefit from the use of these standards because of their great complexity;
- whether the process of international harmonization of financial accounting and reporting affects small businesses, or a regulation should be carried out at the national level.

To date, ISAR (International Standards of Accounting and Reporting) developed and issued guidance on accounting and financial reporting for two levels of Small and medium sized enterprises – SME (Guidance on Accounting and Financial Reporting for SMEs - Level 2 and Level 3). They are based on IFRS and designed to ease the transition from a lower to a higher level of application of IFRS for the growing small and medium businesses. From 2001 IASB has a project on the SMP. International Federation of Accountants (IFAC) has established a special working group to consider the issue¹⁶.

Institutional issues. At the international level, more efforts are being made to overcome the difficulties of application of IFRS, develop a mechanism for the development of global standards, the creation of an institutional mechanism to ensure a coherent and consistent application of IFRS in different countries.

IFAC conducted a study on the problems and successful solutions to the questions of IFRS and International Standards on Auditing, the World Bank (World Bank) prepares regular reports on the observance of standards and codes (Reports on Observance of Standards and Codes - ROSC). In July 2005, the Committee had changed the constitution to international standards (International Accounting Standards Committee Foundation - IASCF), which resulted in a number of organizational changes:

- The number of Trustees has increased from 19 to 22 persons with the representatives of the countries belonging to the North America and Europe, and stressed the need for understanding of problems related to the application of IFRS.

¹⁶ <http://www.ifac.org/> - International Federation of Accountants (IFAC).

- Changed several functions of the Standards Advisory Council (SAC) - it should be more active in ensuring the relationship with its members, Trustees and International Accounting Standards Boards (IASB) in addressing the strategy development process standards and their application, reduced the number of its members from 60 to 40 people, the representative of Brazil has been appointed as a chairman;

- In addition to the task of developing interpretations, International Financial Reporting Interpretations Committee (IFRIC) tasked with developing guidance on the application of IFRS, due to the increasing demand for this kind of documents in connection with the more active practical application of IFRS.

However, it should be noted that the representation of developing countries within the IASCF is not enough so far. In practice, adoption of IFRS is how difficult because of differences between the applying companies them (size, tradition, the complexity of the organizational structure), and because of the constant changes in IFRS themselves. In this regard, it may require an additional mechanism to ensure consistency in the application of IFRS. In July 2005, the European Financial Reporting Advisory Group (EFRAG) released discussion document “Achieving Consistent Application of IFRS in the EU”, whose goal is to collect information about the issues application of IFRS in Europe and assess the need for further action. Some experts believe a possible solution to the development of technical guidelines at the national level, reflecting national circumstances.

Effective use of IFRS can be achieved only if there is a mechanism of interaction between the developers of international standards and national regulators. Despite the fact that the IASB released the Memorandum of Understanding on the Role of Accounting Standard Setters and Their Relationship with IASB, further work is needed on the development of relations between the developers of standards at the national and international levels.

One of the issues of this interaction is to translate IFRSs into other languages. Text translation of IFRS is a complex problem, both from a technical point of view

and in terms of time and resources. Accordingly, it is necessary to develop a mechanism for consultations on the IASB, in particular about terminology, especially in cases of conflict with existing national terminology or legislation. The presence of such a mechanism is indispensable in the initial stage of practical application of IFRS. The differences in translation can lead to a lack of consistent application of IFRS in different countries. Delays in translation can lead to the fact that different countries apply different versions of IFRS due to the lack of translation of new or changed whereas standards. Accordingly, the coordination program, which provides a time log for the translation should be developed and it should be created according to appropriate database.

Another problem in the application of IFRS is a training and development of training materials that meet the requirements of IFRS. Now, there is a lack of teaching materials and qualification programs, it is possible certification of IFRS, there is no mechanism for their independent evaluation for compliance with IFRS. It also should be noted that substantial efforts are needed to retrain specialists, in particular, dealing with the preparation of reports, particularly in countries where the use of professional judgment is not typical practice.

Since the accounting standards cannot "operate" on their own, in addition to the high quality of the standards themselves, the success of their application depends on the availability of infrastructure financial statements: Effective corporate governance practices, high-qualified auditing standards and practices, effective mechanism of legal implementation and tracking the order of execution. Accordingly, it is necessary to coordinate activities of all stakeholders both at the national and international levels.

In addition, at the national level should define a clear strategy of IFRS. On the one hand, should take into account plans of IASB, bearing in mind that IFRS is a "moving target". On the other hand, to take into account national specificities: the order of incorporation into national law, the need for guidance on the application of IFRS, etc.

Another problem is the approval procedure for the application of IFRS, clearly, a mechanism for approval of the IFRS application. As you know, the EU international standards developed by IASB, must undergo a certain procedure of approval, during which conflicts may arise, in particular the failure of a number of IFRS developed by IASB (as with IAS 39). This raises the problem of the presence of different "sets" of IFRS: IFRS developed by IASB; IFRS approved in certain countries. In addition, the approval mechanism requires highly skilled experts in all involved in the process of adopting IFRS Group: the regulators, tax authorities, investors, financial analysts and rating agencies, the public and educational institutions.

The next issue of IFRS at the national level is the need to coordinate the requirements of legislation affected or related to the application of IFRS, the IFRS definition of a place in the legal system, assessing the impact of the transition to IFRS on the related industries. For example, there may be a piece of legislation that defines the limit of borrowings for the company, depending on the size of contributed capital reported in the balance sheet, which is made up of national standards. Accordingly, the transition to IFRS value of equity may change and therefore the situation should be provided in the relevant regulations. In addition, one of the fundamental issues is the question of the payment of dividends, the order of payment and the value of which is usually based on the amounts recognized in the financial statements prepared in accordance with national standards, in particular on the value of the accumulated net profit. In the transition to IFRS, this amount may change, which will create some difficulties for understanding accountability investors.

Questions of legal implementation (enforcement). Development of an effective mechanism of legal implementation of IFRS into national practice is one of the principal issues to be addressed at the national level. Due to differences in the methods of legal regulation, established in different countries, efforts are needed at international and supra-national levels to coordinate the implementation of legal mechanisms.

At the moment the International Organization of Securities Commissions (IOSCO¹⁷) is a structure that plays an important role in coordinating the implementation of IFRS at the national level for listed companies. In May 2005, IOSCO announced that its Technical Committee started a project on “regulatory interpretations of IFRS”, which aims to ensure interaction between the members of IOSCO and for the consistent application of IFRS.

At the regional level, the most significant structure is the EU, where the coordinated implementation of standards in the practice of the member countries are not new. Already in 2001, the European Commission established the Committee of European Securities Regulators (CESR), whose main task was to improve coordination between national securities regulators. So far, CESR has issued two standards relating to the legal implementation of financial information and coordination of implementation.

Technical issues. The high and ever-increasing complexity of the IFRS standards and high volume make the task practical application more difficult, particularly for developing countries. Since the standards are “principle based”, this can lead to inconsistent application in different countries, each with its own historically determined the specifics of the account, or not having enough skilled and qualified accounting professions. In the presence of alternatives to the standards, it is obvious that there will be an option selected closest to the country's existing national standards.

Another complex technical challenge is the question of the fair value, which is widely used in IFRS. However, in order to estimate the fair value of a representative must have been highly developed liquid capital markets. Since the degree of capital market development varies, the estimate of fair value can be difficult. Despite the fact that, according to the requirements of IFRS for the measurement of fair value in the absence of an active market can be made certain mathematical calculations (discounting), it should be noted that these calculations are also based on forecasting of cash flows and the discount rate, which require a

¹⁷ <http://www.iosco.org/about/> - The International Organization of Securities Commissions

certain degree of market development. In addition, in countries where traditionally prevailing assessment was historical cost, the concept of fair value, in principle it may be difficult to apply.

IFRS requires the use of professional judgment; assess the likelihood, the use of certain technical evaluations and calculations (actuarial valuations, real estate valuation by professional valuator). Accordingly, there must be specialists with this knowledge, and the appropriate institutions. Various country experiences and different degrees of development of specialized institutions can lead to a different interpretation of the aforementioned requirements of the IFRS, which will reduce the comparability of the financial statements on an international scale.

Thus, the range of problems associated with the practical application of IFRS is quite wide. Their solution will require the joint efforts of various stakeholders at the national and international levels.

