Ministry of Education Republic of Azerbaijan

The Impact of International Financial Reporting Standards on the quality of financial statements of business organizations

Ayshan Suleymanli

UNEC SABAH

Azerbaijan State University of Economics

May 2018

Acknowledgements

I would like to give thanks to our Dean Doc.Aida Guliyeva for supporting all students about their study. She always encourages us for being a good person and citizen to our country. When we have any problem we may easily share with her as our close friend and always get her wise advice.

I also want to give thanks to my supervisor Gular Akbarova. She helped me to write this work and she led me while I was doing my dissertation work research.

In additionally, big thanks to my friends and parents for supporting me in all stages of my life.

ABSTRACT

Accounting systems are primarily characterized by accounting principles, valuation principles, accounting methods (eg accounting procedures) and financial statements (the content and content of financial statements). Despite efforts by entrepreneurs to harmonize their financial reporting, accounting systems with significant differences in the world are quite high. It was built by society and influenced by national legislation. In recent times, businesses' rapid growth in globalization and capital markets has triggered the need for globally accepted financial reporting systems, aimed at eliminating disagreements between different accounting practices.

The purpose of the study is to illustrate the application of International Financial Reporting Standards in Azerbaijan and why it is necessary to adopt IFRS. All companies in the countries of the European Union and other countries, as well as Azerbaijan, since January 2008 should prepare financial statements in accordance with IFRS. I also believe that the transition to IFRS has had a significant impact on improving the transparency and effectiveness of financial reporting. My research is aimed at studying how the transition to IFRS will take place or whether firms and banks in Azerbaijan have incentives to apply IFRS. My analysis confirms that the adoption of IFRS in Azerbaijan helps the economic development and stability of the financial system with positive economic effects.

Key words: Financial reporting, International Financial Reporting Standards (IFRS), implications of IFRS in Azerbaijan, national reporting standards

CONTENTS

1. INTRODUCTION

Accounting systems are primarily characterized by accounting principles, valuation principles, accounting methods (eg accounting procedures) and financial statements (the content and content of financial statements). Despite efforts by entrepreneurs to harmonize their financial reporting, accounting systems with significant differences in the world are quite high. It was built by society and influenced by national legislation. In recent times, businesses' rapid growth in globalization and capital markets has triggered the need for globally accepted financial reporting systems, aimed at eliminating disagreements between different accounting practices. In this respect, the International Accounting Standards Board (IASC) was established in 1973 by professional accounting firms in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland and the United States of America. Despite the issuance of International Accounting Standards (IAS) by the IASC between 1973 and 2000, many developed countries continued to develop and use their national accounting standards. In 2001, the IASC reorganized into the International Accounting Standards Board (IASB) and issued five new standards, known as the International Financial Reporting Standards (IFRS). In 2001, the Australian Financial Reporting Council announced that from 1 January 2005, the Australian Financial Reporting Agencies have moved to combine IAS / IFRS. Similarly, in June 2002, the Council of Ministers of the European Union (EU) approved a regulation requiring publicly-held EU companies to prepare their financial statements in compliance with IFRS for the fiscal periods beginning on or after 1 January 2005. Therefore, with the adoption of IFRS by Australia and the EU in 2005, the domino effect has led to the use of IFRS in more than 120 countries worldwide. Today, Argentina, Brazil, Canada, Korea, New Zealand, South Africa and Turkey are among the countries that use IFRS. IAS and IFRS are developed primarily for the financial reporting needs of large and publicly traded companies. Therefore, the suitability of SMEs and non-public enterprises for their reporting needs is questioned. For this reason, professional accounting institutions or authorities (UNCTAD, IASB, IFAC) at the regional level (European Commission - EC) and finally some of the national competent legal authorities (such as the United Kingdom) focused on the development of an accounting standard by simplifying full accounting standards that serve the needs of private or at least large businesses and the IASB has launched an IFRS for SMEs by setting up an advisory board on April 23, In light of these developments, the IASB issued a discussion paper on IFRS for SMEs in June 2004 and requested that comments be communicated by 24 September 2004. On 15 February 2007, the IASB issued the IFRS for SMEs (SMEs) for the purpose of developing a specific standard for businesses that do not have a public accountability obligation, and requested that comments be communicated by 30 November 2007. Later, in July 2009, the International Accounting Standards Board (IASB) published IFRS for SMEs for small and medium-sized entities (SMEs). It focuses on general purpose financial statements of businesses designed to meet the financial reporting needs of standard private entities and which do not have a public accountability responsibility. IFRS for SMEs is viewed as a simplified version of IFRS to provide third-party users with financial information needed for credit, management and other purposes of small and medium-sized entities that are not responsible for public accountability.

IFRS is a collection of financial reporting standards developed by the International Accounting Standards Board. The goal of IFRS is to provide "a single set of high-quality global accounting standards that require transparent and comparable information in general-purpose financial statements." Today, IFRS standards have been implemented or permitted in almost 100 countries around the world. By adopting IFRSs, a business can present its financial statements on the same basis as its foreign competitors, simplifying the comparison. Most countries have adopted IFRS. This adoption differs from the point of view of the method of implementation from one country to another. In fact, the adoption of IFRS in the world by country of listed companies can be classified according to its level of compliance with IFRS issued by the IASB in four methods: "due process", "standard by standard," "optional," and "not completely convergent ".

2. BACKGROUND TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1. The importance of International Financial Reporting Standards

At present, the tendency towards standardization and unification of accounting principles becomes more and more significant. This trend reflects the expansion of the field of activity of international companies, the strengthening of the international world economy and financial markets. International financial reporting standards play an important role in the harmonization and standardization of the accounting system, and the development of common accounting principles for all countries is a condition for the effective functioning of multinational enterprises in foreign economic activity.

The development of business, accompanied by the growing role of international integration in the sphere of the economy, makes certain conditions for uniformity and comprehensibility of the principles of formation and calculation of profits, tax base, conditions for investment of capital used in various countries. To improve the organization of accounting in Azerbaıjan companies, it is necessary to focus on the International Accounting Standards and Financial Reporting (IAS). The role of IFRS was to ensure comparability of reporting by companies from different countries.

The application of IFRS required completely new knowledge and skills of work. The need for financial reporting in accordance with international standards for Azerbaıjan enterprises is due to the following factors: - the emergence of the possibility of establishing trade relations with foreign customers; - the interest of strategic investors in the creation of joint ventures; - it is expected to issue securities to the international market, etc. International Financial Reporting Standards (IFRS) are a set of documents (standards) that govern the financial reporting rules required by external users to make economic decisions with respect to an enterprise.

IFRSs are not legislative, regulatory documents that regulate specific methods of accounting and reporting standards, but rather a set of principles and requirements. In fact, the application of IFRS is not the goal. IFRS is a kind of market transformation tool, quite important and effective. The need for IFRS is due to the following reasons.

1) The formation of reporting in accordance with IFRS is an important step that gives Azerbaıjan enterprises the opportunity to become involved in global capital markets. Capital, especially foreign, requires the transparency of financial information on the activities of companies and financial management reporting to investors. World practice shows that the reporting, formed by international standards, is highly informative and accurate for its users. Today, the world's major stock exchanges allow the submission of such reports by foreign issuers for the quotation of securities, which confirms the usefulness of IFRS accounts.

2) The use of international financial reporting standards in the organization of management accounting allows to significantly reduce the company's costs, and also provides an opportunity to more effectively conduct the process of preparing financial statements. Also, the availability of reliable information on the financial and economic activities of the company helps management to make optimal management decisions. Reporting in accordance with international standards is prepared by transforming the reporting compiled according to national standards. Today, the problem of unifying the accounting system is quite significant. Two

approaches to solving this problem are best known: standardization and harmonization of accounting systems. Standardization of accounting procedures is carried out within the framework of its unification, which is carried out by the International Accounting Standards Board (IASB), which develops and publishes international financial reporting standards. The IASB was established in London in 1973. The purpose of the Committee is to unify the accounting principles used by companies around the world for financial reporting. The sense of harmonization of various accounting systems is that each country may have its own accounting model and a system of regulatory standards. The main thing is that these standards do not contradict similar standards in the member countries of the community, that is, they are in relative harmony with each other. Today, there is an active transition to international financial reporting standards, especially with respect to companies whose securities participate in quotations on stock exchanges. International accounting standards allow not only reducing the costs of companies preparing their reports, especially in the context of consolidating the financial statements of companies operating in different countries of the world, but also reduce the cost of attracting investment capital. Transition to IFRS can be a long and complex process, in the implementation of which many difficult issues of a methodical and accounting nature will have to be solved. The experience of companies in Europe and Asia that have made the transition to IFRS, suggests that there are a number of problems that are underestimated by many companies turning to IFRS. Despite the general orientation, the same nature, there are differences in the specific application of standards, which can have a significant impact on the financial statements. Consider the main differences between the International Financial Reporting Standards

(IFRS): 1) the definition of accounting (financial) statements. In accordance with IAS 1 "Presentation of Financial Statements", financial statements are a structured presentation of the financial position and financial performance of an entity. IAS 1 "Presentation of Financial Statements" is the standard that applies when compiling the first financial statements of a company in accordance with international standards. IAS 1 was developed to assist companies in transitioning to IFRS and provides practical solutions aimed at optimizing costs when first applying these standards. The standard also contains an application guide that highlights the most complex issues of reporting transformation.

