

**Ministry of Education Republic of
Azerbaijan**

**The global convergence of accounting
standards. Major challenges and practical
implications for companies**

Tural Javadli

UNEC SABAH

[Azerbaijan State University of Economics](#)



May 2018

Acknowledgements

Firstly, I am indebted to God for giving power, volition and ability to me to accomplish this bachelor thesis.

I was supported by different people during this work. Bachelor thesis was not easy but my teacher Zahra Mirzayeva did her best for me. She shared her ideas with me and gave recommendations about this thesis. So, I am very grateful to her for all efforts she did to me. Also I would like to thank my family, because they trust me and knew that I was able to write this thesis, so they encouraged me.

ABSTRACT

The effects of civilized globalization in the cultural, social, political and economic spheres are felt more particularly in the economic arena. An economic crisis in any country of the world easily affects countries with reciprocal trade relations with that country and can easily leap to other countries due to geographical and demographic features or other similar features such as the similarity of economic programs. This necessitated the need to learn about the investments of global capital owners, leading to the emergence of special techniques. For this reason, in the age of information we are in, the importance of acquiring knowledge and evaluating it in the best way as the necessity of global life has increased.

Key words: Global, Accounting standards, Implications for company

CONTENTS

ABSTRACT	3
1. INTRODUCTION	5
1.1. LITERATURE REVIEW	6
2. THEORETICAL ANALYSIS	7
2.1. THEORETICAL FOUNDATIONS OF THE CONVERGENCE OF ACCOUNTING SYSTEMS	7
2.1.1. History of convergence, IFRS and GAAP	7
2.1.2. Advantages of application of convergence with IFRS and GAAP	12
2.1.3. Main trends of convergence with IFRS and GAAP	17
2.2. REGULATION OF THE CONVERGENCE OF ACCOUNTING STANDARDS PROCESS IN COMPANIES	26
2.2.2. Investigation of the consequences of the transition from US GAAP to IFRS from company's perspective. Challenges and difficulties companies are going to face. Recommendation to smooth transition	34
3. RESULTS OF CONVERGENCE OF ACCOUNTING STANDARDS AT THE COMPANIES	41
3.1. Problems of convergence in companies.....	41
3.2. Results for companies in implementation convergence	48
CONCLUSION	56
REFERENCES.....	60

1. INTRODUCTION

Globalization has lifted the geographical borders and turned the globe into a small village. With the help of technology, access to the most remote corners of the world has become easier and the flow of information and resources has been accelerated. This phenomenon has facilitated the fluidity of the capital and introduced it into a process without globalization. This formation, which is described as civilized globalization, can not only move freely but also investments and technology.

The effects of civilized globalization in the cultural, social, political and economic spheres are felt more particularly in the economic arena. An economic crisis in any country of the world easily affects countries with reciprocal trade relations with that country and can easily leap to other countries due to geographical and demographic features or other similar features such as the similarity of economic programs. This necessitated the need to learn about the investments of global capital owners, leading to the emergence of special techniques. For this reason, in the age of information we are in, the importance of acquiring knowledge and evaluating it in the best way as the necessity of global life has increased.

The increasing need for information is met by the applications of accounting science and technology. This process has led to the globalization of the accountant and its becoming a universal language

. As a universal language of accountability, the need for globalizing capital is gone; the formation, evaluation and reporting of information are utilized.

In this article, the characteristics of globalizing accounting, the formation of accounting standards and international characterization of globalizing accounting as a language; With the transformation into universal language of accounting in Turkey The Turkish Accounting Standards Board will be examined.

1.1. LITERATURE REVIEW

In this study, the methodology of Ada (Ada, 2011) and the work of Yereli and others (Yereli et al., 2010) was used. In the study of the island; She has studied 55 studies in Accounting Education magazine on international accounting education. This study is classified according to types of work, subjects, data collection methods and author characteristics.

On the other hand, Yereli and others have examined 789 articles on international accounting education in Journal of Accounting, Issues in Accounting Education, Accounting Education, Advances in Accounting Education and Global Perspectives of Accounting Education.

In this study, the types of studies were classified in detail according to the subjects, models, data collection methods, the numbers of the authors and the places of the institutions where the authors work. In the study World of IFRS (International Journal of IFRS) magazine covered all the issues covered in 2011-2012 and 60 studies were examined. The volume of the work is shown in the table below.

2. THEORETICAL ANALYSIS

2.1. THEORETICAL FOUNDATIONS OF THE CONVERGENCE OF ACCOUNTING SYSTEMS

2.1.1. History of convergence, IFRS and GAAP

For a long time, there was no unity of opinion as to whether global accounting and reporting standards were needed at all and whether the returns from the uniform rules for compiling accounting reports of enterprises in different countries were so great. And if so, which standards will fulfill this role: European Union directives, IFRS or US GAAP.

However, the events of the last decade - the removal of borders within Europe, the sharp acceleration of globalization of business, the opening of the BRIC markets (Brazil, Russia, India and China), international mergers - left no doubt about the need for a common denominator under the "business language", which was not so universal.

If earlier the movement towards uniform international standards was supported mainly by large international conglomerates that open up to new markets and cheap labor, recently the companies of developing countries looking for new, cheaper sources of financing. (Street, 2002: 77)

In the 1970s and 1980s, the role of US GAAP on a global scale was growing rapidly. The companies of other countries that wanted to access the markets of American capital had to translate their reporting to

these standards. The only alternative to their dominant influence could only be IFRS - truly international, supranational standards.

For a long time, among the proponents of IFRS, the theory of gradual "harmonization" of the standards of different countries dominated, taking into account the interests of all parties. However, this goal, which the IFRS Committee proclaimed in the early 1970s, did not stand the test of time. In practice, it was embodied in the simultaneous presence of several allowed alternative approaches for all the main accounting cycles, when the same economic operation could be reflected differently by different companies in completely different ways. This too "diluted" approach of IFRS in the last quarter of the twentieth century caused serious criticism from the international capital market, and especially the United States.

