ISSUES OF ADJUSTING NATIONAL STANDARDS IN COMPLIANCE WITH INTERNATIONAL STANDARDS IN UZBEKISTAN
(Evidence from accounting policy)

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ABSTRACT
The article provides comprehensive description of the accounting policy concept in the economic entities and adjusting its requirements in compliance with with International Financial Reporting Standards (IFRS). In addition, the article presents proposals and recommendations aimed at improving accounting policies, which have been worked out in reliance upon international standards and the experience of developed countries.

Key words: accounting policy, principles, methods, customs, rules, processes, international standard, national standard, financial reporting.

INTRODUCTION
Almost one year has passed since the spread of the global coronavirus pandemic, and it is still having an unprecedented negative impact. As a result, no matter what sector of the world economy there is, it is inducing businesses to reconsider their financial and economic activities and search new opportunities for development. Along with other countries of the world, Uzbekistan has experienced significant impact on its economy, in particular, impact on the economic entities. Assessing the impact of the coronavirus pandemic on the preparation of interim (periodic) financial reports of sectors of the economy for the past 2020 will require more effort and labor than in previous years.

It should be noted that the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020 № 4611 “On additional measures for the transition to international financial reporting standards” states the following: “...adjusting national accounting standards in compliance with the IFRS”[1]. Definitely, in the implementation of such responsible objectives set by our Government, it is required to work in collaboration with industry experts from relevant ministries and leading teaching staff of higher education institutions. Currently the process of adjusting national accounting standards in compliance with international financial reporting standards has commenced, and this work is efficiently going on (so far, about 10 national accounting standards have been adjusted in compliance with the IFRSs).

Accounting policy is considered one of the important standards to be formulated in the economic entities. In turn, a number of questions arise, i.e. whether an entity needs an accounting policy, if so, what are its requirements, what are the benefits of the accounting policy for the entity, whether it affects the formation of financial statements, whether to copy the international standard directly, or how a national standard on accounting policy is adjusted in compliance with the international standard, whether in fact it should be freely formed without a uniform accounting policy.

The main goal of business entities is also to provide users with transparent (and reliable) accounting (financial reporting) information, which means that accounting policies should serve this purpose. This implies that as we shift to international standards, we will first need to adjust national accounting standards in compliance with international ones. Moreover, it is known from the experience of foreign countries, that is, the accounting policy is adjusted in compliance with the requirements of the international level, and particular attention is paid to the concept of preparation and presentation of financial statements.

In our practice, we can see the opposite trend, that is, there is an increasing interest in the formation of direct financial statements without improving the formulation of accounting policies and its methodological framework, or moving to transform it in compliance with international requirements. This is one of the drawbacks of our practice of accounting and financial reporting, which implies that we must first elaborate a comprehensive accounting policy and fully adapt it to the international community. In our opinion, the set goal (preparation of financial statements) can be achieved only if the work plan (accounting policy) of the accountant is developed accurately and clearly in accordance with the business plan of the economic entity.

LITERATURE REVIEW

The concept of accounting policy has been determined in various definitions by many economists-scholars. In addition, in the economic literary sources various approaches exist to the definition of this concept at the international and domestic levels provided by practitioners in this field (auditors, accountants, analysts). It is obvious, that there is a single purpose in all of these definitions, i.e. the accounting policy consists of a set of rules aimed at maintaining accounting and preparing financial statements.

Mainly, our approach is restricted to the provisions of international and national standards in the coverage of the concepts and definitions given to accounting policies.

Herewith we would like to say that we will try to respond to the above-mentioned statement in the Presidential Resolution.

According to International Accounting Standards (IAS) 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, accounting policy is defined as it follows: Accounting policies are specific principles, methods, customs, rules and practices used by an economic entity in the preparation and presentation of financial statements[2]. This definition is clear and aimed at the right goal. In our practice, however, we can apply a slightly different approach to this.

For example, in the national standard: “...Accounting policy is a set of methods used by the head of the economic entity for accounting and financial reporting, accompanied by their principles and foundations”[3]. It is obvious from this definition that the head of the economic entity is approached as a responsible person for the simultaneous maintenance of accounting and development of accounting policies.

The legislation of the Russian Federation considers the accounting policy as follows: “.... the accounting policy of the entity is a set of accounting methods adopted by it - initial observation, cost measurement, current grouping and generalization of business processes. Accounting methods include such methods as grouping and valuation of economic activity, payment of assets’ value, business processes, inventory management, application of chart of accounts, formation of accounting registers, and data processing and generalization[4].

Another important aspect of the legislation of the Russian accounting policy is that formation of the accounting policy is performed by the accountant of the economic entity or other duly authorized persons and approved by its head. In our practice, however, there is no such rule. It is determined that the accounting policy is developed by the chief accountant and can be approved by a decision of the Council or the Management Board or by order of the head.