Companies should apply IAS 1 in the transition from previous generally accepted accounting principles (GAAP) to IFRSs and the preparation of the first IFRS financial statements, that is, the financial statements that are the first reporting containing a clear and unqualified statement of compliance with IFRSs;

2) the purpose of accounting (financial) reporting. According to IFRS, the purpose of general purpose financial reporting is to provide information about the financial position, financial results and cash flows of the company that are useful to a wide range of users when making economic decisions. Financial reports also show the results of the management of the resources assigned to the company's management. In the RAP - regulatory accounting principles there is no clear indication that the purpose of financial reporting is to provide information about an organization that is useful to a wide range of users in making economic decisions;

3) the reporting period and the reporting date. In international standards there is no clear fixation of the reporting date;

4) interim reporting: In IFRS, an interim period is a reporting period that is shorter than the full fiscal year. Interim financial statements are financial statements that contain a complete set of reduced financial statements (components) for an interim period. Thus, IAS (International Accounting Standard) 34 "Interim Financial Reporting" establishes the minimum composition of interim financial statements, which includes a short balance sheet; a summary of the income statement; a summary statement of cash flows; a summary of changes in equity; notes to the financial statements.

According to the RAP, the monthly and quarterly reports are interim and are made up by the cumulative total from the beginning of the reporting year;

5) determination of revenue. In accordance with IAS 18 International Accounting Standard, revenue represents the gross inflow of economic benefits from the ordinary activities of a company over a period resulting in an increase in equity other than contributions from equity participants. One of the main obstacles to convergence of national standards with IFRS is the complexity of individual standards.

Also, harmonization of accounting systems is hampered by the following factors: 1) data gaps. The preparation of the opening balance sheet under IFRS may require the collection of information or the execution of calculations that were not necessary in accordance with the previously applied GAAP. Companies should plan the transition to IFRS in advance in order to ensure the timely collection and verification of necessary information. Similarly, companies should identify the differences between the requirements of GAAP and the requirements of IFRS. This can affect the amount of necessary information to be collected. For example, certain types of information required to be presented in accordance with IFRSs, but not required under GAAP (eg, brief historical information), may still be partially provided in accordance with GAAP, but should be clearly stated in according to what requirements this information is presented, and the nature of the main adjustments that ensure compliance with IFRS, is subject to discussion. It may be that, in accordance with IFRS, other additional information required by regulators is required;

2) the choice of accounting policy. A number of IFRSs allow companies to choose one of several possible options for accounting policy purposes. Companies should be cautious in choosing the accounting policy that will be used in preparing the opening balance sheet, and well understand the impact of this choice on the current and future periods. Companies should conduct an analysis of their chosen accounting policies under IFRS, and the most effective this analysis will be when it is carried out "from scratch". While many of the accounting requirements for previously applied GAAP and IFRS may be similar, companies should use the opportunity to examine alternative IFRS accounting policies, as it may appear that they better reflect the economic content of their operations and will improve investor information.

In our opinion, at the present stage, there is a need for a more complete compliance of the Azerbaıjan accounting system with IFRS, which would avoid crisis situations on the market and ensure financial transparency of companies, which is important for potential investors. International accounting standards allow the application of economic knowledge in order to compile objective, accurate reporting of enterprises. With the development of market relations and foreign economic cooperation, the issues of standardization and harmonization of financial reporting in different countries become very relevant. So, harmonization is a process of convergence of methods, norms, tools, principles and rules of accounting and financial reporting. And standardization is the process of forming norms, principles and rules that optimally satisfy and unify the requirements of information users in different countries. Standardization and harmonization of the accounting system are interrelated processes in which IFRS is of great importance.

There are several choices for the implementation of IFRS in terms of both methods and policies. According to the study, a body of accounting norms can be implemented into a country by several methods. Indeed, the regulator of country can adopt the standard setter's process. Through this method, which is simple to implement, the regulator of a country gives an independent accounting standard setter the mission of developing accounting standards for these companies. Concerned companies therefore automatically apply the standards issued by the standard setter. Each accounting standard issued has a legal force allowing its application without passing through a regulatory approval. Also the regulator may choose to rubber stamping each standard. Through this process, the regulator adopts all standards published by the standard setter and transfers them automatically in its legal arsenal. No standard is changed or modified. The standards are adopted by the accounting framework and applied quickly. Likewise, the regulator can endorse the standards. By this method it can adopt or deletes norms. Only the adopted standards are applicable by the concerned entities. The last method for implementing accounting standards is the convergence. It can be a full or partial convergence. The full convergence is based on the execution of a compliance process of all accounting standards with those of the target repository. The goal is to have at the end of the convergence similar accounting. The incomplete convergence is a compliance process of certain norms while the others will be conserved in their actual form. Ranking of these implementation methods and have given examples of countries adopting them. There is a classification of these methods have assigned a name for each class and given examples of countries applying them. The first method called “adopting the process” has been chosen in South Africa and Israel and the second method named “standard by standard” in its two first levels “adoption as issued by the IASB” implemented in Canada and “fully converged with IFRS” in Australia; those standards, according to the authors, are the most compliant with IFRS which are issued by the IASB. The third level of the “standard by standard” method named “Adoption as issued by the IASB with deletions” implemented in the European Union and the third implementation method called “optional” that are chosen in Switzerland are considered as possibly conform to the IFRS. The fourth method called “not fully converged” is applied in China and it is considered as compliant “unlikely” with the IFRS as issued by the IASB.

2.2. CONCEPTS OF IFRS

In order for financial reporting to be advantageous, the content of the standards on which it is based must be based on conceptual principles that are consistent amongst themselves and represent a single concept. This is the position that the International Accounting Standards Board (IASB) undertakes in the preparation and development of standards and explanations.

However, in accordance with IFRS 8 Accounting Policies, Changes in Accounting Estimates, Inferences Standard, the non-standard Financial Reporting Concept Document must be used and used by management in the absence of a specific IFRS (IAS, IFRS). Supporting decisions made within the framework of preparing accounting policies and disclosing information on financial statements. For this reason, the concept of financial reporting is the cornerstone of the IFRS system.

This article will focus on the content of the Financial Reporting Concept (taking into account the completion of Phase A of the overall improvement plan), as well as how the particular concept provisions were applied in developing the IFRS (IAS, IFRS).

The conceptual bases of the financial statements show that the main users of the financial information are investors, lenders and other buyers who make investment decisions. This provision is directly relevant to IFRS 1 Presentation of Financial Statements in order to provide useful information that may be useful in a wide range of contexts relating to financial position, financial performance and cash flows. economic decisions.

Following the conclusions of the initial phase of concept development, it should be noted that the user circle of general purpose financial statements is limited. As a result, while only investors, lenders and other buyers are now listed as users of financial statements, this concept was previously also referred to as state users, government agencies and employees of the business. Despite this amendment, it should not be assumed that the concept limits the use of financial information prepared under IFRS, for example, or that this information is not useful for that institution. This concept is based on the fact that financial statements are prepared primarily for investors. However, if the financial statements meet investors' information needs, they will also meet the needs of other users.

According to the concept, the results of the organization's activities are recognized on an accrual basis, that is, the impact of transactions and other events is reflected when events occurred, and not when the cash flows associated with these transactions occurred.

A vivid example of the application of the accrual method in writing financial reporting standards is the approach to revenue recognition in accordance with IAS 18 "Revenue". In accordance with this approach, revenue should be recognized if the following conditions are met:

a) the company has transferred to the buyer significant risks and rewards of ownership;

b) the company no longer participates in asset management to the extent that it is usually associated with ownership;

c) the amount of income can be reliably estimated;

d) it is likely that the economic benefits associated with the transaction will flow;

d) the costs associated with the transaction are determined.

Thus, the fact of receipt of payment for the sold products is not decisive in recognizing the proceeds. The usual credit risk inherent in transactions should not prevent the recognition of income. And although the standard as an example describes a situation where revenue is recognized at the time of receipt of funds, in the vast majority of cases, revenue is recognized on an accrual basis.

Another example of the accrual method is IAS 19 Employee Benefits. According to this standard, remuneration in the form of vacation pay is calculated in the period when the employee rendered the service, and not when he went on leave. The same procedure applies to the calculation of fees from profit for the year. The application of this approach provides, for example, a reasonable estimate of the reserves in terms of labor costs for workers engaged directly in production.

Fundamental qualitative characteristics of financial statements

Among the qualitative characteristics of financial reporting, the concept refers to relevance and faithful representations.

Relevant financial information can influence decisions made by users.