Recognizing the weak "penetration" into the international economic reality from the early 1970s to the mid-1990s, the IFRS Committee decided to completely replace the concept and approaches. The idea of harmonization, which would satisfy all parties, was replaced in the late 90's by the idea of convergence. Convergence, unlike "omnivorous" harmonization, means the clipping of two or more subsets of unique characteristics for only one of them with a gradual (in the course of development towards each other) fusion at one point. Why is it that US GAAP is the desired convergence point for the IFRS Committee? The most obvious answer is: dominance in international capital markets. Even if we discard American money sent in the form of investments in foreign countries (and the outflow of the Azerbaijann stock market felt particularly acute in the third quarter of 2017), then the figures of purely American stock exchanges are impressive. The New York Stock Exchange (NYSE) (Simmonds, 2003:100), founded back in 1792, had in 2007 a daily average trading volume of more than 5 billion

shares. The total market capitalization of companies, whose shares are traded only on the NYSE, as of 31.12.07 was \$ 27.1 trillion. For comparison, the aggregate market capitalization of all traded Azerbaijan companies as of mid-August 2017 (according to analytical Internet agencies) was about \$ 800 billion, which after deduction of the state giant Gazprom (about \$ 300 billion) leaves less than half a trillion dollars to the entire Azerbaijan market .

What else, besides the development of the capital market, makes the entire accounting world reckon with US GAAP? Of course, thoroughness, the degree of depth of the standards themselves. They are considered to be the most detailed guidance for virtually all industries and accounting and reporting cycles. Take, for example, two areas of accounting: financial instruments and revenue. The number and degree of development of various situations in the US GAAP are many times greater than the same IFRS. To help the accountant to properly reflect financial instruments, US GAAP has about 30 standards, while IFRS - only four; on the recognition of revenue, the American developer provides guidance in the form of more than 50 standards and interpretations, while IFRS - only five.

US GAAP provides a much more detailed guide for industry accountants. In the United States, entire volumes of standards and explanations for them on sectoral accounting and reporting have been issued, for example, in the following industries: (Schipper, 2003:61)

- Real estate developers;
- oil and gas industry;
- Insurance;
- Air carriers;
- Brokers and dealers of financial instruments;
- Banks and credit unions;

- Health care;
- Investment funds;
- Insurance companies;
- Film studios.

Until recently, foreign companies-registrants of US stock exchanges had to provide their reports on US GAAP (according to national standards, but with mandatory re-consolidation to US GAAP).

Obviously, the question of how much convergence is needed for IFRS and US GAAP is resolved, and both sides started moving towards each other. Let's consider with what luggage this process has begun (besides the fact of more thoroughness of US GAAP).

In general, today there are more than 200 significant differences between IFRS and US GAAP, but their listing is not the purpose of this article.

The difference between the two systems of standards begins with the level of the "foundation." While IFRS directly proclaims the postulate of the prevalence of the economic entity over the legal form, the US GAAP is not in such a hurry with this approach.

Perhaps the most striking example of US GAAP's orientation toward rules, not principles, is rent accounting. SFAS 13 "Accounting for Leases" establishes clear quantitative criteria for distinguishing between financial and operating leases, which theoretically allows companies to structure contracts in such a way as to obtain the desired accounting approach. IFRS, on the contrary, does not mention, for example, a test for 75% of the economic life of a leased asset, but formulates this criterion simply as "most of" economic life. (Salter, 1995 :379)

So, what is better: a model based on specific rules (US GAAP) or on general concepts (IFRS)? Most experts are inclined to the second

approach, which means that US GAAP will continue to be actively processed to get rid of the taste of "methodical instructions."

Speaking about the difference in the details of the standards, we can say that by 2010 a good, but not yet complete, convergence was achieved. For example, the approaches on the following subjects are most closely approximated: (Pacter, 2001: 23)

- Profits taxes;
- Business combination;
- Share payments;
- Choice of fair value;
- EPS (Earnings per share - earnings per share);
- ODS;
- Accounting of pension plans.

At the same time, there is still a significant difference in such sections of accounting as the classification of liabilities and capital, the removal of assets from accounting, consolidation (SPE / QSPE - (qualifying) special purpose entities), depreciation of fixed assets (US GAAP uses two-step approach).

According to a study conducted in 2006 by the consulting firm R.G. Associates¹, the subject of which were details of the reconciliation (reconciliation) of 130 foreign "IFRS registrants" in the US, the differences between the two systems were still very significant. For example, from the point of view of influence on net profit of such companies:

- About 2/3 of the companies had a higher IFRS profit than the US GAAP (an average of 13%);
- Only two of the 130 companies showed the same profit under IFRS and US GAAP.

convergence. financial accounting.

2.1.2. Advantages of application of convergence with IFRS and GAAP

One of the main advantages, it is the same, IFRS is that, according to international standards, the content of the operation is an advantage over its form, while in the accounting it's the other way around.

In practice, this means that to reflect in a book of a particular transaction, the accountant needs to make sure that there are all the criteria required by law, that is, forms, for this fact of economic activity.

If the accountant does not have on hand, say, the original documents, then the wiring conducted in the system will be violations of the rules of accounting and reporting will distort the final financial figures. A

IFRS requires that transactions be considered in the system, based on their content. In our example, according to international standards, the accountant is obliged to reflect the fact of the activity if it does not have the original document, but there is a justification, confidence and other unquestionable sources of information that this particular action should be reflected in this reporting period. (Ong, 2003)

Attracting new investors is the main advantage of IFRS reporting. Being an open and public information, potential investors have a positive attitude and confidence in the financial indicators of the current economic entity. With consolidated reporting, enterprises participate in international markets, and the likelihood of attracting foreign investment into the national economy and the integration of Russian companies in the world economic market is increasing.