Preliminary observations on the impact of IFRS on the financial statements. In some countries in 2005, several companies will be required to prepare its financial statements (firstly consolidated) in accordance with IFRS, to date, some of them already published preliminary results, for example, the comparative data for 2004 and the main indicators (most of the data unaudited), reflecting the impact of transition to IFRS on its financial statements.

Studying 28 large European companies¹⁸, which reflected the impact of the transition to IFRS on its financial statements shows that liabilities increased by an average of 16% and net income decreased by an average of 3%. The biggest impact on the financial statements provides a certain number of IFRS requirements. For example, the requirement to test goodwill for impairment (instead of the amortization of goodwill, which is typical of many national standards) (Vodafone has announced the following information: according to UK GAAP loss before the taxation amounted to 2.18 billion pounds, according to the IFRS profit before the taxation amounted to 4.54 billion pounds, which was due to

¹⁸ Mueller, G. (1997). Harmonization Efforts in the European Union. *International Accounting and Finance Handbook*. Wiley and Sons. 45-67 p.

the fact that the company is no longer accrued amortization of goodwill). In addition, among such requirements can be identified a number of mandatory accrual of reserves (liabilities of uncertain amount or timing), deferred taxes, pension liabilities, etc.

Thus, the impact of the transition to IFRS on the financial statements could be quite significant.

In conclusion, it can be noted that the identification of problems of practical application of IFRS and the exchange of experience of solving them are one of the key success factors in the establishment of uniform high quality and applicable accounting standards, providing information to international capital markets.

Ordering of the risks and factors under the risk, associated with IFRS, will be understood according to the international standard, or a combination of the probability of the event of deviation from the expected results associated with the implementation and application of IFRS, and the negative consequences of this event or deviation. Systematic analysis of the results of these risks are summarized in Appendix #1. Assess the risks associated with the introduction and application of IFRS should be based on associated costs. The main components of these costs are shown in Illustration #2.

Features of the transition to IFRS in some countries, the development and widespread dissemination of international financial reporting standards should be viewed primarily as a result and the tool of globalization. For example, on November 4-6, 2008 in Geneva (Switzerland) was held 25th session of the Notices Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting of the Trade and Development Council. In her work, representatives of more than 80 states attended, as well as a number of international and regional organizations (the European Union, the IASB, the

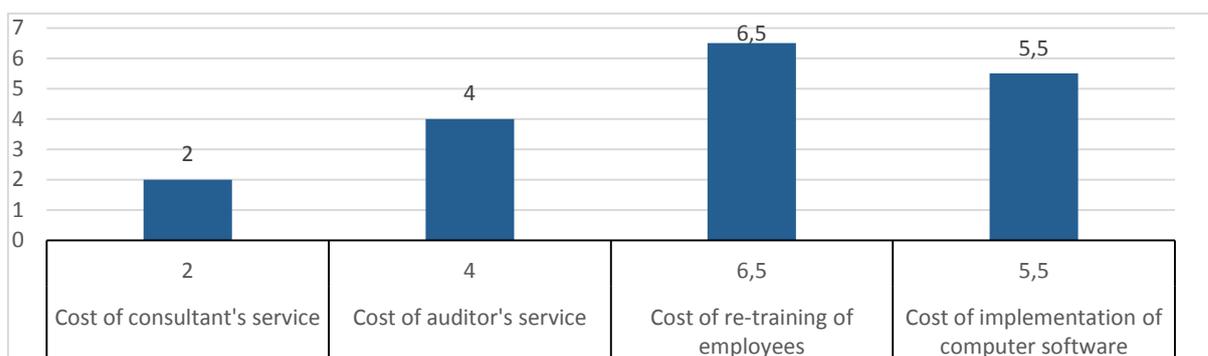


Illustration #2. The main components of costs.¹⁹

International Federation of Accountants, the World Bank and other organizations). The session was devoted to the continuation of initiated in previous years, discussions on increasing the transparency and comparability of companies' financial statements. It was considered the experience of IFRS and International Standards on Auditing (ISA) in Egypt, Poland, Great Britain and

Switzerland. The main purpose of the discussion - to facilitate the exchange of experiences between countries on issues of IFRS and ISA. During the discussion, it was noted that, despite the recognized advantages of the use of the global financial reporting system, the transition to it is associated with a number of difficulties. Key among them - the creation of an effective legal mechanism for

the introduction of IFRS in the national legislation, the adequacy of the audit, development and implementation of educational standards. It was stressed that the transition to IFRS - a lengthy process that requires a clear strategy and appropriate mechanisms, as well as sufficient resources.

Especially addressed issues of financial statements of medium and small companies. The session discussed the changes in the previously issued guidelines for accounting and financial reporting for small and medium-sized enterprises. The proposed amendments were approved. It is recommended to generalize the experience of the application of the Guidelines in order to keep them up to date. They discussed the results of monitoring the disclosure of large companies on corporate governance, investor relations to this information.

¹⁹ Brown, P. (2011). International Financial Reporting Standards: How real are the benefits? *Accounting and Business Research*, 41(3), 269-285 p.

CHAPTER 2. THE STATE OF THE NATIONAL FINANCIAL REPORTING STANDARDS IN HARMONY WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AND THEIR DEVELOPMENT

2.1. The state of the national financial reporting standards in harmony with the international financial reporting standards

Today, there are 22 national accounting standards in Uzbekistan (Table #3). This standards help for the preparation of financial reports and determine the basic principles of accounting. Therefore, we can call them as the national financial reporting standards.

The development of Uzbek accounting system had begun in the early years of independence. From the years of independence until now, a number of legislative, regulatory and legal framework has been formed. The development of accounting in Uzbekistan includes the following steps²⁰:

The first stage. (1994 – 1997)

- Adoption of the Governmental program of internationally accepted accounting and statistical system of the Republic of Uzbekistan (the Cabinet of Ministers of the Republic of Uzbekistan, approved by Resolution No. 433 dated August 24, 1994).
- The Regulation on the accounting and reporting of the Republic of Uzbekistan (March 26, 1994 the Cabinet of Ministers of the Republic of Uzbekistan, approved by Resolution No. 164).
- The Regulation of costs which are added to the cost of goods (works, services); the classification of production costs of goods (works, services) and sales costs; the procedure of the formation of the income statement (The Regulation is approved by the Committee of Forecasting and

²⁰ REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC), The Republic of Uzbekistan, ACCOUNTING AND AUDITING, December 2008, made by team from World Bank, 38-76 p.

Statistics, the Ministry of Finance and the State Tax Committee in January in 1995).

- On August 30, in 1996 the Law of Accounting is adopted by the Oliy Majlis of the Republic of Uzbekistan.
- The order № 5 of Ministry of Finance of the Republic of Uzbekistan is adopted on January 15, in 1997 about "The approval of the shape and size of the annual and quarterly financial reports of the enterprise (organization)" (Approved by № 338, May 6, 1997).

The second stage. (1998-2001)

- The conceptual framework of the preparation and submission of financial statements (the Ministry of Justice on August 14, 1998, registration No. 475, dated July 26, 1998 by the Ministry of Finance 17-07 / 86-certified);
- National accounting standards №1 - №20 of the Republic of Uzbekistan (NAS), except NAS №14-№15 (NAS №13& №18 are not available);
- The Regulation of costs which are added to the cost of goods (works, services); the classification of production costs of goods (works, services) and sales costs; the procedure of the formation of the income statement (The Regulation is approved by the Committee of Forecasting and Statistics, the Ministry of Finance and the State Tax Committee in January in 1995).

The third stage. (From 2002 to the present)

- "The further procedures for improving of statistical and financial statements" According to Decree of Cabinet of Ministers № 227, in 25 June 2002.
- National accounting standards of Uzbekistan (NAS №14, №15, №21, №22, №23 and №24)
- The new edition of the National accounting standards (NAS №4, №5, №6 and №7)
- The forms of Financial Statement and the rules of filling them (the decree of the Ministry of Finance by No. 140 on December 27, 2002, which is

approved by the Ministry of Justice on January 24, 2003, by the registration No. 1209)

- Accounting Regulations on separate accounting objects: re-evaluation of fixed assets, power of attorney documents and documentation, the deficit and surplus property, leasing operations, foreign currency transactions, and the privatization investment fund, wheat account and others.