Financial information can make a difference in the decision-making process, if it has a predictive value and / or confirmatory value, or both.

Financial information is of supporting value if it provides feedback (confirms or changes) with previous estimates.

The prognostic value and the confirming value of financial information are interrelated. Information that is of predictive value often has a confirmatory value. For example, information on income for the current year can be used to forecast revenue for the next year.

Information is appropriate if it is significant, that is, it can affect the decisions of users. For each enterprise, the materiality depends on the features of the reporting articles, the specifics of the activity and other factors. However, the IASB does not establish the threshold of materiality in the standards.

Under IFRS 1 Presentation of Financial Statements, the omissions (or misrepresentation) of information in the statements are significant if they can affect the decisions of users made on the basis of financial statements. Materiality is determined by the magnitude and nature of the omission (or distortion) committed in specific circumstances. The determining factor is the magnitude, or nature of the report, or a combination of the two.

This kind of conceptual approach to the preparation and disclosure of information is implemented in many IFRSs (IAS, IFRS).

For example, in accordance with IAS 16 Property, plant and equipment, the revaluation frequency is dependent on changes in the fair value of property, plant and equipment. If the fair value of the revalued asset differs significantly from its carrying amount, then another revaluation is necessary.

There are two types of comparability in financial statements in Azerbaijan market: (a) the entity is internally at different times - users of financial statements should be able to compare different periods and be able to identify it if there is any trend in the entity's financial position or activity; b) between different entities - users of financial statements should be able to evaluate the relative financial position of the entity or the company, its financial position and financial performance. For example, the Company's Gross Profit Margin has always been around 20%. This amount has dropped to 18% during 2016. The user of the financial report compared this ratio to the industry's average, and found that the average indices fell from 17% to 16%.

Also, in accordance with IAS 16, an entity allocates the amount originally recognized for an item of property, plant and equipment to its significant components and separately amortizes each such component. For example, the fuselage and aircraft engines are subject to separate depreciation.

Thus, the criterion of materiality directly affects both the valuation of fixed assets and the definition of the unit of accounting for fixed assets.

An example of applying the criterion of materiality is also the approach to estimating reserves (estimated liabilities) in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". In accordance with the requirements of this standard, in cases where the influence of the time factor on the value of money is significant, the value of the estimated obligation (reserve) should equal the present value of the expected costs of settlement of the obligation. It should be noted that this approach to the calculation of the present value is inherent in almost all international standards.

To be useful, financial information should accurately disclose economic phenomena. For this purpose, the information must correspond to three characteristics: it must be as complete, neutral and error-free as possible. The IFRS Board understands that this approach is ideal, but it should be pursued to the extent that it is possible.

The full description includes all the information, necessary descriptions and disclosures. For example, the full disclosure of information about a group of assets includes at a minimum the description of assets in the group and the methods of their valuation (initial, fair value).

Reporting information should be impartial (neutral). Financial reporting is not neutral, if through the presentation of information, it so affects the decision-making by the user, which ensures the achievement of a predetermined result.

From a practical point of view, it should be noted that the greatest harm to the neutrality of information in some cases is caused by accounting accounting estimates, manipulating which management of an organization may seek to distort financial reporting.

The main estimated estimates include useful lives of property, plant and equipment, allowances for impairment of assets, estimated liabilities. According to IFRS, an accounting accounting estimate is the best estimate made by an accountant based on professional judgment. Thus, without prejudice to the importance of applying professional judgment in the preparation of financial statements, its soundness should be fully disclosed in the notes to the financial statements. Otherwise, the use of professional judgment can be detrimental to neutrality.

3.THE OBJECTIVE OF FINANCIAL REPORTING

3.1.Changings of Financial Reporting's

According to IFRS, the purpose of reporting is to demonstrate accounting and management information for investors and creditors. These data directly affect the quality of management accounting and investment decisions. The purpose of the reporting, compiled in accordance with the Azerbaıjan Accounting Standards, is to verify the tax documentation by the controlling bodies. Differences in goals and circle of users inevitably lead to systemic differences in the principles of financial reporting.

In IAS 17, leases are classified on the basis of the distribution of risks and rewards of ownership of the asset that are distributed between the lessor and the lessee. If the lease transfers to the lessee all the risks and rewards that are associated with the transferred asset, it is called financial.

If the legal form is used in the reflection of financial leases, stocks or in other circumstances, the priority is used to result in an incorrect evaluation by users of the reporting of all financial risks and benefits.

But if these situations reflect the priority economic content in accordance with international standards, this information will be complete and will enable us to make rational and well-considered investment decisions. Moreover, the possibility of manipulating financial indicators by means of contracts that have the legal form necessary for this purpose is excluded.

Since the financial statements, prepared in accordance with the requirements of IFRS, are intended for investors, discounting must necessarily occur. It is it that satisfies their needs for high-quality financial and reporting information. Investment decisions are based on the principles of the time value of money. Discounting in IFRS is used during the valuation of fixed assets, intangible assets, financial instruments, etc.

According to the requirements of IFRS, fair value is very popular and is often used in valuation of assets. Reason: more valuable and significant for the main users of financial statements - investors - is information about the current value of assets, liabilities and the enterprise as a whole. Information provided in this format makes it possible to take a more balanced investment decision and make a more objective conclusion.

IFRS has a single guideline, the requirements of which are applicable to measurement of fair value, the IFRS 13 "Fair Value" standard. Unfortunately, in Azerbaıjan standards there is no such concept and leadership.

According to the principles of IFRS, accounting is allowed to reflect transactions in compliance with the compliance of income and expenses. In the financial statements prepared in accordance with the requirements of IFRS, expenses are reflected in the statement of comprehensive income.

For users of reporting (especially foreign investors), financial documentation compiled in accordance with international standards is considered more informative. Since the size of the attracted investments and the value of the invested capital directly depend on the quality of financial information. In the modern world, the most valuable resource is information. And the advantage is given to those organizations, information on the financial situation of which is provided as completely as possible, clearly and reliably.

3.2. The ways for improving IFRS

The formation of financial statements, as well as financial accounting in our country, are subject to ever-increasing changes that are related to adaptation to the requirements of international accounting standards. The change in the qualitative characteristics of the accounting statements is predetermined by the fact that the transition to accounting under international standards provides for changes in the conceptual nature associated with a rethinking of the purposes of forming accounting reports.

In modern conditions, the following are the most promising trends in the development of reporting:

The course on International Financial Reporting Standards (IFRS) as an effective and multifunctional financial reporting mechanism that helps to effectively cooperate with foreign partners and promotes effective management;

Presentation of integrated reporting, which contains data on the significant effectiveness of labor and material resources. It is aimed at informing users of reporting on the degree of social responsibility of its owners and managers;

Providing data on resources that facilitate the implementation of the organization's strategy through analysis of the environment, which is the initial stage of management.

Provision of non-financial data on the organization's resources that can not be quantified (social and human resources);

Provision of up-to-date and forecasted data for making management decisions.

IFRS promotes mutual comparability of organizations of different states. The main difference between IFRS and traditional accounting can be called the ideology that accounting is defined to manage the financial investments and cash flows of the investor (owner or lender). Features that predetermined the use of IFRS: the priority of the balance; refusal from asset management in favor of accounting for resources; departure from historical cost.

There are a number of factors impeding the transition to IFRS (Table 1).

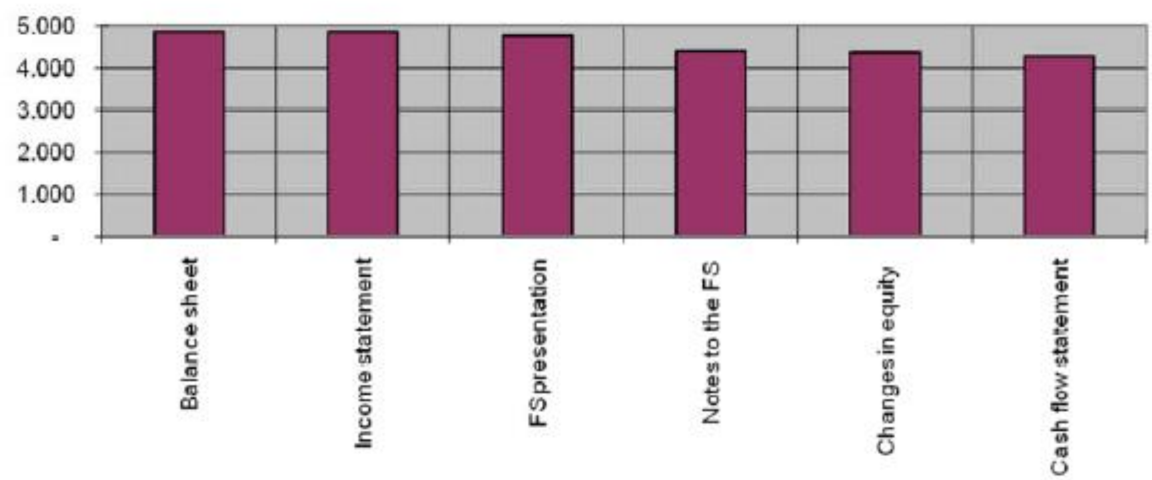
Table 1.