The advantage of IFRS lies in the classification of users of reporting. IFRS statements are prepared for business owners, operating shareholders, shareholders, or potential investors. (Nobes, 1992)

Higher quality of reporting, not only accounting (financial), but also management. From the current compulsory accounting reports, compiled according to national standards, business leaders do not see a real picture of the results of the activities of enterprises. IFRS accounts, however, provide a more complete picture of the current state of affairs in the organization. In addition, current managers understand that the principles of IFRS can also be used for management reporting. After all, in this case, we will not have to again describe and formalize the principles and rules of accounting for many business transactions. (Nelson, 2003: 91)

In IFRS, the closing times for periods are much shorter. Foreign subsidiaries of Western companies are required to report to parent companies before our books are closed. On the one hand, this is an age-old problem and difficulties for employees of financial departments, because they take data from accounting as a basis. But in such periods as the closure of the quarter or year, foreign executives will not wait for a month or three, as is supposed by law, to receive and analyze the performance of the units. (Nair, 1990:426)

GAAP is a system of accounting standards and principles used in the US. This abbreviation stands for Generally Accepted Accounting Principles (GAAP). The development of GAAP is carried out by:

1. The American Institute of Certified Public Accountants (AICPA)
2. The Financial Accounting Standards Board (FASB).

Provisions on financial reporting standards are issued by the FASB and are considered generally accepted accounting principles. The

FASB also publishes an interpretation of principles that are a modification or refinement of existing standards. The interpretation of the principles have the force of standards.

3. The State Commission on Accounting - Governmental Accounting Standard Board (GASB).

Engaged in state and local reporting.

The international accounting and reporting system of GAAP solves three main tasks assigned to it:

collection of financial data on the basis of duly executed primary documents (invoices, invoices, etc.);

classification and synthesis of financial data;

preparation and analysis of financial statements (balance sheet, cash flow statement, owner's equity report, etc.); (Nair, 1990:427)

Accordingly, the circle of stakeholders, primarily investors and creditors, interacting with the company on the basis of common economic interests is significantly expanded. The legitimate interests of these individuals and legal entities directly depend on the performance of the enterprise. Forms and volumes of accounting data should be such that these persons can make sound economic decisions with respect to the given enterprise. Interested persons who are shareholders or co-owners of an enterprise are treated in accounting practice as external users in relation to the enterprise. In this regard, accounting can be divided into management accounting and financial accounting.

Management accounting (for internal use in the enterprise) is a natural accounting, calculation and payment of wages to employees of the enterprise, etc. Managers (ie internal users) need financial information to make managerial decisions.

Management accounting is characterized by:

lack of a standard form of presentation and requirements of state regulation to the forms of reporting;

orientation rather to control the current operational activities and planning for future operations than to describe past events;

lower requirements for accuracy;

description of both individual departments and parties of the enterprise, and the organization as a whole;

sufficiently large volume of non-financial information, using natural indicators.

Financial accounting is intended for external users.

Enterprises and organizations actually conduct two types of financial statements: one for internal use, another for external. In the international practice of accounting and reporting, the requirements for uniformity and a specific presentation format apply only to financial information that is recorded outside the enterprise. (Mueller, 1997)

The main principles laid down in the GAAP framework are set out in the Regulations on Financial Accounting Concepts developed by the Financial Accounting Standards Board. It should be noted that the following characteristics are the principles underlying the accounting standards.

The basic principles of GAAP accounting are:

the principle of objectivity; the enterprise and its accounting are considered irrespective of the owner or owners of the enterprise;

the principle of "operating enterprise" (the assumption of continuity) assumes that the enterprise will function in the foreseeable future, i. forever;

the principle of initial cost assumes that inventory and services are reported in the amount of actual costs associated with their acquisition;

the principle of the least value (the principle of caution) implies that profits are identified in the accounting only after they are actually received, and losses - immediately after the occurrence;

the principle of objectivity implies that accounting data should be obtained from properly issued primary documents;

the principle of periodization assumes that the activities of an enterprise can be broken down into relatively short periods of time (month, quarter, year) and that all types of income and expenditure can be attributed to these periods;

the principle of materiality assumes that the articles of financial statements that do not affect any decisions may be considered insignificant and not reflected in the accounts;

the principle of constancy of accounting methods assumes that in cases where there are several generally accepted methods of accounting, the accountant must adhere to any one method once chosen by him;

the principle of double entry assumes that each transaction is reflected in the accounts of accounting twice (on the debit of one account and on the loan of another one);

the principle of balance implies equality between the assets and liabilities of the enterprise;

providing a reliable view of the company's activities assumes that accounting information should reflect the economic substance of the company's operations, rather than their formal side;

the principle of verifiability; ensuring that audit reports can be audited up to inspections of primary documents, as well as the availability of alternative sources of primary information for reconciliation.

2.1.3. Main trends of convergence with IFRS and GAAP

The work should begin with definitions of harmonization and convergence of financial accounting.

Harmonization of accounting is the alignment of national accounting principles and standards with international ones. The main features of harmonization, for example in the EEC, are: the approach to consideration of the law on companies; equivalence and comparability of financial statements; accounting standards are part of the law; all experts participating in the decision-making process have the opportunity to speak the language of their country; documents are published in all official languages of the member countries of the EEC. A distinctive feature of the harmonization process is that national standards are not brought to a unified form, but they should not contradict international ones. This may lead to a multivariate interpretation of certain principles and standards, and to inevitable discrepancies in reporting. In spite of this, the harmonization process is designed to link different accounting systems and ensure their consistency with respect to each other and international standards. (Bolton, 2002 :106)

Convergence is a convergence towards merging, stable equilibrium and development. With regard to financial accounting, this process involves a wider range of issues than harmonization, since it implies the further development of the unified system.

Thus, the processes of harmonization and convergence of financial accounting are inevitably connected and have common tasks.

Now we should turn to the role and significance of harmonization and convergence.

For a long time, there was no unity of opinion as to whether global accounting and reporting standards were needed and whether the returns from the uniform rules for compiling accounting reports of enterprises in different countries were so great.

As early as the beginning of the century, the FASB (Financial Accounting Standards Board), an organization dedicated to the development of international standards in the United States, stated the need for standards convergence. The introduction of a number of high-quality international standards is necessary because their use would improve the international comparability of financial documents. This in turn would reduce costs for auditors, users and creators of financial statements and, ultimately, could lead to the achievement of maximum efficiency in the capital markets. The Committee believes that in the long term, the global costs of implementing and maintaining standards will also be reduced. At the same time, it should be borne in mind that there is an ever-increasing demand for high-quality international standards from existing market forces.