Table #3

National accounting standards of Uzbekistan.²¹

NAS #	Name of standards	Approved date by Ministry of Finance (MoF)
1	Accounting policies and financial reporting	26.07.1998y.
2	Revenues from core business activities	20.08.1998y.
3	Income Statement	25.08.1998y.
4	Inventories	15.06.2006y.
5	Fixed Assets	09.10.2003y.
6	Accounting for Leases	06.04.2009y.
7	Intangible Assets	25.03.2005y.
8	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	14.10.1998y.
9	Statement of Cash Flows	16.10.1998y.
10	Accounting for Government Grants and Disclosure of Government Assistance	19.10.1998y.
11	Costs of research and development activities	03.12.1998y.
12	Accounting for Investments	23.12.1998y.
13	None	
14	Statement of Owners Equity	01.03.2004y.
15	Balance Sheet	12.03.2003y.
16	Contingencies and events business activities that occur after the balance sheet date	30.10.1998y.
17	Contract for capital construction	02.11.1998y.
18	None	
19	Organization and implement inventory	19.10.1998y.
20	The order of simplified accounting and reporting for small and private enterprise	23.11.1999y.
21	The Chart of Accounts for financial and economic activity of economic entities	09.09.2002y.
22	Accounting for Assets and liabilities denominated in foreign currencies	23.03.2004y.
23	Presentation of Financial Statements at reorganization	12.04.2005y.
24	Account for Debt Expenses	05.08.2009y.

²¹ Национальные стандарты бухгалтерского учета Республики Узбекистан. Издано в издательско-информационном центре Национальной Ассоциации бухгалтеров и аудиторов. –Т.:2012 г.

This standard was created under the Ministry of Finance, while the international financial reporting standards were used as a basis for them. For this reason, there are certain similarities and differences between them, because of the mentality of Uzbek.

Table #4

Standards and guidance under IASC & IASB²²

	1973-2000		2001-Present		1973-Present
Standards	IAS	28	IFRS	13	41
Interpretations	SIC	8	IFRIC	16	24
Total		36		29	65

At all IFRS has 65 rules, consisting of 41 standards, and 24 interpretations (Table #4). These standards were issued under two different names, because of the differences of position of organizations that issued them. IASB was established in April 2001. Its former organization was International Accounting Standards Committee (IASC) established in 1973. The standards issued by IASC are called International Accounting Standards – IAS (Table #5). International Financial Reporting Interpretations Committee (IFRIC) issued these 24 interpretations (guidance) on how to interpret IFRS. It was previously named Standing Interpretation Committee (SIC)²³.

Table #5

International accounting standards²⁴

IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 7 Cash Flow Statements
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events After the Balance Sheet Date
IAS 11 Construction Contracts
IAS 12 Income Taxes
IAS 16 Property, Plant and Equipment
IAS 17 Leases
IAS 18 Revenues
IAS 19 Employee Benefit
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
IAS 21 The Effects of Changes in Foreign Exchange Rates
IAS 23 Borrowing Costs
IAS 24 Related-Party Disclosures

²² My own work according to DeFond, M., Hu, X., Hung, M., and Li, S. (2011). The impact of mandatory IFRS adoption on foreign mutual fund ownership: The role of comparability. *Journal of Accounting and Economics*, 51(3), 242-256.

²³ <http://www.ifrs.org/Pages/default.aspx> - International Accounting Standards Board and IFRS foundation.

²⁴ <http://www.accaglobal.com/home/> - Association of Chartered Certified Accountants (ACCA).

IAS 26 Accounting and Reporting by Retirement Benefit Plan
IAS 27 Consolidated and Separate Financial Statements
IAS 28 Investments in Associates
IAS 29 Financial Reporting in Hyperinflationary Economies
<i>Continued</i>
IAS 32 Financial Instruments: Presentation
IAS 33 Earnings per Share
IAS 34 Interim Financial Reporting
IAS 36 Impairment of Assets
IAS 37 Provisions, Contingent Liabilities & Contingent Assets
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IAS 40 Investment Property
IAS 41 Agriculture

The standards issued by IASB are International Financial Reporting Standards – IFRS (Table #6).

Table #6

International financial reporting standards

IFRS 1	First-time Adoption of International Financial Reporting Standards ²⁵
IFRS 2	Share-based Payments
IFRS 3	Business Combination
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of interests in Other Entities
IFRS 13	Fair Value Measurement

At present, the existing national standards and international standards, there are many similarities between them are as follows:

1. The purpose of Framework for the preparation and presentation of financial statements is the same with the purpose of Conceptual Framework for Financial Reporting.
2. In the absence of specific NAS, the top of the entity has the right to use his/her own judgment to develop an accounting policy. It is the same with IFRS.
3. Conditions for Recognizing Revenues in IFRS are the same with NAS.

²⁵ *International Business & Economics Research Journal* (2010). IFRS Adoption in the EU, Accounting Harmonization And Markets Efficiency: A Review by Gabriele Guggiola, University of Insubria, Varese, Italy Vol. 9, No. 12.

4. Equivalent for NAS 3 "Report on Financial Results" is IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.
5. Cost Formula for Inventory Valuation of NAS is the same with IFRS.
6. Equivalent for NAS 5 "Report on Financial Results" is IAS 16 Property, Plant and Equipment.
7. Equivalent for NAS 6 "Accounting for Leases" is IAS 17 Leases.
8. Equivalent for NAS 7 Intangible Assets is IAS 38 Intangible Assets.
9. Equivalent for NAS 8 Consolidated Financial Statements & Accounting for Subsidiaries is IAS 27 Consolidated & Separate Financial Statements.
10. Equivalent for NAS 9 Statement of Cash Flows is IAS 7 Cash Flow Statements.
11. Equivalent for NAS 10 "Accounting for Government Grants and Disclosure of Government Assistance" is IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.
12. IFRS has IAS 38 Intangible Assets in which research & development cost accounting treatment is prescribed. In substance, it is the same with NAS 11 Research & Development Costs.
13. Equivalent for NAS 12 Accounting of Financial Investment is IAS 39 & IFRS 9 Financial Instruments.
14. Equivalent for NAS 16 Contingencies & Events after the Balance Sheet Date is IAS 37 Provisions, Contingent Liabilities & Contingent Assets.
15. IFRS has IAS 11 Construction Contracts. This is the same with NAS 17 Construction Contract. However, this will be replaced with a new standard titled "Revenues from Contracts with Customers".
16. IFRS has the accounting standards for small and medium sized companies as we have NAS 20 Accounting for Small Businesses.
17. Equivalent for NAS 22 Accounting for Assets and liabilities denominated in foreign currencies is IAS 21 the Effects of Changes in Foreign Exchange Rates.

The presence of such standards and rules is similar to our NAS, so adaptation to the international standards of financial reporting standards creates many opportunities. Nevertheless, there are a number of rules and standards, which should be learned closely; I will talk about them in the next paragraph.

2.2. The ways of development of National Accounting Standards (NAS) based on the international accounting standards.

As mentioned in the above paragraph, our financial statements are being prepared in accordance with our national accounting standards, which have many similarities with IFRS and IAS. However, our standards need being deeply developed based on them or we should adopt the IAS & IFRS.

The first is to identify the users of financial statements. In our country the financial statements are prepared only for government agencies: Committees of Tax and Statistics, besides the financial statement prepared for Joint ventures, foreign investors. It means that primary users are government, not potential investors. So, we should show how is important the financial statements for decision making for potential investor. Moreover, preparing them according to IAS & IFRS helps to attract. Internal and external investor are the keys of development.

The second is to find the way of attracting our internal potential investors. Nowadays, our national investors do not think about financial statements, they do not demand the real financial statements. They think about showing little income, even loss in their statements, they can decrease the expenses associated with tax. It is true, but they do not think of attracting foreign capital, which leads to increase the profit.

There are also some differences, which should be analyzed to improve effectiveness of our standards. The major differences between Uzbek NAS & IFRS are these:

Other Comprehensive Income

- IFRS Statement of Comprehensive Income includes OCI.
- Uzbek Statement of Financial Results does not include OCI.

Extraordinary Item

- Extraordinary items are not allowed in IFRS.
- Extraordinary items are allowed in Uzbek NAS.

Change in Accounting Policy

- IFRS requires retrospective application of change in accounting policy
- Uzbek NAS allows prospective application of change in accounting policy

Correction of Errors

- IFRS requires retrospective application of correction of errors
- Uzbek NAS allows “catch-up” correction of errors

Fixed Assets

- IFRS has Cost & Revaluation model for fixed asset accounting
- Uzbek NAS has Revaluation model for fixed asset accounting.