Factors impeding the transition to IFRS

Table 1

Components of IFRS for SMEs relating to general structure of financial statements

Component of statement of GAAP for SMEs	Abbreviation	Combined mean	Combined standard deviation
Balance sheet	Balance sheet	4.860	0.587
Income statement	Income statement	4.841	0.415
Financial statement presentation	FS presentation	4.771	0.446
Notes to the financial statements	Notes to the FS	4.389	0.984
Statement of changes in equity	Changes in equity	4.382	1.130
Cash flow statement	Cash flow statement	4.274	0.958



The transition of Azerbaıjan companies to IFRS is ambiguously assessed by financial managers and experts. Some believe that such a step will benefit the Azerbaıjan economy, while others see it as an increase in the amount of work and material costs. The experience of Azerbaıjan enterprises already operating under IFRS, as well as the European approach to the implementation of IFRS allow us to fairly objectively assess the existence of problems and prospects for this process.

Azerbaıjan reporting standards face the following challenges: improving the quality of data reported; development of the scope of application of international standards; growth of quality control of financial and accounting statements; improvement of knowledge and skills of specialists.

As part of improving the formation of financial statements, attention should be paid to the problems and tasks of automation of accounting. They are listed below.

1. Putting in order and creating an optimal system of accounting. By this we mean, first of all, reducing the time for processing primary data, generating the necessary reports, references, extracts, minimizing user actions to obtain the final result. It is the minimization of time for maintaining accounting - the main limited resource - that is considered the key.

2. Formation of the optimal amount of information in the accounting system. In a market economy, there is a need to form both public financial (accounting) statements addressed to external users and its management reporting used by enterprise managers for business management decisions. Elements of the accounting system of the enterprise, serving the purposes of preparation of financial statements form a subsystem of financial accounting. Accordingly, the preparation of management reporting provides a subsystem of management accounting.

Information should be neither more nor less, it should be enough so that the information was exactly information in accordance with its representation according to Claude Shannon, who interpreted the information as a removed uncertainty. As long as uncertainty about management objects exists, it is necessary to increase information, which will lead to qualitative improvements in the information system of accounting. But as soon as all uncertainties about the objects are removed, further building up of information is inexpedient.

Much attention in this regard must also be paid to the number of analytical features, information on which is fixed in the system. Excessive analytics can do much more harm than good.

3. Decrease in the number of errors in accounting with the use of built-in algorithms for controlling accounting indicators. So According to the Regulation on Accounting "Correcting mistakes in accounting and reporting", to incorrect reflection or non-reflection of facts of economic activities are such factors as incorrect application of legislation on accounting and other regulatory legal acts, errors in calculations, an inaccurate assessment of the facts of economic activity, as well as the unfair actions of officials of the organization.

As for factors contributing to the emergence of errors, include: the presence of significant financial investments in the crisis sectors of the economy; discrepancy between working capital and rapid growth in sales; presence of dependence of the economic subject from one or several suppliers and customers; change in the practice of contractual relations; atypical transactions of an economic entity in a certain period of time; availability of payments for services that are clearly not in accordance with the said services; features of capital structure and profit distribution; the existence of deviations from the established rules of accounting and reporting.

At present, many control procedures are already automated. However, all relevant algorithms should be developed and improved. For example, cash flow analysis by an indirect method, which allows you to simultaneously link the three most important reporting forms - the balance sheet, the statement of financial results and the cash flow statement - is very powerful. Having built the appropriate algorithm in the information system, you can get a number of important control relationships. In addition, it is necessary to take into account the control ratios used by the tax authorities in the initial testing of the submitted accounting reports and tax returns.

The need for such checks is indicated by a number of authors working on this problem. Their reasoned evidence states: the introduction of appropriate systems will reduce manual labor in the implementation of internal control operations, which, accordingly, will increase the effectiveness of the corresponding inspections by minimizing costs without loss of quality.

4.THE CONNECTION BETWEEN AUDIT AND INTERNATIONAL STANDARDS

4.1. Challenges in the Use of International Financial Reporting Standards and International Standards on Auditing

The need to compile financial statements according to international standards arises primarily in enterprises that work with foreign banks and investors. Another reason why companies are already reporting under IFRS, the demand of the business owner. The business owner always seeks to create such an instrument that would allow him to understand the real state of affairs in the enterprise.

Another plus of applying IFRS is the use of information obtained for management purposes. When considering how management accounting should be organized, it is often decided to build it on the basis of IFRS principles. But now many executives realize that they need IFRS financial statements to manage their organization more effectively. In most leading Azerbaıjan banks and companies, the formation of management accounting systems is in accordance with the principles of IFRS. There is no need to re-create the principles and rules for accounting for many business transactions, because IFRS and their interpretations simplify the problem of regulating and maintaining records. But, if necessary, internal reporting can be developed without much effort and transferred to foreign investors or creditors.

Public policy

The country is interested in attracting investment in the Azerbaıjan economy, but for this it is necessary to increase the transparency of Azerbaıjan business, including introducing standards that are understandable to Western investors. If the process is not controlled at the state level, then enterprises will switch to new accounting standards only in case of emergency. This will significantly hamper the attraction of money to the Azerbaijan economy.

At the state level, the following steps are already being taken. To accomplish this task, it is planned to develop:

- a mechanism for summarizing the experience of applying IFRS (creating guidelines);

- the procedure for the official translation of the text of the standards into Azerbaıjan.

- control system (audit) of reporting quality;

- a system of training specialists.

The concept assumes that changes in accounting and reporting, including the transition to IFRS, will occur gradually taking into account the capabilities and readiness of the professional environment, as well as public authorities.

Not all enterprises relate to the transition to IFRS positively. One of the main problems with the massive introduction of IFRS will be the staffing. IFRS is significantly more complicated than Azerbaıjan accounting rules and requires more training and knowledge from financiers.

Despite the fact that now many schools offer training programs on IFRS, there is no systematic approach to education in the field of international standards. "Azerbaıjan education is not ready to retrain all accountants and auditors. "Another reason is the undeveloped regulatory framework for implementing IFRS." It will be necessary to solve the problem of certification of auditors.

Another important problem is the language problem. The official language of international financial reporting standards is English. Unfortunately, it is impossible to quickly learn Azerbaıjan accountants in English, so an official translation of IFRS is required. To implement technical translations of IFRS texts and their timely updating, a special body should be created. At the same time, it is important to organize the work so that the changed standards reach the users on time and not be delayed at the stages of consideration and approval.

One of the requirements for financial reporting is the speed with which information is presented. Unfortunately, now it takes too much time to prepare reports on international standards and the data lose its relevance. Financial information arriving with such a delay is difficult to name actual. "It is possible to solve the issue of operational preparation of IFRS reporting by automating accounting. Most companies prepare financial statements, transferring accounting data to systems such as Excel, and there they manually convert the reporting in accordance with international standards.

5.THE BENEFITS OF IFRS ADOPTION

5.1. IFRS adoption brings about high quality financial statement

The conceptual peculiarity of changing the information space, formed by the accounting system in the Azerbaıjan practice, is to improve the quality of the information received and ensure guaranteed access to it by all interested users. Therefore, the changes in accounting and reporting that occurred in recent years are aimed at creating the organizational prerequisites for the formation of useful information based on the main instrument of accounting reform - International Financial Reporting Standards (IFRS).

The application of the principles of IFRS in the preparation of financial statements allows you to provide information that characterizes the property status and financial performance of the organization in a language that is understandable to users around the world, and as a consequence, the least time-consuming way to win the trust of investors, including foreign ones.

However, despite some optimism about the advantages of using IFRS in Azerbaıjan economic practice in comparison with national accounting and reporting standards, it seems that such work is complex and time-consuming. When creating an infrastructure for applying IFRS in accordance with the Concept for the Development of Accounting and Reporting for the Medium-Term Perspective, it is necessary to make considerable preparatory work:

legislatively recognize IFRS in the AzerbaıjanRepublic;

create a mechanism for summarizing and disseminating the experience of applying IFRS;

determine the procedure for the official translation of IFRS into Azerbaıjan;

organize quality control of financial statements prepared under IFRS, including through audit;

organize the IFRS training process.

Now IFRS standard is used along with the standard IAS 1 "Presentation of financial statements". The reasons for its development, in our opinion, are the following:

insufficiently satisfactory results on the recognition and application of international financial reporting standards in the world accounting practice;

the need to upgrade the status of methodological approaches to IFRS reporting in first-time companies;

lack of clarity and clarity regarding the first application of IFRS in the interpretation of SIC-8 "Initial application of IFRS as the main basis of accounting".

