



## **TRANSITION TO INTERNATIONAL STANDARDS OF FINANCIAL REPORTING AS A FACTOR OF INCREASING THE INVESTMENT ATTRACTIVENESS OF THE COUNTRY'S ECONOMY**

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### **Abstract**

This article discusses transition to international standards of financial reporting as a factor of increasing the investment attractiveness of the country's economy. The great interest of external users of reporting is due to the benefits that provide them with the basic concepts of international standards. These and other provisions arouse the undoubted interest of all market participants in IFRS and reflect the relevance of the prepared article.

**Keyword:** IFRS, international standards, financial reporting, investment attractiveness, economy.

### **Introduction**

The investment processes taking place in the economy of Uzbekistan are one of the significant factors determining the rate of economic growth and the dynamics of capital. It should be noted that the current situation in the Uzbek economy remains very difficult, largely due to the pronounced raw material nature of the economy and the underdeveloped manufacturing industry. Under the current conditions, it seems necessary to strengthen the investment potential of the country's economy by attracting foreign direct investment (FDI) [1]. At the same time, the accumulation of investment resources should lead to an increase and expansion of effective demand, which in turn should intensify the economic activity of domestic producers.

In the balance of payments of Uzbekistan, the main items of inflow (outflow) of capital include foreign direct investment; portfolio investment; loans, borrowings and loans; other investments, including currency in cash, as well as other assets and other questionable transactions [2].

Reporting prepared in accordance with international standards is a universal tool for providing users with reliable information about the financial position of the company, its performance indicators, with the help of which profitability, financial stability and other data necessary for making management decisions are determined.





The application of IFRS allows domestic firms to:

- Interact with foreign investors;
- Enter the international capital markets;
- Provide shareholders and other interested users with reports in a universal format;
- Increase the degree of informativeness of their reporting;
- Remove formal barriers to international cooperation, etc.

The process of introducing IFRS into the economic reality of Uzbekistan is moving in all directions, which can be conditionally divided into 2 groups:

- Regulatory and organizational;
- Security.

Practice shows that the rate of economic growth is very dependent on the volume of total investment. In this regard, the task of increasing the investment attractiveness of the economy of Uzbekistan should become one of the priority tasks of the state. At the same time, the role of the state in strengthening the investment potential of the country should be to provide favorable conditions for the implementation of investment activities [4]. One of the tools to enhance the investment potential of the economy of Uzbekistan can be a widespread transition to International Financial Reporting Standards (IFRS).

## **Methodology**

In this paper, using empirical methods, the practice of applying International Financial Reporting Standards (IFRS) in Uzbekistan analyzed and the task of accelerating the completion of the transition from domestic standards to International Financial Reporting Standards in order to stimulate the growth of foreign direct investment substantiated. The methodological foundations of the study are general scientific methods of cognition: a systematic approach, a dialectical method, a method of unity of historical and logical analysis and synthesis, as well as the results of fundamental research in the field of the theory of institutional development, theory and methodology of accounting and financial reporting.

## **Results and Discussion**

A favorable investment climate will largely be facilitated by the new format of information presented in the reporting of domestic companies [5]. This is because in a market economy, the normal functioning of a competitive capital market is possible only if its participants provided with reliable, objective and high-quality information about the objects of financial investments. The main source of such information is the financial statements of the organization, formed in such a way as to ensure the





interests of all its interested users in terms of the relevance (usefulness) of this information. Over the past decades, in the world practice of accounting and reporting, such requirements for financial reporting have been formed that make it as useful and convenient as possible for making economic and managerial decisions.

Currently, the most recognized standards in the field of financial reporting in terms of the relevance and usefulness of the information provided, of course, can be recognized as International Financial Reporting Standards. IFRS has proven to be the most common and widely accepted framework in the world for ensuring the quality of the information presented and its usefulness for making important economic decisions.

The process of growing globalization of the world economy requires the unity of norms for the preparation of financial statements, that is, a "universal language" that is understandable to all businesspersons of the world, regardless of nationality, state affiliation and other features.

The development of IFRS was due to the need to create a unified accounting system and standard financial reporting forms, which should be equally comparable for all companies.

Of particular relevance is the use of IFRS for the preparation of financial statements by companies operating in the global stock markets, since the adoption of correctly reasoned decisions regarding large financial transactions can only be made on the basis of reliable, uniquely identifiable financial information, which is ensured by the application of all accounting standards recommended by IFRS [ 2].

The integration of Uzbekistan business into the world economy, the creation of conditions for attracting foreign investment dictate the need to study and use in economic communication the universal language of business, understandable to the whole world: international financial reporting standards [5].