Asset Retirement Obligation (ARO)

- ARO is required under IFRS while it is not under NAS.

Example

- You leased land for 10 years, and built a gasoline service station, and started the business.
- According to the contract with the landlord, you have to return the land with original condition.
- It costs \$1M to return the land to the original condition in 10 years, IFRS requires to book \$1M as your assets & liability.

If I explain these differences more detailed, they are the followings:

Table #7

Differences of NAS and IAS/IFRS²⁶

According to NAS	According to IFRS
Mistakes should be corrected with ONE-TIME CATCH-UP RETROSPECTIVE to the period when the mistake took place. This means, if accountant find mistakes, which related to the	Changes in accounting policy should be adjusted RETROSPECTIVELY. If the retrospective application is impractical, the entity can apply to the earliest period. This

²⁶ My own work according to researches.

past periods, they should be corrected when they are found.	means, any mistakes, which are found, should be corrected according to each periods they are related.																								
<i>Continued</i>																									
On January 1 2013, TMI purchased a delivery truck, and recorded as follows:																									
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Dr. Expense - delivery truck</td> <td style="width: 10%; text-align: right;">\$30,000</td> <td style="width: 50%;"></td> </tr> <tr> <td>Cr. Cash.</td> <td style="text-align: right;">\$30,000</td> <td></td> </tr> </table>		Dr. Expense - delivery truck	\$30,000		Cr. Cash.	\$30,000																			
Dr. Expense - delivery truck	\$30,000																								
Cr. Cash.	\$30,000																								
On January 1 2014, TMI noticed that the purchase of the delivery truck should have been accounted for as fixed asset. If the tax rate is 10%, and the useful life is 5 years and no residual value is assumed, and the straight-line method is used.																									
<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">2014 Book</td> </tr> <tr> <td>Dr. Fixed Asset - delivery truck</td> <td style="text-align: right;">\$30,000</td> </tr> <tr> <td>Cr. Accumulated Depreciation</td> <td style="text-align: right;">\$6,000</td> </tr> <tr> <td>Retained Earnings</td> <td style="text-align: right;">\$21,600</td> </tr> <tr> <td>Tax Payable</td> <td style="text-align: right;">\$2,400</td> </tr> </table>	2014 Book		Dr. Fixed Asset - delivery truck	\$30,000	Cr. Accumulated Depreciation	\$6,000	Retained Earnings	\$21,600	Tax Payable	\$2,400	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">2013 Book RETROACTIVELY corrected</td> </tr> <tr> <td>Dr. Fixed Asset - delivery truck</td> <td style="text-align: right;">\$30,000</td> </tr> <tr> <td>Depreciation Expense</td> <td style="text-align: right;">\$6,000</td> </tr> <tr> <td>Tax Expense</td> <td style="text-align: right;">\$2,400</td> </tr> <tr> <td>Cr. Expense - Reversal</td> <td style="text-align: right;">\$30,000</td> </tr> <tr> <td>Accumulated Depreciation</td> <td style="text-align: right;">\$6,000</td> </tr> <tr> <td>Tax Payable</td> <td style="text-align: right;">\$2,400</td> </tr> </table>	2013 Book RETROACTIVELY corrected		Dr. Fixed Asset - delivery truck	\$30,000	Depreciation Expense	\$6,000	Tax Expense	\$2,400	Cr. Expense - Reversal	\$30,000	Accumulated Depreciation	\$6,000	Tax Payable	\$2,400
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Cr, Accumulated Dep.	\$6,000																								
On January 1 2015, TMI decided to apply double-declining balance in place of the straight-line method. If the tax rate is 10%, and the useful life is 5 years and no residual value is assumed ...																									

<p>2015 Book</p> <p>Dr. Retained Earnings \$6,480</p> <p style="padding-left: 20px;">Tax Payable \$720</p> <p>Cr. Accumulated Depreciation \$7,200</p>	<p>2013 Book</p> <p>Dr. Depreciation Exp. \$12,000*1</p> <p>Cr. Accumulated Dep. \$12,000</p> <p style="padding-left: 20px;">Dr. Accumulated Dep. \$6,000</p> <p style="padding-left: 20px;">Cr. Depreciation Exp. \$6,000</p> <p>Dr. Tax Payable \$600</p> <p>Cr. Tax Expense \$600</p> <p>2014 Book</p> <p>Dr. Depreciation Exp. \$7,200*2</p> <p>Cr. Accumulated Dep. \$7,200</p> <p style="padding-left: 20px;">Dr. Accumulated Dep. \$ 6,000</p> <p style="padding-left: 20px;">Cr. Depreciation Exp. \$ 6,000</p> <p>Dr. Tax Payable. \$120</p> <p>Cr. Tax Expense \$120</p>
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Continued

(30,000 - 12,000) x 2/5 = \$7,200
\$7,200*10%= \$720
\$7200-\$720 =\$6840

*1 2012: 30,000 x 2/5 = \$12,000
*2 2013: (30,000 - 12,000) x 2/5 = \$7,200

Retrospective - one -time catchup is easier to use, but it will not show the real condition, because this correction effects only one period, which mistake was found

Retrospective is more difficult, because this correction effects all periods which mistakes had taken place.

Re-assessment of Fixed Assets. After initial recognition of an item, the assets should be measured at a revalued amount.

<p>RETROSPECTIVE - One-time Catchup</p> <p><i>Changes from 2010. 100million cym/year</i></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">2010</th> <th style="width: 20%;">2011</th> <th style="width: 20%;">2012</th> <th style="width: 20%;">2013</th> <th style="width: 20%;">2014</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">400</td> </tr> </tbody> </table>	2010	2011	2012	2013	2014	0	0	0	0	400	<p>RETROSPECTIVE</p> <p><i>Changes from 2010. 100million cym/year</i></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">2010</th> <th style="width: 20%;">2011</th> <th style="width: 20%;">2012</th> <th style="width: 20%;">2013</th> <th style="width: 20%;">2014</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">100</td> <td style="text-align: center;">100</td> <td style="text-align: center;">100</td> <td style="text-align: center;">100</td> <td style="text-align: center;"> Now </td> </tr> </tbody> </table>	2010	2011	2012	2013	2014	100	100	100	100	 Now
2010	2011	2012	2013	2014																	
0	0	0	0	400																	
2010	2011	2012	2013	2014																	
100	100	100	100	 Now																	

NAS is similar to the revaluation model.

IFRS has the revaluation model and the cost model.

JIKA Tourist Service Inc. bought a sightseeing bus for \$100,000 on January 1, 2013. The useful life is 10 Years and no residual value is estimated. JIKA uses the straight-line depreciation.

Jan, 1, 2013

Dr. Sightseeing Bus \$100,000

Cr, Cash \$100,000

Dec, 31, 2013

Dr. Depreciation Exp. \$10,000

Cr. Accumulated Dep. \$10,000

On December 31, 2013, the government issued the index of 1.2 to be used for the revaluation of the fixed assets.

Dec. 31, 2013

Dr. Sightseeing Bus \$20,000 (\$100,000 x 0.2)

Cr, Reserve (A/C 8510) \$20,000

Dr. Reserve (A/C 8510) \$2,000 (\$10,000 x 0.2)

Cr, Accumulated Dep. \$2,000

On January 1, 2014, JIKA sold this bus to TMI for \$70,000 in cash.	
Jan. 1, 2014	
Dr. Cash	\$70,000
Cr. Withdrawal of Fixed Assets (A/C 9210)	\$70,000
Dr. Withdrawal of Fixed Assets (A/C 9210)	\$120,000
Cr. Sightseeing Bus	\$120,000
Dr. Accumulated Depreciation	\$12,000
Cr. Withdrawal of Fixed Assets (A/C 9210)	\$12,000
<i>Continued</i>	
Dr. Reserve (A/C 8510)	\$18,000
Cr. Withdrawal of Fixed Assets (A/C 9210)	\$18,000
Dr. Reserve (A/C 8510)	\$18,000
Cr. Retained Earnings	\$18,000
Dr. Other Operation Cost (A/C 9430)	\$20,000
Cr. Withdrawal of Fixed Assets (A/C 9210)	\$20,000
Dr. Other Operation Cost (A/C9430)	\$38,000
Cr. Withdrawal of Fixed Assets (A/C 9210)	\$38,000
In IFRS, "No recycling (Transfer of Reserve to Profit or Loss) is allowed". IFRS uses OCI (other comprehensive income) account instead of Reserve (in NAS) and it is Balance sheet account, but it is also main part of the Comprehensive Income Statement. In NAS, we also should apply this approach. While using recycling, financial statement shows some gains or losses, which are not, related to this period.	
Memo record is required, using A/C 001, when short-term fixed asset leased.	IFRS disclosure is required in the note for operating lease.
Equity (except for retained earnings) to be translated at the exchange rate at the last day of the reporting period which is not right. It should be as in IFRS, because it is invested in the beginning of business.	Equity (except for retained earnings) to be translated at the rate of transaction date.