In the standard detailed instructions are provided that it should be used by those organizations that prepare financial statements for the period beginning on the effective date of the IFRS 1 standard. In addition, this standard is followed if the organization has decided Use international standards as the main basis for reporting after the effective date of the standard. If a company reports under IFRS for internal use and does not represent it to external customers, then the provisions and requirements of this standard should also be implemented in the preparation of financial statements that meet international principles.

IFRS 1 First-time Adoption of International Financial Reporting Standards may be fully utilized when an entity has, in previous accounting periods, reported using separate standards. It can also be used by organizations that previously reported in accordance with the fundamental principles of international standards, but, despite the fact that it was used by external and internal users, it was impossible to state unequivocally that all requirements of IFRS have been met. In addition, the standard should be used by organizations that previously prepared financial statements in accordance with national requirements and national standards, which are in part compliance with IFRS. At the same time, there was no statement that the organization had submitted financial statements that fully complied with IFRS.

Therefore, the provisions of IFRS 1 First-time Adoption of International Financial Reporting Standards show that first-time adopters are those that first present useful, reliable and reliable information in the financial statements that fully comply with all the requirements of IFRS.

However, IFRS 1 should not be applied when a company has done the following work in the past:

1. Compiled financial statements in accordance with the requirements of national standards and IFRS and stated in the statements that it has generated its data in full compliance with international standards.

2. Present financial statements in accordance with the requirements of national standards, while stating that such reporting is fully consistent with IFRS.

3. Reported under IFRS, indicating that it fully complies with international standards, although auditors expressed doubts in the audit report as a reservation.

Organization of the first application of IFRS 1

The main purpose of IFRS 1 is the preparation of the first annual financial statements, as well as interim reporting within the financial year, containing high-quality information about the organization that meet the following requirements:

transparency and understandability for users;

comparability with financial statements of previous reporting periods;

providing an appropriate start-up for those companies that first compile IFRS financial statements;

comparability of benefits and costs of compiling and reporting on international standards.

When preparing financial statements for the first time using the provisions of IFRS 1 First-time application of international financial reporting standards, an organization must take into account a number of mandatory requirements. First, when forming financial reporting indicators, transitional provisions contained in other standards should not be used. Second, given that IFRS 1 proposes nine exceptions that can be implemented in the preparation of financial statements, three of them must be fulfilled, and for the remaining six, implementation is voluntary.

5.2. Study case

The processes associated with the transition to IFRS in the EU countries, in many ways similar to the Azerbaıjan ones. According to Richard Martin, the head of the ACCA financial reporting department, currently 25 different accounting systems are used in the European Union.

For example, in Germany, listed companies for the preparation of financial statements can use US GAAP, IFRS and the Commercial Code, all other German companies are allowed to use only the rules of the Commercial Code. In England, all companies are required to compile financial statements according to relevant national standards. Only in Malta all companies must apply international standards. However, since 2005, IFRS will be mandatory for application by listed companies and are allowed for use by non-listed companies in Germany and England. The extent to which these changes are significant can be judged by the following figures: about 100 thousand companies will switch to the preparation of financial statements under IFRS, more than 6 million companies will continue to use the national financial reporting standards. Although such changes seem insignificant, one must not forget that every year the number of companies compiling their financial statements under IFRS will grow. We will also have to face problems. For example, it is necessary to solve the issue of taxation of companies compiling their financial statements in accordance with IFRS, to spend significant funds on staff training and commissioning of new accounting information systems. But all these costs are justified by the positive impact of more transparent reporting on the company's financial position.

Nevertheless, the implementation of IFRS would have been much faster if the main discrepancy had been eliminated. Among the CFOs there are supporters of a radical solution to the problem - the complete abolition of Azerbaıjan accounting standards and their replacement by IFRS. It is necessary to exclude Azerbaıjan accounting and replace it with international financial reporting standards. Obviously, it is also necessary to observe the interests of the state. This can be done by improving the requirements for the conduct of tax accounting. As a result, the company will form reports on international standards and reporting to the tax authorities. This approach will reduce the cost of maintaining different types of accounting. " However, due to the problems described above, such a scenario is not acceptable for all enterprises. You need to give them the right to choose an accounting system. This will make the transition to international standards not so painful. The state has its own point of view on the prospects for implementing IFRS. Obviously, it will become the determining factor in the process of reforming financial statements of Azerbaıjan enterprises in the coming years.

5.3. Comparision of financial statement of three financial institutions

In order for the data of the previous reporting period (usually a fiscal year) to be presented in the financial statements under IFRS, it is necessary to work on the recalculation of information previously provided by the organization in the reporting compiled according to national rules and requirements. These data should be comparable to the reported figures, taking into account international methodological approaches, including those contained in IFRS 1. Therefore, in spite of some separate simplifications of the standard for the first application of IFRS, the process of transition to IFRS and preparation of the first reporting is difficult . However, when the organization decides to transition to IFRS or if the transition to international standards is a prerequisite, the fulfillment of which will solve important strategic tasks, it is necessary to fulfill the following conditions in accordance with IFRS 1:

determine which financial statements will be the first under IFRS;

prepare an opening balance sheet in accordance with IFRS as of the date of transition;

select an accounting policy that complies with IFRS, and apply it retrospectively for all periods presented in the first IFRS financial statements;

decide whether to apply any of the six possible voluntary exemptions from retrospective application of standards;

apply three mandatory exceptions when retrospective application of standards is not permitted;

To disclose in the financial statements detailed information that explains the specifics of the company's transition to IFRS.

In general, the date of transition to IFRS is the date on which comparative data for the previous or several previous reporting periods will be disclosed. In practical work, companies may face a situation where changes in the methodology for calculating individual indicators occurred between the date of transition to IFRS and the date of initial reporting on international standards. New methods should be reported as changes in accounting policies. However, the study and analysis of such financial statements by external users will be difficult due to a lack of understanding of why changes in accounting policy occurred during the initial application of IFRS. Therefore, IFRS 1 allows companies voluntarily in the calculation of financial statements at the first application to use the standards in the wording at the date of transition to IFRS, regardless of whether they occurred at the date of financial reporting under international standards or not.

The next condition for the transition of the organization to IFRS is the preparation of the opening balance sheet at the date of transition to IFRS, which is a complex and very laborious work. IFRS 1 presents a list of tasks that need to be addressed at this stage.

1. Recognition of those assets and liabilities of the organization that are such in accordance with IFRS. For example, under IAS 38 Intangible Assets, the terms for recognizing an intangible asset acquired from outside or established within the company are compliance with the following requirements:

the future economic benefits arising from the use of the asset;

reliability of the valuation of the asset.

IAS 38 "Intangible Assets" also prohibits the assignment to intangible assets of objects created within the company: business reputation, trademarks, publication rights, customer lists,

If assets and liabilities are never recognized in the financial statements, but are recognized in accordance with IFRS, they are included in its content.

Reclassification of the organization's assets, liabilities and capital based on the methodological approaches and requirements of IFRS. For example:

IFRS 10 "Events after the balance sheet date" does not represent an opportunity to consider accrued dividends on the results of work for the reporting period as an obligation at the balance sheet date. These amounts are included in retained earnings, which is presented in the opening balance sheet in accordance with IFRS, in the income statement and statement of changes in equity;

when financial reporting requires the provision of information on segments (different types of products, services, as well as different geographical regions). If such information is not determined by national accounting and reporting rules, it is also necessary to separate such information, make appropriate calculations and change the financial reporting indicators to meet the requirements of IFRS;

the preparation of consolidated financial statements in accordance with international standards is based on the provisions of IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", which discloses the reporting methodologies for a group of entities under the control of one parent organization, and the manner in which the parent company invests in subsidiaries' company.

3. Clarify the valuation of assets, liabilities and capital presented in the opening balance sheet in accordance with IFRS, based on the methods used in international accounting practice. To clarify the assessment of indicators of the balance sheet and other forms of financial reporting in accordance with IFRS it is necessary to use the norms:

IFRS 2 Reserves, reassessing inventories at the lower of cost (FIFO, medium or alternative LIFO) and net sales value (excluding possible implementation costs);

IAS 39 Financial Instruments: Recognition and Measurement, reassessing trading financial assets, available-for-sale financial assets, derivative financial assets, trading financial liabilities, derivative financial liabilities at fair value;

IAS 40 "Investments in real estate", revaluing investments in real estate at fair value;

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", having formed reserves that are not created in the national accounting practice, and using a discount requirement;

IAS 36 Impairment of Assets by reassessing an entity's assets to a value not exceeding its recoverable amount if their carrying amount exceeds the amount that will be recovered through the use or sale of those assets. Moreover, the revaluation amount should be presented in the balance sheet and disclosed in the explanatory notes to the financial statements as an impairment loss;

IFRS 12 "Income taxes", by calculating deferred tax liabilities and deferred tax claims based on the requirements of this standard;

After specifying the valuation of assets and liabilities presented under the articles of the opening balance sheet, deviations from previously reported amounts are calculated. They are accounted for as part of the capital of the organization and are reflected in the accounting balance sheet as of the date of transition to IFRS under the item "Retained earnings" or another item of the capital group for which this is admissible.