The FASB Committee describes international standards as a set of internationally recognized accounting standards. With the support of relevant organizations that have authority in a single country and with the approval of users of financial statements. Their convergence is both a goal, a process that is already taking place. The goal of convergence is the situation where different standards setting organizations come to the development of high-quality and most similar national or international standards for the same problem. The process of convergence involves the application of all possible efforts to achieve such a consensus. (Качалин, 2007: 400)

And the events of the last decade - the removal of borders within Europe, the sharp acceleration of globalization of business, the opening

of the BRIC markets (Brazil, Azerbaijan, India and China), international mergers - left no doubt about the need for common standards that had not previously been universal.

Whereas earlier the movement towards unified international standards was supported mainly by large international conglomerates entering new sales markets and cheap labor, recently companies of developing countries that are looking for new, cheaper sources of financing have become a significant factor in the growth of the need for a unified accounting system . After all, poor quality of accounting standards in general undermines the quality of financial information provided from the very beginning, and then this situation can not be corrected either by proper implementation of these standards or by any other "filters", as we call the elements of the financial reporting infrastructure.

As a result of the process of economic globalization, the idea of creating a common system of financial accounting is gaining increasing support among economic entities, to which not only states and TNCs, but now also companies in developing countries, needing inflow of foreign capital. Such investors with a significant share of financial resources are companies based in developed countries. Thus, many firms simply need to align their reporting with international standards, which will significantly expand the range of its users, and this implies organizing and maintaining records in accordance with the unified principles adopted in most developed countries.

The importance of the problems of harmonization and convergence of financial accounting is confirmed by the fact that considerable attention was paid to these issues at the last G20 Summit in Pittsburgh. The global economic crisis has shown that mutual understanding and mutual assistance of countries in their overcoming

presuppose a common financial "language" in order to avoid misunderstanding and subsequent costs for its elimination.

The processes of unification of accounting standards play a significant role in the fight against the crisis and in the subsequent development of the world economic community. (Cairns, 2002 : 104)

Discussion of these problems at the highest level explains the high achievements in this area.

2. Development of the convergence of accounting financial accounting

The above-mentioned Financial Accounting Standards Board (FASB) is neither the first nor the only organization dealing with the issues of convergence of financial accounting. This is the third Committee established in the United States since the late 1930s. It is worth noting that for the first time the question of the need to introduce a standardized accounting system in the US arose after the Great Depression of the 1930s. At the same time, the first attempts were made to reduce the number of different interpretations and inconsistencies in accounting practice. Thanks to many years of experience in combating these problems and the inherent continuity of generations, they succeeded in creating an active US GAAP (Generally Accepted Accounting Principles) system, which at the moment is one of the foundations that will form the future unified global accounting system.

Another basis is the Committee on International Standardization of Financial Accounting and Reporting (IASB), whose standards are already used in more than 100 countries. (Агеева, 2007: 464)

This fully explains why both systems are worthy of becoming a benchmark in harmonizing accounting for all countries. Therefore, the development of the convergence process at the end of the 20th century was associated with their rivalry.

In the 1970s and 1980s, the role of US GAAP on a global scale was growing rapidly. The companies of other countries that wanted to access the markets of American capital had to translate their reporting to these standards. The only alternative to their dominant influence could only be IFRS - truly international, supranational standards.

For a long time, among the proponents of IFRS, the theory of gradual "harmonization" of the standards of different countries dominated, taking into account the interests of all parties. However, this goal, which the IFRS Committee proclaimed in the early 1970s, did not stand the test of time. In practice, it was embodied in the simultaneous presence of several allowed alternative approaches for all the main accounting cycles, when the same economic operation could be reflected differently by different companies in completely different ways. This too "diluted" approach of IFRS in the last quarter of the twentieth century caused serious criticism from the international capital market, and especially the United States.

Realizing the weak "penetration" into the international economic reality from the early 70s to the mid-90s, the IFRS Committee decided to completely change the concept and approaches. The idea of harmonization, which would satisfy all parties, was replaced in the late 90's by the idea of convergence. Convergence, unlike "omnivorous" harmonization, means the clipping of two or more subsets of unique characteristics for only one of them with a gradual (in the course of development towards each other) fusion at one point.

In favor of US GAAP, dominance in international capital markets is the first priority. Even if we ignore American capital, directed in the form of investments in foreign countries, then the figures of purely American stock exchanges are impressive. The New York Stock Exchange (NYSE), founded back in 1792, had in 2007 a daily average

trading volume of more than 5 billion shares. The total market capitalization of companies, whose shares are traded only on the NYSE, as of 31.12.07 was \$ 27.1 trillion. For comparison, the aggregate market capitalization of all traded Azerbaijan companies as of mid-August 2008 (according to analytical Internet agencies) was about \$ 800 billion, which after deduction of the state giant Gazprom (about \$ 300 billion) leaves less than half a trillion dollars to the entire Azerbaijan market . (Campbell, 2002:20)

It is also necessary to mention the thoroughness, the degree of depth of the US GAAP standards themselves. They are considered to be the most detailed guidance for virtually all industries and accounting and reporting cycles. Take, for example, two areas of accounting: financial instruments and revenue. The number and degree of development of various situations in the US GAAP are many times greater than the same IFRS. To help the accountant to properly reflect financial instruments, US GAAP has about 30 standards, while IFRS - only four; on the recognition of revenue, the American developer provides guidance in the form of more than 50 standards and interpretations, while IFRS - only five. (Сагетдинова, 2009: 39)

US GAAP provides a much more detailed guide for industry accountants. In the United States, entire volumes of standards and explanations for them on sectoral accounting and reporting have been issued, for example, in the following industries: (Cairns, 2002 : 105)

- real estate developers;
- oil and gas industry;
- insurance;
- air carriers;
- brokers and dealers of financial instruments;
- banks and credit unions;

- health;
- investment funds;
- Insurance companies;
- studio.

Until recently, foreign registrar companies of US stock exchanges had to submit their reports under US GAAP (or according to national standards, but with mandatory adaptation to US GAAP).