If I go on this kind of differences, there are several. Therefore, our accounting system and accounting standards should be improved according to IFRS. We should quickly adopt some detailed program to convergence, and this program should set every little steps for the improvement. In addition, should be explained every steps. If we converge revolutionarily, it may effect badly in our economy.

CHAPTER 3. THE PROSPECTS OF CONVERGING OF NAS WITH THE INTERNATIONAL ACCOUNTING STANDARDS

3. Unavailable NAS comparing to international accounting standards and their prospects of implementation

Uzbekistan has not fully adopted IFRS. However, it is trying to converge to an extent with IFRS. In 1998, there has been an accounting reform in Uzbekistan for the development of a series of the first National Accounting Standards that were based upon IAS. Some of these standards were first drafted in 1997, but the Ministry of Finance approved a few of them in 1998. Each standard is based on the relevant international standard, but there are differences between respective local and international standards. In essence, Uzbekistan is in the first stage of the adoption process of IFRS²⁷.

Uzbekistan is strengthening improvement programs of accounting. Uzbekistan is the member of Asian-Oceanian Standards Setters Group (AOSSG). At a meeting held in Beijing on 17 April 2009, representatives from China, Japan, Korea, Malaysia, Singapore, Australia, New Zealand, Brunei, Hong Kong SAR, Indonesia, and Macau SAR agreed that it was necessary for accounting standard-setters in the region to establish a platform to discuss problems and share experiences in the convergence process, to participate in the development of IFRSs, and to make contributions to a single set of high quality global accounting standards. As a result, representatives agreed to establish the Asian-Oceanian Standard-Setters Group (AOSSG) as early as possible with membership of the AOSSG opens to all accounting standard-setters in the Asia and Oceania region (as defined by the United Nations).

The objectives of the AOSSG, as documented in a Memorandum of Understanding (MOU) adopted at the inaugural AOSSG meeting on 4-5 November 2009, are as follows:

- Promoting the adoption of, and convergence with, International Financial Reporting Standards (IFRSs) by jurisdictions in the region

²⁷ Narayan, F.& Reid, B.(2000). *Financial Management and Governance Issues in the Republic of Uzbekistan*. Asian Development Bank. Retrieved on January 2, 2009.

- Promoting consistent application of IFRSs by jurisdictions in the region
- Coordinating input from the region to the technical activities of the International Accounting Standards Board (IASB)
- Cooperating with governments, regulators, and other regional and international organizations to improve the quality of financial reporting in the region.

The AOSSG is a foundation member of the IASB's Accounting Standards Advisory Forum (ASAF), represented by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Our country is trying to improve our economy and our accounting system by improving our NAS according to IFRS/IAS. However, there are some differences as explained in the table № 1 from the “REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) of the Republic of Uzbekistan, ACCOUNTING AND AUDITING, and December, 2008”.

Moreover, there are some standards according to IFRS/IAS, which do not exist in NAS. According to our economy specialization and development of market economy, we should adopt these standards to improve our economy.

The Uzbek economy has achieved significant growth in recent years (8% in 2013, 8.1% in 2014, 8% predicted in 2015). To sustain growth, promote further economic development, and decrease the cost of capital, however, the country's accounting and auditing need to be strengthened to produce high-quality financial information²⁸.

This growth is the result of activities of business entities. To achieve more growth, our government should encourage business entities to earn more profit. It leads more tax, because tax is calculated based on profit. The more profit – the more tax! However, when the tax rate is high, business entities tries to hide profit from the Tax authorities. Therefore, our tax authorities had better reform the

²⁸ И. А. Каримов. Доклад на заседании правительства по итогам социально-экономического развития страны в 2014 году и важнейшим приоритетам на 2015 год. –Т.: Узбекистан, 2015. -2-3 стр.

attractive tax system to encourage business entities and these kind of reforms are already in the process in Uzbekistan.

For example, in 2014, although, the tax burden decreased from 20.5% to 20.0%, including income tax rate from 9.0% to 8.0%, state budget succeeded 0.2% of budget surplus in contrast to GDP²⁹.

Applying IFRS/IAS in Uzbekistan. One of the way to improve tax system is creating some standard, which outlines the process of taxation and accounting entries relating to it. Among our NAS, there is not any standard devoted to taxation. IAS 12 Income Taxes will help to solve this problem. We should create new standard according to this standard.

The objective of this Standard is to prescribe the accounting treatment for income taxes. For the purposes of this Standard, income taxes include all domestic and foreign taxes, based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- The future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's statement of financial position; and
- Transactions and other events of the current period that are recognized in an entity's financial statements.

Recognition. Current tax for current and prior periods shall, to the extent unpaid, be recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset. Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

²⁹ <http://www.stat.uz/en/index.php/ekonomika-v-tsifrah> - The State Committee of the Republic of Uzbekistan on Statistics

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognize a deferred tax liability (deferred tax asset), with certain limited exceptions.

A deferred tax asset shall be recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

Measurement. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities shall not be discounted. The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Allocation. This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognized in profit or loss, any related tax effects are also recognized in profit or loss. For transactions and other events recognized outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects

are also recognized outside profit or loss (either in other comprehensive income or directly in equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognized.

From the old centuries, our country specializes in agriculture sector. It is one of the main activities of our people. Agriculture sector has achieved significant growth – 6.8% in 2013, 6.9% in 2014 and it is predicted 6% for 2015³⁰. Therefore, we should pay more attention to this sector. We should create our NAS similar to IAS 41 Agriculture or adopt it. The objective of this Standard is to prescribe the accounting treatment and disclosures related to agricultural activity.

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets. Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset. A biological asset is a living animal or plant.

Agricultural produce is the harvested product of the entity's biological assets. Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

IAS 41 prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. It requires measurement at fair value less costs to sell from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition. This Standard is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Thereafter, IAS 2 Inventories or another applicable Standard is applied. Accordingly, this Standard does not deal with the

³⁰ <http://www.stat.uz/en/index.php/ekonomika-v-tsifrakh> - The State Committee of the Republic of Uzbekistan on Statistics

processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Costs to sell include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get assets to a market. Such transport and other costs are deducted in determining fair value (that is, fair value is a market price less transport and other costs necessary to get an asset to a market).

IAS 41 requires that a change in fair value less costs to sell of a biological asset be included in profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the entity.

We have some decrees controlling agriculture, but there are not standards. Therefore, it is important to have standards rather than decrees.

The insurance sector, although still small, is growing quickly. In 2008, the sector overall grew by 148%, with life insurance leading with an increase of 200% over 2007 (although, previously, that part of the market comprised only 2-3% of the total market). Insurance premiums made up 0.3% of the country's GDP then³¹.

According to information of MoF of Republic of Uzbekistan, during the 9 month of 2014 insurance companies collected 316.6 billion sum insurance premiums. Contrasting the same period of the last year, it increased to 29% (Illustration #3). Thirty-one insurance companies (2 life and 28 non-life) collected these premiums.

On October 21, 2008, the government introduced mandatory third-party liability car insurance, which will give a further boost to the growth of the market. The Insurance Supervisory Board reports to the MoF, has a staff of nine and needs

³¹ <http://insurance.uzreport.uz/> - Insurances in Uzbekistan.

more resources. The financial reporting requirements in the insurance sector differ from other sectors, mandating specific reporting formats and a specific chart of accounts. A Government Resolution (No. 618, April 2007) established a framework for insurance market operations and called for additional laws to be enacted, a process that is still underway. From June 2008 onward, insurance companies must use sector-specific financial reporting forms and submit, quarterly, eight financial reporting forms, six solvency reporting forms and 12 insurance activity forms. They have to use NAS for their reports (with the exception of NAS 21 Chart of Accounts and Instructions on its Application). Further developments in financial reporting are expected in the near future. There is no specific standard on insurance contracts. The MoF has issued a separate regulation on the chart of accounts for the insurance sector, as well as specific reporting formats primarily addressing prudential reporting requirements. Financial reports of insurance companies have standard formats and include financial statements, solvency and reserves statements and reports on insurance activities. Insurance companies are also obliged to have a certified actuary prepare an annual actuarial assessment.