Since the balance sheet provides information for several reporting periods, the articles of the opening balance sheet should be formed on the basis of the same accounting policy. Moreover, if in the future the methods and methods of accounting, fixed in the accounting policy of the organization for accounting purposes, will be revised, the indicators of the introductory balance for comparability should also be recalculated.

6. FINANCIAL STATEMENT

6.1. Elements of financial statement

Principles (47-80)

The basic categories of accounting are the elements of financial reporting, namely assets, liabilities, capital, income and expenses; their understanding influences the user's assessment of the company's activities and, accordingly, on the adoption of a certain decision. Such elements of financial reporting as assets, liabilities and capital are related to the financial condition of the organization, and revenues and expenses are related to the results of its activities. The above elements of the financial statements are defined in the "Principles" section of IFRS.

Principles (47-80)

In accordance with IFRS, the elements of financial reporting are:

assets,

obligations,

capital,

income,

costs.

Elements directly related to measuring the financial position in the balance sheet are assets, liabilities and equity. Elements directly related to measuring the results of operations in the income statement are income and expenses.

The five components of the financial statements form the main accounting or balance sheet equation that characterizes the financial position of the enterprise and reflects the relationship between the two main reporting formats: balance sheet and profit and loss account.

According to the classification adopted in IFRS, the main type of balance equation is:

ASSETS = LIABILITIES + SHARE CAPITAL

Balance equation combines three components of the balance sheet, and from it follows the definition of capital, which was given above. Based on the above definitions of income and expenses, the main accounting equation can be represented in the following form:

ASSETS = LIABILITIES + CAPITAL + INCOME - EXPENSES

In this form, accounting equality provides a visual representation of the economic relationship between the main forms of reporting: the difference between income and expenditure, representing net profit (net loss), calculated in the income statement, increases (decreases) the equity of the enterprise.

In addition to income and expenses, there are two more operations that affect the amount of equity and reflect the relationship of the enterprise with the "external" world: investments and seizures of owners. They can also be introduced into the main balance equation:

ASSETS = LIABILITIES + CAPITAL + INCOME - EXPENDITURES + INVESTMENTS - EXCLUSIONS

However, in this form, balance equality is used quite rarely, although it is most clearly demonstrated not only by the process of capital increase as a result of the company's own activity, but also by the opportunities to change it from outside.

A liability is a company's current debt arising from past events, the settlement of which will lead to an outflow of resources from the company that contain economic benefits.

It is necessary to distinguish between current and future obligations. The decision of the company's management to acquire assets in the future period does not in itself lead to a current obligation. Usually an obligation arises when the asset is delivered or when the company enters into a non-cancellable contract for its acquisition.

The settlement of the current liability is usually associated with the company's refusal of resources containing economic benefits in order to satisfy the claim of the other party. Settlement of the current obligation can be carried out in several ways, for example:

· Payment of cash;

· Transfer of other assets;

· Provision of services;

Replacing one obligation with another; or

· Transfer of an obligation into equity.

The obligation can also be settled by other means, such as the refusal or loss of the creditor's rights.

Capital

Capital is a share in the company's assets that remains after deducting all its liabilities.

Principles (65-68)

Despite the definition of capital as a residual, it can be divided into subclasses in the balance sheetFor example, in a corporate company, items such as funds provided by shareholders, retained earnings, reserves representing retained earnings, and reserves representing adjustments that support capital maintenance can be shown separately. Such a classification may be appropriate to meet the needs of users of financial statements at the decision-making stage, when they determine legal or other limitations of the company's ability to distribute or use capital in any way. It may also reflect the fact that parties with interests in the company have different rights with respect to receiving dividends or reimbursing capital.

The amount of capital shown on the balance sheet depends on the measurement of assets and liabilities. Typically, the total amount of capital only by chance corresponds to the total market value of the company's shares or the amount that could be derived from the sale of either net assets in parts or the entire company as an operating company.

Income is an increment in economic benefits during the reporting period that occurs in the form of inflows or increases in assets or decreases in liabilities, which is reflected in an increase in capital that is not related to the contributions of participants in the share capital.

In accordance with IFRS, the definition of income includes revenue and other income.

Revenue is the gross inflow of economic benefits in the course of the company's normal business for a period leading to an increase in capital other than through contributions from shareholders.

Other revenues are revenues other than revenue, articles that meet the definition of income, and they may neither arise nor arise in the normal course of business.

Other incomes include, for example, proceeds from the sale of fixed assets; unrealized profits received due to revaluation of market securities, etc.

Other income is usually recognized in the income statement separately, as information about them is useful for making economic decisions. These revenues are often reflected in reports without corresponding expenses.

This is explained, among other things, by the fact that the content of the "Principles" section of the IFRS booklet, where a basic definition of expenditure is given, is sufficient so that there are no questions about the attribution of certain expenses to a particular category. In addition, the construction of the most Western accounting system, which assumes its separation into financial and management accounting subsystems, also does not make the Western user of reporting a sufficiently topical system for classifying all possible costs of the organization.

Accounting basis. This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015, which were prepared in accordance with IFRS. As the Group's results of operations are closely related to and dependent on market conditions, the Group's results of the interim period do not necessarily reflect the results for the year.

The interim condensed consolidated financial information do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2015 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as the accounting policies and details of accounts that have not changed significantly in number or composition.

6.2. Qualitative Characteristics of Financial Statements

Qualitative characteristics are attributes that make information presented in financial statements useful to users.

IFRS identify the main qualitative characteristics of information:

1. Relevance.

Information is relevant when it affects the economic decisions of users, helps them evaluate past, present and future events, confirm or adjust their past assessments.

2. Reliability.

Information is reliable when there are no significant errors and distortions in it and when users can rely on it as representing truthfully what it should represent. Not any relevant information is reliable.

3. Comparability.

According to IFRS, the information should be comparable in time and comparable with the information of other companies. Comparable information allows to determine both strengths and weaknesses in the company's activity for a long period of time.

4. Clarity.

The information should be accessible to the understanding of the user who has sufficient knowledge in the field of business and economic activity, accounting and the desire to study information with due diligence. At the same time, this requirement does not exclude the availability of complex information in financial statements, if it is important to users. In difficult cases, explanations should be given.

5. Materiality.

Information is considered essential if its omission or distortion could affect the economic decision-making by users. Materiality indicates a threshold or a point of reference rather than a basic qualitative characteristic that information should possess in order to be useful. In practice, each material item must be presented separately in the financial statements, and non-significant items are combined with similar amounts.

6. True presentation.

Under IFRS, information must truthfully represent the transactions and other events that it characterizes. This is not the result of intentional distortion, but rather the inherent difficulties in the business of identifying transactions, and so on.

7. Priority of the content before the form.

The content and nature of transactions does not always correspond to what follows from their legal or established form. In this case, priority is given to economic content.

8. Neutrality.

Neutrality means impartiality, which is manifested in its drafters intentions to persuade users of reporting to a specific solution.

9. Discretion.

The essence of this qualitative characteristic is the introduction of a certain degree of caution in the process of formation of judgments necessary in the production of calculations required in conditions of uncertainty, so that assets or revenues are not overstated and liabilities or expenditures are understated. For the practical application of this characteristic, the use of a professional accountant's judgment is required.

10. Completeness.

According to the "Principles" of IFRS, the information in the financial statements, in order to be reliable, should be complete taking into account its materiality and the costs of obtaining it. Skipping or lack of data can make information false and disorienting, and therefore, unreliable and imperfect in terms of its relevance.

6.3. The Assumptions of Financial statements

The accrual method. According to this method, the results of transactions and other events are recognized upon their occurrence (and not when the funds are received or paid). Business transactions are reflected in the accounting records and are included in the financial statements of the periods to which they relate. The financial statements prepared on an accrual basis inform users not only about past transactions related to the payment or receipt of funds, but also about the obligation to pay money in the future or about possible sources of cash.

Under the IFRS criteria, this leads to a distortion of financial results. In accordance with international standards, it is necessary to accrue costs even in the absence of primary documents, for example, accounts, in the reporting period to which they relate.

In accordance with IFRS in the preparation of financial statements, it is usually assumed that the company is and will continue to operate in the foreseeable future. Thus, it is assumed that the company is not going to and does not need to eliminate or significantly reduce the scale of its activities; if such intention or necessity exists, this should be reflected in the financial statements as follows:

- property is reflected in the liquidation value;

- assets that can not be received in full, must be written off;
- obligations must be accrued in connection with the interruption of contracts and economic sanctions.

There are also qualitative characteristics of financial reporting. If reporting meets these characteristics, it is useful for users. In order to comply with the accounting information to be used not only in the domestic market, but also suitable internationally, it must meet the following basic requirements:

intelligibility;

relevance;

reliability;

comparability.

Clarity. Information should be understandable to users. It should contain information about the economic activities of the enterprise, its economic state and the adopted accounting system.

Information on complex but important issues should not be ruled out on the grounds that it may be too complex for perception and understanding by some users.