In this regard, we would like to focus on the experience of India, which has ben successfully applying the IFRS. In the Indian Accounting Standard (Ind AS), the accounting policy and its formation have been fully adjusted in compliance with the requirements of the International Standard (IFRS). For example, there is almost no difference between the definition of an accounting policy and the definition of an IFRS: “An accounting policy is a set of specific principles, techniques, conventions, rules and practices used by an entity in preparing and presenting financial statements”[5]. This standard sets out the requirements for disclosure of accounting policies set out in Ind AS 1 “*Presentation of Financial Statements*” (except for disclosures of changes in accounting policies).

According to Japanese Accounting Standards: “Accounting policies are specific principles and procedures that a company uses to prepare financial statements for management. This includes any accounting methods, valuation systems and disclosure procedures". Within the terms of the global pandemic, the Accounting Standards Board of Japan (ASBJ) has issued a statement reconsidering Standard 24 "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (available in Japanese only)[6].

The US Accounting Policy Disclosure Principles (APB 22) state: "Company accounting policies are specific principles and methods of accounting applied in preparing financial statements in accordance with generally accepted accounting principles that are reliable in managing financial position, cash flows and financial results of companies". This principle emphasizes that the accounting policies adopted by companies, presenting financial reporting, may have a material effect on their financial position, cash flows and operating results[7]. As a result, the significance of financial reporting or its efficiency in making economic decisions depends largely on whether the reporting providers fully understand the accounting policy and formulate it accurately.

In the process of applying accounting policy in the practice of international accounting, the economic entity divides it into conservative and aggressive accounting policies.

Conservative accounting policy is aimed at underestimating financial results of the economic entity for the reporting period and raising financial results and related indicators for subsequent periods. The choice of this type of accounting policy is a more sustainable approach that enables businesses to improve over the years and show an increase in financial activity trends. Most importantly, a conservative accounting policy is a positive situation for investors because they have information that the economic entity has been improving its performance (business) over the years.

An entity that chooses an aggressive policy will give a high rating to its past performance, i.e. the accounting policy used will focus on a high performance rating from previous years. However, in recent years, there may be cases that cause a decrease in the performance of the economic entity. This means that a certain degree of caution is required in choosing this policy, as aggressive accounting policies are likely to cause some concern to auditors or investors in the future.

Moreover, in international practice, accounting policies can be selected by economic entities not only in terms of preparation of financial statements, but also in terms of profit management in compliance with established rules.

ANALYSIS AND RESULTS

It is known that in accordance with the Conceptual Framework of IFRSs, an entity is required to prepare financial statements in reliance upon its "continuous operating assumptions”. That is, it is assumed that an entity has neither the intention nor the need to cease or discontinue its activities. Moreover, National Accounting Standard 1 states that, in preparing financial statements, management must evaluate the entity’s ability to operate without any interruption. The standard specifies that when management conducts an evaluation, an entity should disclose significant uncertainties relating to events or circumstances that may cast significant doubt about the entity’s ability to perform its activity without interruption. Therefore, the preparation of interim or annual reports of economic entities requires full disclosure of the impact of the pandemic and the events and incidents caused by it. Compliance with these requirements will demand an economic entity to make amendments to its accounting policies and to adjust the revision procedure in full compliance with the requirements of international standards.

In disclosing the accounting policy and its provisions, one can see the differences between the international standard of financial reporting and the national standard of accounting. It is precisely these differences that need to be considered and coordinated internationally. Even in the naming of standards, it is possible to determine for what purpose the standard has been created and its scope. The following aspects can be treated as a comparison of IAS and NAS in terms of accounting policies (the most essential aspects to be highlighted):

Standard name:

<u>*IAS 8:*</u> *“*Accounting Policies, Changes in Accounting Estimates and Errors*”*	<u>*NAS 1:*</u> *“*Accounting policy and financial reporting*”*

As the name implies, NAS place a strong emphasis on financial statements along with accounting policies, although the structure of financial statements is detailed in the “*Conceptual Framework for the Preparation of Financial Statements”*. In addition, NAS does not include the words “*changes in accounting estimates*” and “*errors*”. This nomenclature in the International Standard is also reflected in the generally accepted principles of US Accounting (*FASB Statement No. 154, Accounting Changes and Error Corrections, APB 22*). Hence, there may be changes or errors in estimates when conducting accounting policies. In our opinion, the naming of NAS should only apply to accounting policies and its aim should focus on that as well.