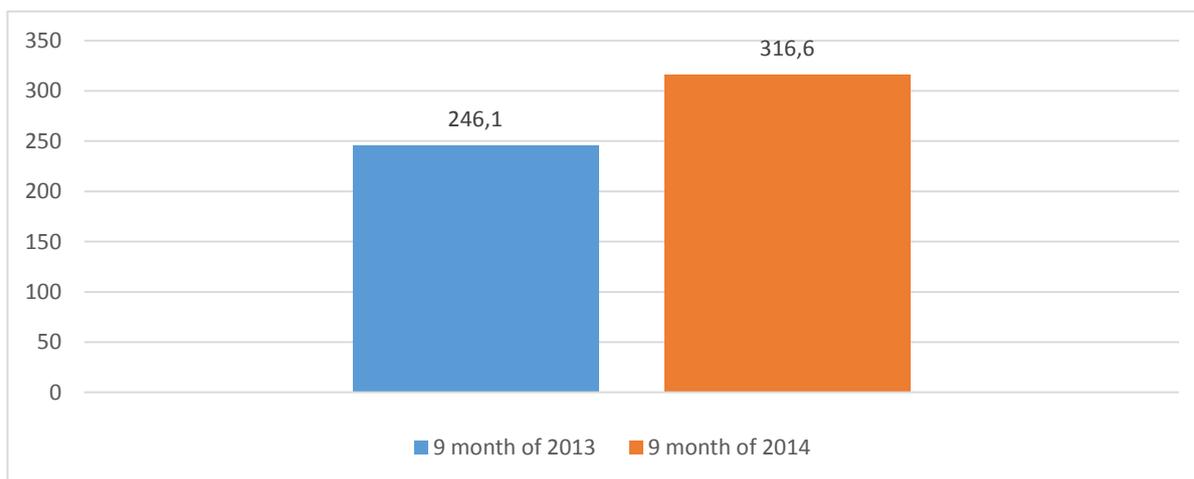


Illustration #3. Insurance premiums.³²

Insurance is governed by provisions of the Civil Code and by the Law on Insurance Activity. As this sector is growing, we should create a good law base.

³² <http://insurance.uzreport.uz/> - Insurances in Uzbekistan.

IFRS 4 Insurance Contracts is the key to improve the accounting of this sector. The objective of this IFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts. In particular, this IFRS requires:

- Limited improvements to accounting by insurers for insurance contracts.
- Disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The IFRS applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments. Furthermore, it does not address accounting by policyholders.

The IFRS exempts an insurer temporarily (i.e. during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the Framework in selecting accounting policies for insurance contracts. However, the IFRS:

- Prohibits provisions for possible claims under contracts that are not in existence at the end of the reporting period (such as catastrophe and equalization provisions).
- Requires a test for the adequacy of recognized insurance liabilities and an impairment test for reinsurance assets.

- Requires an insurer to keep insurance liabilities in its statement of financial position until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.

The IFRS permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them:

- Measuring insurance liabilities on an undiscounted basis.
- Measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services.
- Using non-uniform accounting policies for the insurance liabilities of subsidiaries.

The IFRS permits the introduction of an accounting policy that involves premeasuring designated insurance liabilities consistently in each period to reflect current market interest rates (and, if the insurer so elects, other current estimates and assumptions). Without this permission, an insurer would have been required to apply the change in accounting policies consistently to all similar liabilities.

The IFRS requires disclosure to help users understand:

- The amounts in the insurer's financial statements that arise from insurance contracts.
- The nature and extent of risks arising from insurance contracts.

Therefore, the portions of these three components of GDP is higher, we should improve the controlling system of them. One of the way achieving this improvement is to develop the accounting standards, which I gave explanations above.

Conclusion

Overall, harmonization of accounting processes in the world and spread of IFRS rules around the world make the IFRS-based company and all its stakeholders feel confident about future prosperity of the company. The role of transparent standards have been improving forecast accuracy, financial and technical support, and market liquidity, and reducing the private information held by the owners of the company and reflecting share prices well. Additionally, the process enhances investments and prospers securities markets.

Our country should maintain continuous support for the harmonization process by improving internal co-ordination within its. The need for harmonization is comprehensible, and beneficial for the countries at large born by commitments and efforts of regulators, standard setters, financiers, business community, the public and the accountancy profession.

I made major recommendations in four specific areas:

Statutory Framework. I recommend that the Uzbek statutory and legal framework be amended to:

- Define criteria for distinguishing between public interest entities (PIEs), small and medium sized enterprises (SMEs), and micro entities for tailoring proportionate financial reporting requirements appropriate to the needs of the market and the entities' own information needs.
- Strengthen the oversight system of the audit profession and create a robust audit quality assurance review program.

Public Availability of Financial Statements. Measures to strengthen the enforcement of corporate financial reporting requirements include:

- Requiring all entities subject to regulation (e.g., financial institutions, insurance companies, etc.) to submit full financial statements (which would include all notes to the financial statements in compliance with NAS 1) to their appropriate regulator. Each regulatory agency should publish these financial statements in full on their websites, thus implementing the current legal requirement that company financial statements be made publicly available. Currently, companies

release only a summarized balance sheet and income statement rather than a complete set of financial statements, attaching to them the audit report on full financial statements.

- Over the longer term, the Ministry of Finance may wish to consider creating a registry where the financial statements of all companies subject to financial statement requirements would be centrally filed and made publicly available.
- The continued validity and, where applicable, renewal of audit certificates and licenses for both audit firms and individuals should be contingent on submitting evidence of compliance with applicable legal requirements, e.g., continuing professional development, indemnity insurance, etc.. The MoF should reconsider the current requirement that auditors retake their qualification examinations every five years, which appears rather onerous.
- In addition, the MoF should explore the possibility of amending relevant legislation so that professionals auditing and accounting associations hoping to establish themselves in Uzbekistan would first have to obtain the MoF license or authorization after they have met certain, specified criteria. As well, membership in a recognized association should be mandatory for auditors and audit firms. This would be the beginning of a more robust and effective audit quality control system.

Institutional Capacity Building. All regulators and other institutions with responsibilities in the field of financial reporting face increasing challenges as the changing business environment creates demand for an updated accounting and auditing infrastructure. Although the cautious approach to accounting reform did not result in a critical need for institutional strengthening, there is a need for increased capacity, as evidenced by, for example, the fact that the disclosure requirements listed in NAS 1 are not enforced and that the absence of these disclosures does not always result in a modified audit opinion. This indicates a need to strengthen the capacity of both auditors and the audit quality control function. Accordingly, it is recommended that:

- The regulators receive support, including from international peer institutions, to build their capacity in terms of the number, qualification levels, and training of their staff.
- The professional organizations of accountants and auditors should receive similar support, so that they can increase their capacity to regulate their members more effectively, particularly in the area of audit quality control and ethics.

Professional Education and Training. While the education system appears to turn out sufficient numbers of future professionals, there is a need to strengthen the capacity of accounting and auditing education at universities and to build continuity between university and pre-professional education programs, as well as further expansion of existing CPD programs. The proper understanding and application of international accounting and auditing standards and requirements requires a solid foundation of education and training for financial statement preparers, auditors, and regulators. To accomplish this, the following actions are recommended:

- To meet the increasing needs of the Uzbek economy requires greater capacity in the current providers of education and training in accountancy. This, in turn, calls for the introduction of new programs to update the skills of university professors in contemporary accounting and auditing techniques, which they can then transfer to their students. Alternatively, secondment of accounting faculty members in Uzbekistan to other universities in the region and/or bringing in professors from other former Soviet republics which have already made the necessary changes in curriculum could be considered.
- University curricula may need a comprehensive overhaul to cover, in addition to NAS, also IFRS, as well as the principles and theory of accounting underpinning both NAS and IFRS. Similar consideration should be given to auditing theory and principles underpinning NSA and ISA. Support should be provided particularly to those institutions that strive to create high-quality programs using their own resources.