Relevance. Information is considered appropriate if it assists users in assessing past, present and future events, if it confirms and corrects previous estimates, and also influences economic decision-making.

The information on the financial position of the enterprise is often used as a basis for forecasting future results, therefore it is advisable to reflect unusual and deviating norms, as well as infrequent items of income and expenses, separately.

Reliability. To be useful, the information must be reliable. It should not have material errors that could affect the economic decisions of users.

Comparability. Users should be able to compare the company's financial statements at regular intervals in order to be able to identify the trend of its economic position and development. Therefore, it is necessary to adhere strictly to the chosen accounting policy.

However, the accounting policy should not be left unchanged if there are more relevant and more reliable approaches and solutions. It is absolutely necessary to inform users about the reasons and objectives of the changes.

There are also other qualitative characteristics of financial reporting:

Materiality. The appropriateness of information is seriously influenced by its nature and materiality. Information is considered significant if its absence or distortion could affect the economic decision of users, which is taken on the basis of financial statements.

Reliability. According to IFRS to be useful, the information should also be reliable. Information is reliable when there are no significant errors and distortions in it, and when users can rely on it.

· True presentation. In order to be reliable, the information must truthfully represent operations and other events. Significant accounting methods for accounting should be disclosed by the accountant in an explanatory note, which is included in the annual financial statements of the organization. Accuracy of the reporting data also implies the absence of material errors and deviations in the financial statements. In accordance with the Law on Accounting, the financial statements should include an audit report confirming its reliability and truthfulness. Thus, the state protects the interests of users of information.

· The predominance of the entity over the form. According to IFRS, information should take into account not so much the legal form of transactions or other facts of economic activity as their economic essence. However, in practice, this principle is sometimes not respected, since there is no implementation mechanism - most of the registration activities are based on the primary document, which must meet the established requirements.

• Neutrality. To be reliable, the information contained in the financial statements should be neutral. The financial statements will not be neutral if, at the choice or presentation of information, it affects the user's decision. During 2014-2015 and the 1st half of 2016, Azerbaijan has been impacted by a number of adverse economic conditions as a result of the continued decline in global oil prices. In order to support the diversification of the economy, strengthen its international compatibility and export potential, as well as to provide balance of payments sustainability, during 2015 and 2016 the Central Bank of the Republic of Azerbaijan devalued AZN against major trading currencies by more than 100%. This led to decline in most sectors of the economy, which led to significant increase in the amounts of non-performing loans in the banking sector. During the 1st half of 2015 and 2016, the Group incurred losses after tax in the amount of AZN 322,804 thousand and AZN 196,929 thousand. The key factors of the negative financial results were an increase of the loan impairment provisions for both retail and corporate loan portfolios as a result of assets quality erosion, decrease of the loan portfolio as a result of temporary stoppage of lending operations during 2015 and 1st half of 2016 and impairment of certain items of property, owned by the Group in the amount of AZN 127,774 thousand in the 1st half of 2016. In addition, a decrease in net interest income arising from uneven changes in interest rates on assets and liabilities had a significant impact on the financial results for 2015.

7. IFRS STANDARDS AND U.S. GAAP COMPARISON ON FINANCIAL STATEMENT PRESENTATION

7.1.Similarities of U.S.GAAP and IFRS

The old approaches are gradually being replaced (now they have almost nothing left), and the rules are increasingly approaching IFRS. However, this is very slow and while we are working on the translation and adaptation of one standard, another new one is being adopted in IFRS. The reason for this is clear. At the same time, the IFRS Committee is a huge organization consisting of several hundred people who prepare standards, meet with business representatives, participate in conferences, make decisions; their main task is to make the financial statements reliable.

In IFRS, long-term debt is recorded at a discounted cost, which takes into account the time value of money (the same amount of money in a month and ten years later have completely different values today).

In general, in IFRS, discounting can affect the book value of any element of the account and thereby change the financial results of the company. The meaning of discounting is that the current value of future financial flows can differ significantly from their nominal value. The theory of the value of money says that the same amount, paid at different times, has a different value for the following two reasons:

1) risk of non-receipt;

2) the possibility of alternative investments

For example, if a company acquired assets at a normal price, but could agree on a significant deferral of their payment, then it actually acquired assets cheaper than usual. And if the company sold the asset with a significant deferred payment, the accounts receivable in IFRS will be reflected not at its face value, but at the current discounted, and the difference will affect the financial results. Due to the impact on financial indicators of the time value of money, the comparability of financial statements under IFRS increases, and it presents more opportunities for investment and management analysis.

Differences in standards are very many, although not as many as, say, 10 years ago. Gradually the bases approach each other, but the process is slow. The problem is aggravated by the fact that IFRS are constantly changing.

IFRS standards mean not only the ability to properly register financial indicators, but also to understand the processes occurring in the organization.

The key difficulties that companies usually face when moving to IFRS can be divided into three types: financial, organizational and psychological.

7.2. Differencies of U.S.GAAP and IFRS on financial statement

To make international comparisons is easy by IFRS, but in fact it is difficult, because to a large extent each country has its own set of rules. For example, US GAAP is different from Azerbaijan's GAAP. Coordination of accounting standards around the world is an ongoing process in the international community. So, our goal to write this article is to provide information on the adoption of IFRS in the world and mainly in Azerbaijan. The Law on Accounting of the Republic of Azerbaijan of 2004 states that

IFRSs are fully used for use by credit organizations, insurance companies, investment funds, private (private) social funds, companies with securities traded on the stock exchange and commercial organizations exceeding specific levels of income, quantity and overall balance. In addition, any commercial organization (except for very small), having one or more subsidiaries, should prepare consolidated financial statements in accordance with IFRS. The accounting law also states that any changes to these standards can only be made by the IASB and that such changes are effective when they are formally approved by the IASB. The introduction of international accounting standards is one of the requirements of Azerbaijan's integration into the world community.

International Financial Reporting Standards (IFRS) are more flexible than US GAAP. American standards are more clear and require unambiguous interpretation. In order to understand which financial reporting standards to choose for application - international or US, it is necessary to determine the objectives of reporting, as well as to understand the differences between these systems.

IFRS have been developed to unify the preparation of financial statements by international companies and its adoption by regulators of different countries and other users. As for US national accounting standards (US GAAP), their spread in the world is due to the development of the US stock market and the volume of US investments in other countries. Many developing countries use them to develop their national accounting standards (for example, Latin American countries).

Currently, there is an active process of convergence of these systems, one of the results of which was the statement of the American Commission on Exchanges that from January 1, 2007 the reporting of companies under IFRS will be accepted on US stock exchanges without adjustments. However, while significant differences between the systems are still preserved.

Significant differences between IFRS and US GAAP in respect of depreciation of assets are related to the methodology for determining the current value of an asset, as well as reflecting the impairment of goodwill.

In accordance with US GAAP, an asset is deemed be impaired if its carrying amount exceeds the expected unused future cash flows from use, that is, cash inflows from its disposal without taking into account the depreciation of cash.

Under IFRS for the identification of impairment, the book value of the asset is compared with two values: the present value of future cash flows from its use and the net present value of the sale (taking into account the projected cash flows associated with the planned investments and taking into account the loss of their value in the future). If the carrying amount of an asset exceeds the lower of these amounts, then it is recognized as impaired.

8.Adoption of IFRS in Azerbaijan

The purposeful implementation of economic reforms in recent years in certain spheres of the Azerbaijani economy was achieved through the implementation of a unified state policy aimed at developing market relations, the formation of a new economic thinking, in accordance with the requirements of a market economy based on modern management methods.

This led to an increase in the interest of foreign investors in placing their capital in Azerbaijan, which in turn was one of the main factors of the steady increase in the volume of foreign investment, expanded reproduction and effective use of the production potential of commercial organizations with subsequent securing their entry to foreign markets for the sale of products (goods).

With the strengthening of the economic position of foreign investors in the domestic market of the country and, as a consequence, the formation and development of economic ties of national entrepreneurs with companies and firms of countries, primarily those members of the European Union, there was a need to develop uniform rules for the formation of financial statements that are understandable for external users, the main share of which is made up of investors from the developed economies.

A number of enterprises of the republic (mainly credit organizations and oil and gas enterprises) began to submit their public financial statements in accordance with IFRS.

As a matter of fact, this also led to the urgency of developing a new concept of national accounting and the need for its reform in accordance with IFRS.

The causal patterns of the differences and inconsistencies that exist between the national accounting system in the republic adopted in 1995 and IFRS are due to the following circumstances:

1. With the approval and development of new economic relations, the national accounting system, organized at the stages of the formation of market relations, proved incapacitated, since it retained the methods of administrative management to solve mainly the problems of identifying deviations from the approved rules for conducting commercial or non-commercial activities with subsequent reimbursement of the incurred losses solely in favor of the state on the part of the perpetrators, with their bringing to justice in accordance with the established procedure.