Despite the US distrust of the "insufficiently qualitative" IFRS, in the early 2000s a number of events occurred, which for the first time caused Americans to question the flawlessness of their standards. This is a series of corporate crashes in the US, directly related to reporting and auditing (scandals with companies Enron, WorldCom, Tyco, Arthur Andersen). Then the United States began actively discussing the prospects for convergence with IFRS. (Bolton, 2002 : 106)

The US Securities Commission became interested in international standards as an acceptable alternative to US GAAP, which as a result took a revolutionary decision for the US - starting with the 2007 reports officially allowing foreign registrants to use IFRS on US exchanges without requiring adaptation to the US GAAP. Interestingly, this decision does not apply to "national" IFRSs (for example, some European companies formulate the basis for the formation of their statements in the form of "IFRS as adopted by the European Union", that is, "IFRS as approved by the EU"). A company claiming no adaptation to US GAAP requires a statement that IFRS published by the IASB was used and the audit report should contain exactly this phrase.

In addition, the US Securities Commission issued for discussion a document authorizing even purely US companies to use IFRS instead of US GAAP.

The work under the Partnership for Convergence between the IASB and the US Financial Accounting Standards Board includes the following main points:

Formal joint committees are organized and are working (according to the Memorandum of 2006);

joint monitoring of IASB and FASB of all major projects (including the overall staff of the project);

special short-term projects;

separate working groups (for example, for the unification of revenue recognition, accounting for leases, liabilities and capital, consolidation, conceptual framework);

plan of action of the US Securities Commission (a kind of schedule for the recognition of IFRS in the US). (Chen, 2003 : 288)

It is worth explaining that in solving these problems, the interests of US GAAP are represented by the aforementioned FASB, while IASB (International Accounting Standards Board).

The main documents of convergence are:

1. "Norwalk" agreement (signed in September 2002) - FASB and IASB agreed to achieve full "consistency" of their standards and coordinate all future work with each other.

2. Memorandum of Understanding between the FASB and the IASB (signed in February 2006), which states:

commitment to convergence;

procedures for achieving the goal;

elimination of differences by the end of 2008 (not performed).

(Chen, 2003: 290)

The convergence strategy does not consist in gradually eliminating the differences, but in completely replacing the "weak" (most criticized) standards in both systems with new, "strong" standards and in

the emergence of new "common" standards with an identical approach to all the nuances of reporting. Recently, this is achieved by choosing the best standard from those in IFRS and US GAAP, and their simultaneous re-issue. Examples of the move to IFRS are the new US GAAP: SFAS 151 Inventory Costs, Amendment of ARB No. 43, Chapter 4, SFAS 154 Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3), SFAS 153 "Exchanges of Nonmonetary Assets" (an Amendment of APB Opinion No. 29). There is also a counter-movement (from IFRS to US GAAP) - relatively new standards of IFRS 3 "Business Combinations", IFRS 5 "Non-Current Assets Held for Sale and Discontinued" Operations, IAS 23 Borrowing Costs, IFRS 8 Operating Segments, uses US GAAP ideas. (Campbell, 2002: 24)

The largest joint project completed by standards, new for both systems, are standards for business combination and consolidated reporting - as is known, IFRS 3 and IAS 27 Consolidated and Separate Financial Statements, were reissued in January 2008, almost simultaneously with the corresponding US GAAP.

As of the beginning of 2008, more than 100 countries require or permit the use of IFRS. Experts expect that by 2011, 150 countries will apply IFRS as their own national financial reporting rules (many countries have officially announced such plans, for example, Canada).

An important "organizational" step towards full convergence of IFRS and US GAAP was officially announced by the US Securities Commission on August 27, 2008, about its intention (in addition to the already available permission for foreign registrants) since the 2009 financial statements to allow US companies to use IFRS, and since 2014 - to make IFRS mandatory for the compilation of public annual accounts in the United States.

2.2. REGULATION OF THE CONVERGENCE OF ACCOUNTING STANDARDS PROCESS IN COMPANIES

2.2.1. Convergence of accounting standards in companies.

Main differences between IFRS and GAAP

The American Accounting Standards Board and the IASB agreed to meet every month to ensure that the convergence of standards has been achieved. The statement was made by the heads of organizations Robert Hertz (FASB) and Sir David Tweedie (IASB) at a joint conference organized in New York. According to the standards developers, they need to double, if not triple their efforts, and in order to eliminate the fundamental discrepancies in the reporting standards over the next 18 months, they are ready to completely rewrite many of them, if necessary. (Chen, 2003: 288)

At the end of October 2009, a three-day meeting of members of both Councils took place in Norwalk, which clearly showed how great are the differences, in particular in the areas of accounting and measurement at fair value, recognition of proceeds, accounting for impairment of assets and presentation of financial statements. Nevertheless, there is hope for a successful resolution of the situation, because in the course of their speeches, representatives of both organizations not without pride reported on significant progress and achievement of a number of key goals that they set themselves before. The IASB agreed in some cases to "adhere" to the publication of intermediate versions of its standards before the American colleagues from the FASB offer their vision: this is done so that there is no confusion, what approach to follow. (Campbell, 2002 : 20)

As for speeding up joint work on standards, more private meetings face to face or, for example, videoconferences are better for this. "We are going to work on these issues every month," Tweedy promised. "That's why we put June 2011 as a target date (the end of convergence)." The same date was called the financial leaders of the G20 at the last summit in Pittsburgh. (Chen, 2003: 290)

3. Problems of harmonization and convergence of financial accounting at the international level

The problems of convergence of financial accounting can be divided into several levels:

Problems of countries with different accounting systems.

The problems of merging the two dominant systems.

Problems inside the systems themselves.

Obviously, accounting systems of different countries differ significantly. The reasons for such differences are both socio-economic, political and even geographical factors.

As socio-economic reasons, we can distinguish the nature of the development of capital markets, the number of investors and lenders, participation in international capital markets, the level of inflation, the size and organizational structure of enterprises, the overall level of education, types of legislative systems.