- Emphasis should be placed on better integration of professional certification and licensing requirements and university programs, e.g., aligning university and CAP/CIPA courses so that university graduates are granted exemptions from certain CAP/CIPA examination requirements. The profession and education providers should also align their CPD training courses.

The recommendations above require a holistic, multi-disciplinary approach and should be implemented gradually following the publication of this report. Their implementation will require the cooperation of a wide range of stakeholders, including the government, regulators and the accountancy profession, and should be championed by a senior government figure with sound political support. In addition, input from peer countries may present our country – the Republic of Uzbekistan with unique insights into how similar challenges have been addressed in similar countries.

Our country should create a working body comprised of representatives of the various stakeholder groups to advise policymakers and regulators on how to best implement the recommendations. The plan should include a comprehensive budget indicating the resources necessary for successful implementation. Government, stakeholders and development partners should work together to secure those resources to achieve the common goal of enhancing the quality and availability of financial information in our country.

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The main risks associated with the introduction and application of IFRS and their factors³³

№	Risk	Major factors of risk
1	Invalid composition structures of the organization included in the consolidated reporting	<ol style="list-style-type: none"> 1. Corporate conflicts 2. Legally informal control structures 3. The presence of offshore structures 4. Unreconciled accounts between the organization structures 5. The absence of an official translation of IFRS and interpretations of the complexity of the terms of IFRS (wrong interpretation of the requirements of IFRS affects the content the consolidated financial statements) 6. Lack of legislative and regulatory instruments to IFRS (wrong interpretation of the requirements of IFRS affects the content the consolidated financial statements) 7. Frequent changes in the organization structure, mergers and acquisitions
2	Wrong choice of consultant	<ol style="list-style-type: none"> 1. Insufficient professional level of adviser 2. Lack of competence of the consultant for the recognition of its auditor 3. Lack of funds to pay for services qualified consultant 4. Low qualification of the organization and management of the accounting department, the result of which could be insufficient choice of competent consultants
3	Conflict of interest of customer, consultant and auditor	<ol style="list-style-type: none"> 1. Formal attitude of the IAS, the selection of a consultant and auditor 2. The combination in one legal or natural person in an advisory and auditor

³³ Анализ основных проблем и рисков, связанных с внедрением и применением Международных стандартов финансовой отчетности. Е.А. Никифорова главный бухгалтер Макро-регион «Москва» ОАО «Мобильные Телесистемы» (г. Москва)

4	The lack of information systems to ensure IFRS or low quality	<ol style="list-style-type: none"> 1. Low qualification of professionals involved in information support 2. Lack of division of information technology (IT) 3. The rejection of innovations in the field of information 4. Features of the regional location of the organization and its structures that impede implementation of IT 5. The absence of an official translation of IFRS and interpretations of the complexity of the terms of IFRS, which entails appearance errors in information systems 6. High cost of implementing the programs, and information systems for the application of IFRS, as well as the creation of databases
5	Distortion or concealment of information	<ol style="list-style-type: none"> 1. Low qualification of accountants and staff providing primary information 2. Rejection of innovation staff 3. Low corporate culture 4. Deficiencies in the organization of the collection and transmission of information 5. Opacity of business 6. No official translation of IFRS and interpretations of the complexity of the terms of IFRS, resulting in unintentional distortion of information
6	Wrong choice of method receiving financial reporting	<ol style="list-style-type: none"> 1. Low qualification of accountants and consultants 2. Inadequate methodological support 3. Inadequate software 4. The absence of an official translation of IFRS and interpretations of the complexity of the terms of IFRS 5. Lack of legal and regulatory documents on the application of IFRS
7	Discrepancy reporting the requirements of the organization	<ol style="list-style-type: none"> 1. Formal attitude of IAS 2. Low efficiency reporting
8	Lack of necessary organizational and staff structure	<ol style="list-style-type: none"> 1. HR policy aimed at limiting the number of personnel of the organization 2. Restrictions on the payroll 3. Lack of management support 4. Financial and economic difficulties of organization 5. Lack of legal and regulatory documents on the application of IFRS

9	Insufficient use of reporting organization	<ol style="list-style-type: none"> 1. Disadvantages of corporate governance 2. Formal attitude of IAS 3. Lack of legislative and regulatory instruments to IFRS 4. Lack of a clear position of the state with respect to IFRS 5. Maintaining parallel reporting on the Uzbek rules and international standards 6. Lack of statutory mandatory application of IFRS for the individual and consolidated financial statements
10	The absence or lack of Specialists in IFRS	<ol style="list-style-type: none"> 1. The rotation of the frame of accounting services 2. Features of the location of a regional organization and its structures 3. Inadequate remuneration specialists in IFRS 4. Low corporate culture 5. Lack of legal and regulatory documents on the application of IFRS
11	The increase in terms of IFRS implementation	<ol style="list-style-type: none"> 1. Formal attitude of IAS 2. Low qualification of personnel in the organization, or the lack of them 3. Financial constraints, high costs of consultancy and training 4. Unavailability of information systems 5. Disadvantages of collecting and providing information 6. Lack of legislative and regulatory instruments to IFRS 7. Lack of a clear position of the state with respect to IFRS 8. Maintaining parallel reporting on the Uzbek rules (NAS) and IFRS 9. The lack of statutory mandatory application of IFRS for the individual and Consolidated Statements
12	Bad selection of accounting policies	<ol style="list-style-type: none"> 1. Low qualification of consultants 2. Formal attitude of IAS 3. Low qualification of personnel in the organization, or the lack of them
14	Refusal of the application IFRS	<ol style="list-style-type: none"> 1. Changes in laws, regulations and other legal acts, to prevent the use of IFRS 2. Revision of the Concept of development of accounting and reporting in the Republic of Uzbekistan and the rejection of IFRS 3. The transition to a new financial reporting system, different from IAS 4. Lack of a clear position of the state with respect to IFRS 5. The absence of statutory mandatory application of IFRS for the individual and consolidated financial statements

15	Refusal of IFRS/IAS	<ol style="list-style-type: none"> 1. Lack of necessary changes in the legislation of the Republic of Uzbekistan 2. Lack of legislative and regulatory documents for the application of IFRS 3. Lack of a clear position regarding the state IFRS 4. Lack of statutory mandatory application of IFRS for the individual and consolidated statements
16	Increase in value IFRS implementation	<ol style="list-style-type: none"> 1. Recognition of the mandatory reporting of IFRS at the legislative level 2. Underdeveloped market infrastructure

- Appendix # 2

Summary of Differences between IFRS and Uzbek National Accounting Standards (NAS)³⁴

№	IFRS/IAS	NAS	Comments
1	Framework for the Preparation and Presentation of Financial Statements (Framework)	Framework for the Preparation and Presentation of Financial Statements, approved by the MoF in 1998	In general, the national framework follows the principles of the international framework. The objectives and users of financial statements are described almost identically, although there are some differences. There is no difference between underlying assumptions and qualitative characteristics, in the national framework; all are described as principles. There is no section on “Concepts of Capital and Capital Maintenance” in the national framework.
2	IAS 1 Presentation of Financial Statements	NAS 1 Accounting Policy and Financial Reporting, approved by the MoF in 1998	Because NAS 1 is based on an older version of IAS 1, it focuses primarily on accounting policies, less on financial reporting. Other differences include: (i) required financial statements include the report on movements of fixed assets; (ii) financial statements must be completed by using prescribed forms (approved by a separate regulation); the calendar year is the required reporting period; and financial statements should be prepared no later than February 15 of the following year; (iii) NAS 1 is not applicable to banks and insurance undertakings; and (iv) NAS 1 establishes that the users of financial statements are relevant state bodies and owners, not the general

³⁴ REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC), The Republic of Uzbekistan, ACCOUNTING AND AUDITING, December 2008, made by team from World Bank.