Financial accounting and the formation of financial statements in Uzbekistan are currently undergoing more and more changes associated with adaptation to the requirements of IFRS. There are several reasons based on which it is possible to understand the increased interest in IFRS in Uzbekistan now. At the same time, one of the main reasons for the transition to IFRS is the lack of investment in Uzbekistan due to the lack of reliable information about the true financial position and financial results of the organization. Today, entering the largest stock exchanges for companies in Uzbekistan is impossible only if they recognize IFRS. For example, a condition for the admission of foreign and national companies to the listings of some stock exchanges is the availability of financial statements prepared in accordance with IFRS (for example, on the stock exchanges of Austria, France, Germany, Italy). On other





exchanges for admission to listing, it is allowed to submit financial statements in accordance with IFRS along with financial statements prepared in accordance with national rules (for example, on the exchanges of Australia, Denmark, Turkey).

Another reason for the transition to IFRS can be attributed to the lack of enterprises in their own working capital, in connection with which there is an increasing need for credit resources provided by credit institutions on favorable terms for the borrower. In the context of globalization and the expansion of world economic relations for the dynamic and successful functioning of domestic enterprises, the issue of attracting cheap borrowed funds is acute. As you know, lending conditions in European banks are more favorable than in Uzbekistan banks.

In addition, one of the main conditions for Uzbekistan companies to obtain foreign credit resources on favorable terms is that these organizations have financial statements prepared in accordance with IFRS. This is because IFRS reporting provides external users with the most relevant information about the property and financial position of the company, and, therefore, investors and creditors to make management decisions can use such information. At the same time, according to the author, the current economic sanctions aimed at limiting lending to enterprises in Uzbekistan are temporary.

The official recognition and introduction of International Financial Reporting Standards on the territory of the Republic of Uzbekistan is the most important step in ensuring the information openness of the capital market in the country and creating a favorable investment climate [1]. At the end of 2011, a landmark event took place in Uzbekistan, connected with the entry into the "club" of countries that have adapted International Financial Reporting Standards in their legal system. This is a complete set of International Standards and Interpretations applicable to 2013 financial statements.

The economic crisis of 2009 showed that the company's financial statements should provide users with useful financial information for making management decisions. Otherwise, such reporting will lose its relevance and become ineffective.

The main problems of financial statements prepared in accordance with Uzbek accounting standards are due to the accounting methodology. The main disadvantages include low transparency and comparability of reporting, incomplete reflection of all facts of economic activity (for example, contractual obligations and transactions with derivative financial instruments), ignoring conservatism in the assessment and recognition of facts and events of economic activity. First, this concerns the valuation of assets at historical cost, which completely ignores the principle of conservatism in valuation. On the balance sheet of the organization,





obsolete fixed production assets taken into account, the cost of which at the current moment can be many times overestimated. Another significant drawback is the operation of the accrual method, which requires the recognition of deferred income at the cost of the actual monetary claim against the debtor, and not at fair (discounted) value. This leads to the fact that in the financial statements of the company the financial result will be overestimated. All these shortcomings are most acutely manifested in the context of the financial crisis and the growth of instability factors in world markets, accompanied by an excessive outflow of capital from the country.

The problems mentioned earlier and the lack of specialists in the field of IFRS may negatively affect the quality of IFRS statements prepared by Uzbekistan companies and cast doubt on their reliability. Ultimately, all these shortcomings can affect the reduction of investment attractiveness and competitiveness of Uzbekistan enterprises.

In this regard, the emergence of official IFRS is an important step towards reforming Uzbekistan accounting, turning it into an effective tool for creating high quality, and objective, useful and relevant information.

Thus, one can be sure that the beginning of the introduction of IFRS in the territory of the Republic of Uzbekistan has been laid. Consistent and widespread implementation of IFRS in our country will allow enterprises to receive direct economic benefits from involvement in the global economy. The process of international accounting standardization has not yet been completed. New changes are constantly being made to IFRS, which adapt to the changing economic conditions of the world economy.

## **Conclusion**

It should be noted that the transition of domestic companies to IFRS is ambiguously assessed in expert circles. Some believe that such a transition will bring undoubted benefits to the Uzbek economy and, above all; increase the international rating and increase (reduce) the inflow (outflow) of investments into the country. Others do not see any benefit in this approach, believing that it will bring additional costs to companies and increase the complexity of the accounting and reporting procedures performed [4].

However, understanding the purpose of applying IFRS, and this is to obtain the most reliable information about the financial position of the company, which is necessary for existing and potential investors, it becomes obvious and necessary to switch to IFRS. At the same time, the state should become the initiator in the process of





transition to IFRS, since one of the priority tasks of state policy until 2025 is to increase the investment attractiveness of the Uzbekistan economy [1].

The priority of the investment development of the Uzbekistan economy also reflected in the Scenario conditions for the long-term forecast of the socio-economic development of the Republic of Uzbekistan until 2030.

In accordance with the basic concept of this document in the long-term development, the development institutions that determine entrepreneurial and investment activity [2] will determine Uzbekistan economy. In this connection, a widespread and full-fledged transition to IFRS will only contribute to the solution of such an ambitious goal of state policy.

Thus, in the context of the introduction of economic sanctions against the Republic of Uzbekistan, the convergence of domestic accounting and reporting standards in accordance with international standards on the most important aspects of financial accounting will help reduce the outflow FDI, which in general will improve the investment and business climate in the country.

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