At the same time, as the international practice shows, the reporting formed on the basis of IFRS, differs high informativeness, utility for users. At the same time, standards are developed based on the needs of specific users, and when choosing one or another methodological approach, the main criterion is the usefulness of information for making sound economic decisions.

2. The following requirements for the disclosure of financial information in the financial statements of the enterprise were not provided in the national accounting system of Azerbaijan, providing a reliable picture of its activities and financial position:

- presentation of the financial statement of changes in equity as a separate form of financial statements;

- accounting and reporting in connection with price changes;

- presentation by individual entrepreneurs of the consolidated financial statements;

- conditional events and events after the reporting date;

- Presentation of segment reporting;

- association of companies;

- disclosure of information about related parties;

- disclosure of information on financial statements of banks and other similar financial institutions;

- discontinued financial statements;

- investment activity, etc.

3. In the relevant IFRS, fundamentally new approaches and criteria for recognizing the assessment and classification of financial reporting elements have been established. As a result of this - registration, summarization of financial information, fundamentally different from those prevailing in the national accounting system of the country.

Thus, in accordance with the requirements of IFRS income is recognized at the time of acquisition by entrepreneurs (legal entities and individuals engaged in entrepreneurial activities) of the right to receive them regardless of the fact that they receive cash or their equivalent. At the same time, income is recognized if there is an increase in future economic benefits related to:

- with the increase in assets that provide for the presentation of products, the performance of work and the provision of services, as well as the completion of certain stages of these works (services) related to this reporting period, the emergence of a legal basis for unconditional receipt of money or other property in the ownership of the entrepreneur, funds or other property as a result of extraordinary obligations;

- with a decrease in income obligations as a result of cancellation of arrears in current operations, repayment of bank loans and interest on them, as well as obligations that involve the use of targeted financing funds allocated by state or other agencies to cover the consequences of extraordinary circumstances.

Recognition of expenses occurs at a time when the entrepreneur has an obligation to pay them, and not at the moment when he actually fulfills this obligation, paying cash (their equivalent), transferring assets.

9. Conclusion

Expenses are recognized if there is a decrease in future economic benefits related to:

- with the reduction of assets with simultaneous recognition of income from the presentation of products (goods), provision of services, performance of work, including also the completion of certain stages of work relating to this reporting period, as well as the reduction of assets without recognition of income;

- with an increase in liabilities in the event of a legal basis for unconditional payment of cash and cash equivalents and transfer of property.

4. According to the requirements of IFRS, depending on the specific conditions of the enterprise's operation in various combinations, a number of methods are used to estimate the elements of financial reporting (historical cost, current value, possible selling price, discount value, fair value), fundamentally different from the methods for assessing assets used in national accounting system.

Data to be presented on the accounting balance sheet must be classified using various methods of summarizing financial information (by the method of increasing or decreasing liquidity) and breakdown into subclasses in accordance with the financial operations of the enterprise and taking into account the specifics of its business with subsidiaries, associates and other related parties.

5. Absence of priority of content over the form of presentation of financial information in the national accounting system from transaction

registrations strictly in accordance with their legal form without reflecting their economic essence.

The need for proper documentation, as a rule, does not allow national enterprises to take into account costs in a given reporting period, which leads to certain deviations when these costs are taken into account between IFRS and the national accounting system based on tax accounting.

It is because of the existing significant differences and inconsistencies between these regimes of financial reporting of national standards and IFRS that there are many examples when a company that conducts double-entry bookkeeping declares an impressive profit using national standards determined by partial deduction of incurred expenses from income received from basic and other activities in accordance with the current tax legislation of their country, and the huge losses estimated under IFRS, as a result of the real accounting of costs associated with the recognition and without recognition of the income of this enterprise for the same financial year.

6. The lack of adequate both financial and tax accounting in the system of national accounting before the adoption of the new Law "On Accounting" led to a paradoxical situation when none of these tasks was achieved, since the existing accounting system is generally used for The requirement of tax authorities to determine tax liabilities and achieve tax purposes.

In other words, the main task of tax accounting is the correct calculation of all taxes payable with subsequent control of the tax authorities for the correct execution of these obligations. While in accordance with the requirements of IFRS financial accounting should be conducted in order to reflect the actual financial position of the enterprise, its assets, liabilities and capital at the time of preparing the financial statements.

As international experience shows, financial and tax accounting are currently considered as two separate types of accounting. Discussion remains the issue of prioritizing these types of accounting.

So, if in some countries (the United States) these types of accounting are determined to be practically independent, then in other countries (France), not opposing them to each other, they develop tables of amendments to the accounting data to obtain all the necessary information for tax purposes.

In accordance with certain provisions of this Law, in the opinion of the author, it is necessary to single out, first of all, the following innovations:

1. The terms of the relevant IFRS are introduced. Thus, in the new Law, for the purpose of accounting, commercial organizations are subdivided into structures of public interest, small business entities and other commercial organizations (this category includes mainly medium-sized enterprises), and in the structure of non-profit organizations budget organizations, extra-budgetary state funds, municipal bodies and non-governmental organizations.

Particular attention should be paid to the recently introduced concept of the group and the presentation of consolidated financial statements in accordance with IFRS or NAS (National Accounting Standards).

The group is the main business association (partnership) and all its subsidiaries.

The consolidated consolidated financial statements are the financial statements of the parent company (partnership) and its subsidiaries that represent them as a single entity of accounting.

The Law on Accounting requires that all commercial entities that have one or more subsidiaries, in addition to their financial statements of the legal entity, also provide consolidated financial statements, except when all four conditions established by law are met, namely, :

- the structure is a subsidiary company, and all its owners (participants, shareholders), including those who do not have the right to vote, unconditionally agree that there is no need to prepare consolidated financial statements;
- securities of the structure are not sold on the open market;
- the structure is not in the process of issuing securities for open market operations;
- the immediate or final parent company of the structure publishes financial statements that comply with IFRS in accordance with the requirements of art. 12 of the Law "On Accounting".

After controlling for firms and corporate governance characteristics we find strong evidence for supporting the positive role of IFRS adoption in Azerbaijani firms and banks. Accounting standards such as IFRS are important because they provide backbone for integrity and trust in financial markets. Now IFRS is in use throughout Europe and being adopted increasingly by countries around the world.

After controlling for firms and corporate governance characteristics I find strong evidence for supporting the positive role of IFRS adoption in Azerbaijani firms and banks. Accounting standards such as IFRS are important because they provide backbone for integrity and trust in financial markets. Now IFRS is in use throughout Europe and being adopted increasingly by countries around the world.

In this study, I explored implications of IFRS in Azerbaijan and I reached some conclusions. The firms which use IFRS when reporting their financial statements are more likely to be transparent and can easily control their stability.

My research provided information that for developing IFRS in Azerbaijan our accountants or other professionals need to understand international regulation structure in field of financial reporting, application of appropriate international financial accounting and financial reporting standards in real life situations, preparation of financial reporting in accordance with IFRS, to acquire knowledge of the application of almost national accounting standards. Our people need support during the transition period to help them understand the underlying theory underlying IFRS, the practical implications of the transformation and help them strengthen their learning. The study will provide the future policy makers with the information they need for implementing new accounting policies and corporate financial reporting in Azerbaijan.

10. BIBLIOGRAPHY

1. International Bank of Azerbaijan, "Consolidated Financial Statements for the Year Ended December 31, 2015", Date of Review: 17.06.2017, https://www.ibar.az/site/assets/files/1641/konsolidasiya-edilmi_-maliyy_-hesabatlar_-v_- auditor-r_yi-31-dekabr-2015-1.pdf

2. International Bank of Azerbaijan, “International Bank of Azerbaijan” OJSC the first half of 2016 consolidated financial information”, Review history: 05.07.2017, https://www.ibar.az/site/assets/files/1640/ifrs_audited_report_az_6m_2016.pdf

3. Parasotskaya, NN 2011. N. N. Parasotskaya, A. N. Shevchenko // International Accounting. - N 26. - P.39-44.

4. Sokolov V. Ya. 2010. - Differences between IFRS and traditional accounting. Ya. Sokolov // Accounting, N 7. - P.106-110.

5. Comparative characteristics of Russian and Western accounting systems / E. M. Merzlikina, G. M. Avramenko. // International accounting. - 2011. - N 34. - C.2-9.

6. Suvorov A. 2012. Principles of Accounting and IFRS / A. Suvorov // Audit and taxation. - N 4. - P.25-29.

7. International Bank of Azerbaijan. IFRS Financial Reports. https://www.ibar.az/en/about-bank/disclosure-of-information/financial-statements/

8. John Wiley & Sons, April 17, 2017, "Wiley IFRS 2017: Interpretation and application of IFRS standards"

9. http://www.maliyye.gov.az/node/2041

10. Paul Pacter (2017), International Accounting Standards Committee Foundation, 2017
11. R. Fatullayev "Introduction to International Accounting", Baku-2015
12. G. A. Abbasov "Theory of Accounting", Baku-2015
13. Financial Accounting (BPP), 2013