			public.
		NAS 3 Report on Financial Results, approved by the MoF in 1998	NAS 3 describes the income statement in detail. While the concepts are generally in line with IAS 1, there are some differences, for example, NAS 1 recognizes extraordinary items, whereas IFRS/IAS do not mention them.
		NAS 15 Balance Sheet, approved by the MoF in 2003	NAS 15 contains additional descriptions related to the balance sheet, such as current and non-current assets, equity and liabilities, etc.
		NAS 14 Statement of Owner's Equity, approved by the MoF in 2004	NAS 14 contains additional descriptions for the statement of changes in equity and specific disclosures.
3	IAS 2 Inventories	NAS 4 Inventories, approved by the MoF in 2006	Current NAS 4 replaced an old version approved in 1998. Principles copy those used in IAS 2, although there are some differences in approaches: (i) concepts of the low value and short-life assets exist (adopted from previous accounting practices); lower-value items are expensed when transferred for use, but higher-value items can be capitalized and amortized over their useful lives; and (ii) includes detailed prescriptions of how the cost on inventory is determined.
4	IAS 7 Cash Flow Statement	NAS 9 Cash Flow Statement, approved by the MoF in 1998	Although NAS 9 is generally in line with IAS 7, some of its provisions are not up to date, for example: (i) NAS 9 still refers to the concept of extraordinary cash flows; and (ii) NAS 9 does not contain provisions for investments in subsidiaries, associates and joint ventures.
5	IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	NAS 1 Accounting Policy and Financial Reporting, MoF approved in 1998; and NAS 3 Report on Financial Results, MoF approved 1998	See also the description for IAS 1. NAS 1 covers only accounting policies; errors and changes in estimates are not addressed. NAS 3 addresses issues related to changes in accounting policies, accounting estimates and errors.
6	IAS 10 Events After the Balance Sheet Date	NAS 16 Contingencies and Post Balance Sheet Date Events, MoF approved in 1998	NAS 16 is based on the previous version of IAS 10 (subsequently, contingencies were taken out of IAS 10 and covered by IAS 37). The main principles related to post balance sheet events are broadly in line with IAS 10; however, NAS 16 contains fewer details on adjusting and non-adjusting events, recognition and measurement, as well as disclosure requirements.
7	IAS 11 Construction	NAS 17 Contracts for	The provisions of NAS 17 are in line with those set in IAS 11 and the same principles

	Contracts	Capital Construction, MoF approved in 1998	are applicable for revenue and expense recognition.
8	IAS 12 Income Taxes	No equivalent NAS.	N/A
9	IAS 16 Property, Plant, and Equipment (PPE)	NAS 5 Fixed Assets, MoF approved in 2003 (effective from 2004) (replacing an old NAS approved in 1998)	In general, NAS 5 is based on IAS 16 and modified to address national circumstances. There are several differences, including: (i) revaluations being performed according to government decrees and based on indexes differing among asset types; and (ii) the NAS is more prescriptive on valuations, asset counts, etc.
10	IAS 17 Leases	NAS 6 Accounting for Leases, MoF approved in 2004 (replacing old NAS 6 approved in 1998)	NAS 6 was developed based on IAS 17; the main IAS 17 principles were followed, but modified to address local circumstances. Major differences are as follows: (i) leases are classified as finance, long-term and short term. In essence, short-term leases (less than 12 months) are considered operational leases and principles similar to those in IAS 17 would apply; and (ii) NAS 6 is less principles-based and more prescriptive. For example, it does not use the term "transfer substantially all the risks" but gives more precise indicators for assessing when a lease should be considered a finance lease and not an operational lease (e.g., the lease term is 80% of the asset's useful life, or the total amount of lease payments are more than 90% of the asset's value).
11	IAS 18 Revenue	NAS 2 Revenues from Basic Economic Activities, MoF approved in 1998	NAS 2 is based on IAS 18 and the text is a close, although not complete, translation from IAS 18.
12	IAS 19 Employee Benefits	No equivalent NAS	N/A
13	IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	NAS 10 Accounting for Government Grants and Disclosure of Government Assistance, MoF approved in 1998	NAS 10 is in line with IAS 20 and uses the same concepts and principles. The only difference is that it allows recognition of extraordinary revenues in line with NAS 3.
14	IAS 21 The Effects of Changes in Foreign Exchange Rates	NAS 22 Accounting for Assets and Liabilities Expressed in Foreign Currency, MoF approved in 2004	NAS 22 is based on IAS 21, but modified to comply with Uzbek legislation and other NAS. Some important differences exist, however, including the following: (i) exchange differences can be recognized when they arise or they can be deferred until disposition (e.g., settlement of a liability over several periods); (ii) exchange differences are recorded as results of financing activities; (iii) NAS 22 is less complex in relation to foreign operations; and (iv) NAS 22 has less complex disclosure requirements.

15	IAS 23 Borrowing Costs	No equivalent NAS	N/A
16	IAS 24 Related Party Disclosures	No equivalent NAS	N/A
17	IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries	NAS 8 Consolidated Financial Statements and Accounting for Investments in Subsidiaries, MoF approved in 1998	NAS 8 follows the same principles as IAS 27, but: (i) is not up to date; (ii) is less complex; and (iii) requires fewer disclosures.
18	IAS 28 Accounting for Investments in Associates	NAS 12 Accounting for Financial Investments, MoF approved in 1998	NAS 12 is not in line with IAS 28 and deals mostly with classifying investments as short or long term, their valuation and disclosures. This NAS does not describe investments in associates and methods of accounting for these investments.
19	IAS 29 Financial Reporting in Hyperinflationary Economies	No equivalent NAS	N/A
20	IAS 31 Financial Reporting of Interests in Joint Ventures	No equivalent NAS	N/A
21	IAS 32 Financial Instruments: Presentation	No equivalent NAS	N/A
22	IAS 33 Earnings Per Share	No equivalent NAS	N/A
23	IAS 34 Interim Financial Reporting	No equivalent NAS	N/A
24	IAS 36 Impairment of Assets	No equivalent NAS	N/A
25	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	NAS 16 Contingencies and Post Balance Sheet Date Events, MoF approved in	Only contingencies are covered in NAS 16 based on the previous version of IAS 10. NAS 16 is less explicit on provisions and disclosure requirements are less demanding (see also IAS 10 above).

		1998	
26	IAS 38 Intangible Assets	NAS 7 Intangible Assets, MoF approved in 2005; and NAS 11 Research and Development Costs, MoF approved in 1998	NAS 7 and NAS 11 are based on the same principles as IAS 38. However, NAS are not up to date compared to IAS 38 and, therefore, do not contain new definitions and descriptions, for example, acquisition of intangible assets as part of a business combination or by way of a government grant.
27	IAS 39 Financial Instruments: Recognition and Measurement	No equivalent NAS	N/A
28	IAS 40 Investment Property	No equivalent NAS	N/A
29	IAS 41 Agriculture	No equivalent NAS	N/A
30	IFRS 1 First Time Adoption of IFRS	No equivalent NAS	N/A
31	IFRS 2 Share-based Payment	No equivalent NAS	N/A
32	IFRS 3 Business Combinations	NAS 23 Reporting on Reorganizations, approved by the MoF in 2005	NAS 23 is not based on IFRS 3 (previously IAS 22). NAS 23 addresses accounting and reporting for reorganizations. The standard provides detailed guidance for mergers and acquisitions, delimitations, etc., and its primary focus is on the issues of valuation; it does not address the purchase method and associated accounting treatment.
33	IFRS 4 Insurance Contracts	No equivalent NAS	N/A
34	IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	No equivalent NAS	N/A
35	IFRS 6 Exploration for, and Evaluation of, Mineral Resources	No equivalent NAS	N/A
36	IFRS 7 Financial Instruments Disclosure	No equivalent NAS	N/A
37	IFRS 8 Operating	No equivalent NAS	N/A

	Segments		
38	No equivalent IAS/IFRS	NAS 21 Chart of Accounts and Instructions on Its Application, MoF approved in 2002	This standard contains required account codes and names, as well as descriptions on how the accounts should be used, together with examples of accounting entries for specific transactions.
39	No equivalent IAS/IFRS	NAS 20 Accounting and Financial Reporting by Small Businesses, MoF approved in 1999	Small businesses are defined in terms of number of employees, depending on types of businesses, from 10 to 100 employees. The standard contains simplified accounting guidelines for small entities, including examples of accounting registers. Financial statement requirements are reduced to the balance sheet, income statement and debtors and creditors form.
40	No equivalent IAS/IFRS	NAS 19 Organization and Undertaking of inventory counts, MoF approved in 1999	NAS 19 contains requirements for counts of various assets and liabilities, and provides sample forms of documents, which entities are to use for these inventories.