Traditionally, in the US and the UK, securities markets have developed widely, the main suppliers of capital for companies are a large number of small investors who need constant and complete information about the activities of firms that they receive through financial reporting. There are a great number of transnational corporations playing a leading role in world markets. In Germany and Japan, the capital needs of companies are largely met by a small number of large banks that have access to additional (in addition to reporting) information about the

activities of enterprises. In France and Sweden, the state plays an important role in the economy and, consequently, in the financing of companies, which implies the orientation of the system of accounting and reporting to meet the requirements of state bodies. It is possible to divide countries into high and low inflation. The first include, first of all, the countries of South America. To ensure that the information contained in the financial statements is useful to users, it must be adjusted for inflation indices. For countries with a low level of inflation, this problem is not relevant. Due to the high level of economic development in the United States, the United Kingdom, the Netherlands, Germany and other developed countries, enterprises are quite large in size and complex organizational structure, the level of education is high. This leads to the complexity of accounting information, which, on the one hand, adequately reflects the existing economic reality, and on the other hand is adequately perceived by users. In underdeveloped countries, accounting systems are quite simple, because of the small size of enterprises and the low level of general education.

The historical development of legislative systems also had a great impact on accounting systems. Countries are usually divided into two large groups: code-law countries, legalistic orientation, and common-law countries, non-legalistic orientation. The first differ in the prescriptiveness of laws on the principle: "what is allowed is allowed." Due to this, the accounting rules are strictly regulated and determined by the legislation. Such countries include, for example, Germany, France, Austria and others. For countries with non-legislators, a permissive approach is typical on the principle: "what is allowed is not prohibited". Accordingly, accounting systems are characterized by greater flexibility and flexibility, as a rule, a framework is defined in which enterprises are given freedom of choice. Accounting rules or standards are determined

not by legislation, but are developed by professional organizations of accountants. This approach is used in the USA, Great Britain, Canada and a number of other countries.

Accounting systems can be exported as well as any other goods. The influence of the accounting rules of one country on the accounting rules of another may be due to political or economic dependence, geographical proximity.

Thus, accounting systems of different countries differ in variety. However, it is possible to single out groups of countries that adhere to the same approaches to the construction of accounting systems. Note that there are no two countries where the accounting rules would be absolutely identical.

One of the most common is the three-model classification of accounting systems, according to which:

British-American model (Great Britain, USA, Netherlands, Canada, Australia, etc.).

Continental model (Germany, Austria, France, Switzerland, Italy, etc.).

The South American model (Brazil, Argentina, Bolivia, etc.).

The main characteristics of the first model are the orientation of accounting for the needs of a wide range of investors, which is due to the highly developed market of securities; The absence of legislative regulation of accounting, which is regulated by standards developed by professional organizations of accountants; flexibility of the accounting system; a high educational level for both accountants and users of financial information.

The second model is characterized by the presence of legislative regulation of accounting; close ties of enterprises with banks that are the main suppliers of capital; the orientation of accounting for public needs

of taxation and macroeconomic regulation; conservatism of accounting practice.

And, finally, the main feature of the third model is the orientation of the accounting methodology to the high level of inflation and the need for state regulation. (Cairns, 2000)

The problems of differences in the accounting systems that are common for different countries suggest that huge costs will be required to overcome them, however, as noted above, the return from the transition to a unified system in the long term will be much larger. Any enterprise of the same scale will require no less costs.

The second problem has already been touched upon, since it is impossible to speak about the successes achieved without mentioning the difficulties encountered.

In general, today there are more than 200 significant differences between IFRS and US GAAP, but their listing is not the purpose of this work.

The difference between the two systems of standards begins with the level of the "foundation." While IFRS explicitly proclaims the pre-eminence of the economic entity over a legal form, the US GAAP does not always agree with this approach.

Perhaps the most striking example of US GAAP's orientation toward rules, not principles, is rent accounting. SFAS 13 "Accounting for Leases" establishes clear quantitative criteria for distinguishing between financial and operating leases, which in theory allows companies to structure contracts in such a way as to obtain the desired accounting approach. IFRS, on the contrary, does not mention, for example, a test for 75% of the economic life of a leased asset, but formulates this criterion simply as "most of" economic life.

Most experts are inclined to approach IFRS, which means that US GAAP will continue to be actively processed in order to get rid of the shade of "methodical instructions". (Кутер, 2000: 214)

Speaking about the difference in the details of the standards, we can say that by 2008 a good, but not yet complete, convergence was achieved. For example, the approaches on the following subjects are most closely approximated:

- taxes on profits;
- business combination;
- payment of shares;
- selection of fair value;
- EPS (Earnings per share - earnings per share);
- accounting of pension plans.

At the same time, there is still a significant difference in such sections of accounting as the classification of liabilities and capital, the removal of assets from accounting, consolidation (SPE / QSPE - (qualifying) special purpose entities), depreciation of fixed assets (US GAAP uses two-step approach).

According to a study conducted in 2006 by the consulting firm R.G. Associates¹, the subject of which were details of the reconciliation (reconciliation) of 130 foreign "IFRS registrants" in the US, the differences between the two systems were still very significant. For example, from the point of view of influence on net profit of such companies:

about 2/3 of the companies had a higher IFRS profit than the US GAAP (an average of 13%);

Only two of the 130 companies showed the same profit under IFRS and US GAAP. (Chen, 2003: 291)

In addition, the present "stumbling blocks" for the two organizations are the standards for accounting for loans and certain types of securities. The councils promise to be cautious and, if possible, synchronize the release of trial versions. "If we have different language, people can start to interpret them in different ways," says Tweedie. In some cases, companies may resort to the early adoption of an IFRS standard, but they must take into account that certain provisions of such intermediate versions may well change in the future - he warned.

As experience shows, for the most part of the issues, as well as in determining the basis for the future international system, US GAAP is forced to yield to the IFRS Committee, but there are difficulties with using the most common system in the world:

The first thing you need to cope with is the increased demand for training and new information from issuers, accountants, auditors, investors and regulators. IFRS are standards based on principles, not rules. They require the use of professional judgment and specialized knowledge so that general principles can be applied to specific situations. And this need for additional training is a task that must be addressed by all stakeholders, universities, auditing firms, investors, companies themselves, etc.

The next difficulty is connected with the risk of inconsistent application. At the moment, IFRS are used in more than 100 countries, and countries have their own national traditions, culture and history. There is a serious risk that a set of standards-oriented standards will produce, in the long run, a set of inconsistent contradictory versions of regional standards. As a result, an impressive effort to obtain a single set of accounting standards will be wasted.