By its aim:

<u>IAS 8</u>: The purpose of the Standard is to establish criteria for the selection and modification of accounting policies and	*<u>NAS 1:</u> This NAS sets out the basis for the preparation and compilation of an entity’s financial statements in order to*

to determine procedures for accounting of amendments in accounting policies, changes in calculated estimates and error correction, and the disclosures that relate to them.	*ensure that the entity's financial statements for various reporting periods are comparable, as well as the financial statements of different entities.*

It is obvious that both aims are approached differently, the international standard focuses primarily on the choice of accounting policy, while the NAS states that the accounting policy is formulated by the manager, as a result, in our practice there is no concept of accounting policy selection. However, it is advisable to select accounting policies and shape them by sector or industry. Another important aspect, for some reason, is that the aim of formulating accounting policies in the NAS is to compare financial statements of different periods.

Therefore, the comparability of financial statements is determined in the above-mentioned "*Conceptual Framework*". Furthermore, the experience of India can be used to adjust national standard provisions in compliance with the IFRS. Indian Accounting Standards (Ind AS) have been entirely adjusted with international standards. That is, it has developed its own standards with partial modifications. It should be noted that there is almost no difference between this standard and the IFRS, and the aim of the accounting policy and its content have been adjusted at the international level. If the NAS is to be adjusted to the international standards with the account of our national peculiarities, the aim of the NAS should be focused on *Disclosure of Accounting Policies*.

Scope / field of application:

<u>IAS 8</u>: The standard should be applied in the selection and application of accounting policies, as well as in taking into consideration changes in accounting policies, changes in calculated estimates and correction of previous period errors.	*<u>NAS 1:</u> This NAS is used in the preparation of general aim financial statements set out in this standard .... It should be used both in the preparation of the financial statements of individual entities and in the preparation of consolidated financial statements.*

As opposed to the International Standard, the NAS introduces the concept of scope (field of application), which focuses only on the application of financial reporting. As for international standard, proceeding from its aim, it can be used to correct changes and errors. In addition, it is stated that the impact of changes in IFRS accounting policies on taxes should be accounted for in compliance with IAS 12 "*Profit*

Taxes". In India, according to the IFRS: "The tax effect of the correction of prior period errors and retrospective adjustments made to apply changes in accounting policies shall be accounted for and disclosed in compliance with ***Ind AS 12*** (*Income Taxes*)". It is obvious that in international practice, in the development of accounting policies, particular emphasis is laid on the approach in terms of the types of taxes paid by the economic entity.

Another significant aspect of adjusting the NAS in compliance with an international standard is that the NAS does not set out basic definitions or concepts of accounting policies. This is comprehensively reflected in the IFRS, which helps to understand the essence of the standard. Some of these definitions are considered below:

For example, *"Accounting Changes and Error Corrections"* definition implies current state of assets and liabilities, as well as the deferred income or the book value of assets and liabilities obtained as a result of the liabilities evaluation. Changes in the calculated price are not considered to correct errors, as these changes may occur as a result of the acquisition of new data or the occurrence of new events.

Significant deductions or distortions – if economic decisions made by users are subject to impact by financial statements, the omission or distortion of the item is considered significant.

Prior period errors – are misstatements and omissions in the financial statements of an entity for one or more prior periods that may result from the misuse of reliable information. These errors are considered the errors made mathematically or when applying accounting policies. These errors include the consequences of negligence or misinterpretation of events and fraud.

Retrospective application means that the methods used in the previous accounting policy will be implemented in the new accounting policy as well. In addition, there is the concept of *retrospective restatement*, which implies recognition, evaluation and disclosure of elements of financial statements in a way that has not been erroneous in the previous period.

Moreover, it should be noted, that there is no concept of selection and application of accounting policies in the NAS. Therefore, it is advisable to include the same item in the NAS when adjusting it in compliance with the IFRS. This item of the NAS sets out accounting policies that result in the formation of financial statements that contain relevant and reliable information about transactions, other events and circumstances that apply.

Amendments in the accounting policy:

<u>IAS 8</u>: An entity shall change its accounting policy only in the following cases:

if the amendment is required by the NAS;

if, as a result of the amendment, financial statements provide more reliable and relevant information about the effect of transactions, other events and circumstances on the entity's financial position, financial results or cash flows.

<u>NAS 1:</u> It is allowed to change the accounting policy of the economic entity in the following cases:

when the entity is restructured (merged, split, acquired);

in case of change of property owners;

when there are changes in the legislation of the Republic of Uzbekistan or in the regulatory system governing accounting in the Republic of Uzbekistan;

when new methods of accounting are developed.

When amendments in accounting policies are compared, the amendments are linked to the IFRS standard rules or financial statements, while in the NAS they are attributed to Government regulations or the entity's organizational affairs.