To achieve these goals, the International Organization of the Financial Markets Commission (IOSCO) decided to create a database of

decisions taken by national regulators to implement IFRS in their territories.

The database is available only to members of the International Organization of Financial Markets Commissions (IOSCO), as well as to other regulators that meet the criteria for participants, and entered into an agreement to participate with the IOSCO Secretariat.

The goals of creating a database will be:

first of all, encourage users to access the database each time they face the issue of making a decision as a source of information and as an input to the process of making their own decisions;

also, encourage them to address other users who have already passed a similar stage in their own decision-making process, since the database may not contain all the information useful for making such a decision. If the user finds a similar solution in the database, accepted by the other, the former is encouraged to address the second, who has already posted his solution in the database.

The third goal will be to find out the frequently occurring problems or inconsistent wrong decisions, which signify the possible emergence of difficulties in applying individual IFRSs in the right consistent way. Such problems and causes will be referred to the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC) for further consideration.

It should be noted that IOSCO has always supported the IASB in their ongoing work on the development of IFRS as a worldwide set of high-quality standards applicable for use in financial markets.

2.2.2. Investigation of the consequences of the transition from US GAAP to IFRS from company's perspective. Challenges and difficulties companies are going to face. Recommendation to smooth transition

Since December 2, 2014, the changes introduced in Cl. 1 art. 7 of the Federal Law No. 307-FZ dated 30.12.2008 "On Auditing", according to which the auditing activity is carried out in accordance with international auditing standards. These standards are approved for use in the territory of the Azerbaijan Federation by the orders of the Ministry of Finance of Azerbaijan from 24.10.2016 No. 192n and from 09.11.2016 No. 207n, in clause 2 of which it is established that international standards are applied starting from the year following the year in which they entered into force in the territory of the Azerbaijan Federation. However, in paragraph 3 of these orders, it is stipulated that in 2017, if an audit agreement for the organization's accounting (financial) statements was concluded before January 1, 2017, an audit can be conducted in accordance with the previously valid Azerbaijan standards for auditing.

Thus, from January 1, 2017, international audit standards (ISAs) became mandatory for use by all audit organizations and auditors, with the exception of "transitional period" audits.

On the one hand, it is considered that the introduction of ISA promotes the development of communication between auditors and business, improving the quality of audit services, increasing confidence in audit among users of financial statements in the context of globalization of the economy. This view is based on a comprehensive

study of the ISA, its classification, content, values, the results of which are reflected in the works of foreign scientists A. Arens and J. Lobbe, R. Adams, J. Robertson, Φ . Delphi, G.R. Janik, V.M. O'Reilly, M.B. Hirsch, etc., as well as on the comparative characteristics of ISA and Azerbaijann standards of auditing activities, highlighted in the works of Azerbaijann scientists R.A. Alborov and SM. The end, K.A. Gaidarova, A.A. Vasilenko and A.N. Kizilov, GS Klychovoy ,M.V. Melnik and V.Ya. Sokolov , M.L. Makalskaya and N.I. Kovaleva, IS. Zinovievoy and N.V. Patkovic, A.E. Suglobova and D.M. Pimenova, etc. In particular, to the main advantages of the ISA application E.V. Zubova and M.E. Nadezhdin refers to the use at the global level of a unified approach to audit, which means increasing the confidence in the quality of audit by local and international users of reporting; understanding by all stakeholders of the process underlying the audit; comparability of audit results between companies and countries (Cairns, 2002: 105)

By the way

FASB amended standards on cooperation agreements

Bloomberg: Deripaska will not give up Rusal even under threat of ruin Vyugin replaced Kudrin as head of the supervisory board of the Moscow Stock Exchange.

On the other hand, in any audit tutorial (for example, in the section on standardization), you can find a description of the two main options for standardizing audit activities in different countries: when ISAs are used as national ones and when countries apply their own standards (oriented to ISA) (Nelson, 2003: 95). Countries that apply their own standards belong to the United States, Great Britain, Australia, Holland, Brazil, India, and to countries that do not have their own standards - Cyprus, Malaysia, Fiji, Nigeria, Sri Lanka, etc. Our country until recently occupied by the level of self-sufficiency, an intermediate

position and, probably, this should be proud (Schipper, 2003: 65). The results of the study of domestic standards of the third generation, conducted by E.A. Misikovskiy and S.V. Kozmenkova, indicate that they have eliminated certain terminological inconsistencies with Azerbaijan accounting legislation, at the same time there are differences with the ISA (but the ISA does not fully comply with Azerbaijan civil law). (Nobes, 1992)

In this connection, the question arises of the main possible changes in the regulation of audit activities in the light of the adopted version of standardization by rejecting national standards (from linking with national legislation). At the same time, one of the main areas of the necessary changes today is the documenting of the audit, since it is the working documents of the auditor (first of all, their availability for each operating audit standard) in the current Azerbaijan practice of external quality control, and also in the judiciary practice are considered the main criterion for proper rendering auditing services. It is not surprising that issues related to the documentation of audits in the context of ISA application acquire special significance for auditors who previously did not have experience in ISA. At the same time, for an objective analysis of the necessary changes in the documentation of audit checks in connection with the transition to ISA, it is advisable to begin with an analysis of the situation preceding the transition.

By the time of introduction of ISA in the territory of the Azerbaijan Federation in the practice of auditors, the following problems of documenting inspections were clearly revealed:

subjectivism in the interpretation of the necessary and sufficient volume of documenting the audit, along with the threat of liability (in particular, disciplinary - on the part of SRO and civil law - on the part of clients);

The formal nature of audit quality control is strictly based on the submitted documents (more precisely, by the availability of working documents in response to each audit standard, without regard to the content of these documents and analysis of the circumstances of a particular audit), along with the threat of liability (from the SRO and the Treasury) and the loss of business reputation;

The lack of adaptation of Azerbaijan auditing standards to the peculiarities of the small audit business, along with the low profitability of the activities of most audit firms; high cost of developing and updating methodological support for audits in accordance with Azerbaijan standards, along with an acute need for methodological assistance from SRO auditors for small audit business.