When it comes to errors in the IFRS, errors arise when recognizing, evaluating, presenting, or disclosing elements of financial statements. The financial statements will not be presented in compliance with the IFRSs if there are material misstatements or insignificant errors related to the entity's financial position, financial results or cash flows.

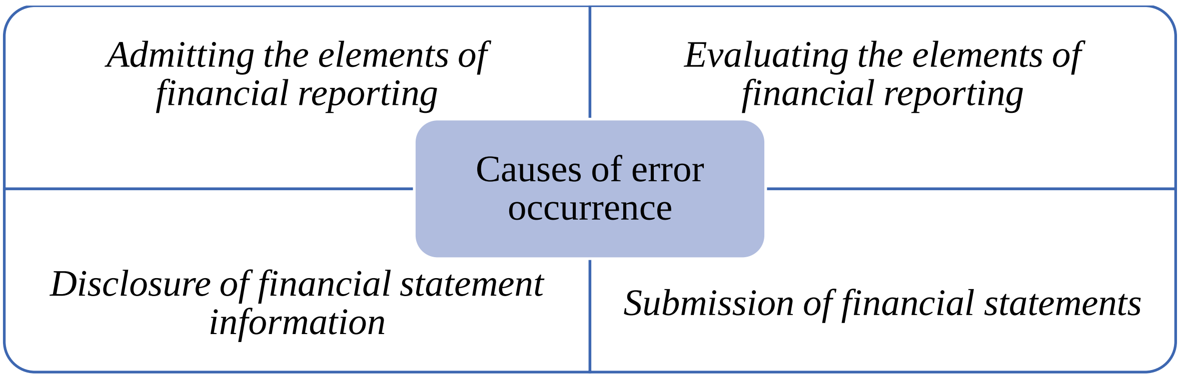

Figure 1. Errors in the accounting policy of an economic entity

Possible errors detected in the current period should be corrected before the financial statements are allowed to be issued. However, significant errors are sometimes not detected until the next period comes, and errors relating to those previous periods are corrected in the comparative data presented in the financial statements of that subsequent period.

We believe that in order to adjust current NAS 1 "Accounting policy and financial reporting" in compliance with international standards, the standard should be expressed in the following order:

Proposed standard	**Current standard**
1. By name:	
"Accounting policy, its changes and errors"	"Accounting policy and financial reporting"
2. By structural composition:	
Aim, scope and definitions	Aim and field of application of the standard
Accounting policy: *selection and application of accounting policies;* *consistency of accounting policy;* *changes in accounting policy and their application.*	Financial reporting
Changes in the estimated price in the accounting policy	Basic principles
Errors in the accounting policy	Accounting policy
Retrospective application and retrospective recalculation	Financial reporting presentation
Disclosure of accounting policy information	Disclosure of accounting policy

In determining the differences between certain concepts and terms in the international standard, it is necessary to provide annexes to the NAS. For example, annexes are provided to the Indian Accounting Standards (Ind AS 8) to identify and apply such differences. These annexes do not constitute a part of the Indian Accounting Standard, but are used to explain the differences with IFRS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

From the proposed comparison it is obvious, that the provisions of the national standard simultaneously serve two purposes (accounting policy and preparation of financial statements and its principles). This means that by focusing more on the preparation of financial statements, it will not be possible to obtain required necessary information about the need for accounting policies and their definitions and content. In case of adjusting in compliance with the requirements of the international standard, we will be able to better understand the essence of the content of the accounting policy (a deeper understanding) and achieve its efficiency. Therefore, this proposal on accounting policy and its methodology enables to fully adjust the provisions of the national standard in compliance with the international standard.

CONCLUSION AND PROPOSALS

The accounting policy consists of rules and guidelines used in the preparation and presentation of the entity's financial statement. Thus, the accounting policy creates the basis for the preparation of financial statements of all economic entities and is aimed at providing comparable and reliable information about other economic entities over a period of time.

Taking into consideration significance of accounting policies in the formulation of the information disclosed in the financial statements, entities should select and apply accounting policies in compliance with IFRS 8 in accordance with each applicable standard and interpretation. In addition, it would be advisable to review the reporting periods, interim or annual report preparation dates in the accounting policy during current ongoing coronavirus pandemic.

In conclusion, in terms of the ongoing coronavirus pandemic, it is required to pay particular attention to the following when making amendments or revisions to the accounting policy by economic entities:

first, to identify and review all subsequent events prior to the approval period for the preparation of financial statements in the accounting policy, as well as to determine whether these events have been corrected;

second, a broader disclosure of the nature and financial consequences of events considered serious in a pandemic period.

Thus, adjusting accounting policies in compliance with international financial reporting standards, which are important in the preparation of financial statements for all types of businesses operating in the country, will ensure the implementation of Resolution № 4611 "On additional measures to transition to international financial reporting standards".

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