With the transition to ISA, a number of specialists connected the most rosy hopes. Thus, according to the head of the Audit Department of Intercom-Audit organizations Elena Korotkikh, "... International audit standards have long required legalization in the Azerbaijan Federation. In fact, only international audit causes trust in users of international financial reporting. MCA are a generalization of the best world practice, built in the set of norms and rules". Other experts agree with this opinion. According to Victoria Smirnova, Head of the Audit Services Department of "MEF-Audit", "... In terms of level, Azerbaijan national standards are far behind the world standards, while ISAs are a recognized normative document in the world and represent a strictly verified system of rules that clearly regulate all aspects of professional activities of auditors, including ethical ones. It is obvious that giving legitimacy to the ISA will help to maintain public interests and increase confidence in the audit ".(Любушин, 2002: 312)

At the same time, as I.Yu. Gedgafov, national standards were developed on the basis of international standards and are close to them,

but act as catch-ups (Любушин, 2002: 105). Similar arguments are also expressed by T.N. Mikhailovich, General Director of Audit-Business Platform LLC, member of Expert Advisory Council of NP AAS: "Azerbaijan standards differ from ISA in structure and logic of presentation, they are based on the provisions of Azerbaijan civil law, they contain typical for Azerbaijan legal practice provisions contractual documents, etc. In this sense, Azerbaijan standards are quite different in form from ISA. Nevertheless, they are very close in nature, and the existing discrepancies are related primarily to the specifics of Azerbaijan legal practice ".

Thus, the experts' restraint in assessing the consequences of the transition to ISA is mainly related to the recognition of the fact that there is no linkage between ISAs and Azerbaijan legal practices in the absence of national standards, which is also reflected in the issues of audit documentation. In addition, the transition to ISA requires the auditors to revise the existing stereotypes of audit documentation in practice in the context of applying a risk-based approach to audit. Since such a campaign requires the auditors to adequately respond to the identified and assessed risks of material misstatement of the entity's reporting, the working documentation should strictly record all performed audit procedures, all objects under investigation, all identified risks and the auditor's estimates, all specific circumstances of the audit, all questions taken into consideration, etc.

Among the positive expectations from the introduction of ISA in the part of documenting the audit can include the following:

The possibility of using preferential rules in the part of documenting the audit for the small auditing business. However, in practice, there are differences in the interpretation of small businesses, in relation to which it is permissible to apply some simplification in

documenting the audit, in accordance with the ISA and Azerbaijan legislation, which are not regulated normatively today;

the possibility of making changes to the working documentation within 60 days after the completion of the audit assignment (issue of an audit report);

recognition of unnecessary un necessary documentation;

absence of necessity to check the working documentation on audit in a continuous manner within the framework of internal quality control³;

there is no need to appoint a separate authorized person within the framework of the internal quality control responsible for checking the working documents - the current controller⁴.

At the same time, in connection with the transition to ISA, there was also expected a slight increase in the amount of documentation related to the entry into force of the ISA:

which have no analogues in the Azerbaijan auditing standards, in particular, mandatory documenting of information (including the minutes of discussion) for persons responsible for corporate governance regarding the audit strategy and the results of the audit (with the identification of significant violations in the part of the JMC), as well as mandatory receipt of written replies to requests from individuals responsible for corporate governance (including statements that, in their opinion, they have fulfilled their obligations to prepare financial statements and provide full information to the auditor and other evidence) ⁵;

which differ from the norms of the corresponding Azerbaijan standards, for example, mandatory presence of external confirmations with confirmation of the sender⁶.

In general, the expectation of a greater degree of concretization of the content of working documents in terms of planning, conducting and summarizing the results of audit procedures, expanding the range of information to be documented when moving to ISAs in comparison with Azerbaijan standards (developed on the basis of earlier versions of ISAs as compared to the current ones) was well founded. Corresponding trends were noted by specialists and when analyzing the amendments introduced earlier to the ISA text .(Simmonds, 2003: 101)

3. RESULTS OF CONVERGENCE OF ACCOUNTING STANDARDS AT THE COMPANIES

3.1. Problems of convergence in companies

Today it is already possible to conduct a preliminary assessment of the real state of affairs with regard to the application of the ISA after January 1, 2017. First of all, it is necessary to note the specifics of the ISAs themselves regarding the audit documentation, namely:

ISAs are a process control methodology. The main idea - the quality of the auditor's work is ensured by the implementation of high-tech processes, which must be described in order not to miss an operation. As TL notes. Bezrukov, "standards deny the possibility of conducting a " poor-quality audit ", because, using standards, the auditor must perform at least the necessary minimum set of audit procedures. The auditor's work can later be checked by studying his working papers" (Шенюкова, 2003: 512). The entire audit process is subject to detailed regulation. Standards are the rules for monitoring financial reporting, and they are specific. However, practice and history show that no, even the most detailed, regulations can give a guarantee of quality audit. Moreover, the study of the evolution of the ISA shows that it is moving along the path of complicating and detailing procedures, creating more and more extensive archives of working documents, with which the auditor confirms compliance with the inspection rules (carrying out all necessary procedures), which, according to T.Yu. Serebryakova, A.N. Petrova and E.A. Ivanova, leads to the fact that "there will come a time when the form will not be visible content" ; (Ареева, 2007 :464)

Azerbaijan's entry into the international economic space has led to limitations on the ability to independently generate and audit its

accounts, including documenting (emphasis on the absolute adoption of international audit standards). At the same time, it is necessary to recognize the validity of T.Yu. Serebryakova, A.N. Petrova and E.A. Ivanova that domestic accounting traditions (as well as the traditions of auditing, in particular, the desire to organically write audit regulations into the Azerbaijan legal system so that the conceptual apparatus as a whole corresponds to that adopted in other branches of law deserve careful treatment ; (Areeba, 2007: 464)

peculiarities of terminology, structure, logic of ISA7. In particular, ISAs are designed for different jurisdictions in which organizational and legal forms of enterprises can differ, as well as the organization of audit activities, types of audit organizations and the responsibility of auditors, audit standards and audit practices; accounting standards and accounting policies. Therefore, terms and provisions that are not applied in Azerbaijan practice, in the case of their literal translation, may have a different meaning from the ISA in domestic practice .(Frank, 1999:593)

Thus, the main problems of documenting the audit after the transition to ISA are due to both the objective difficulties of applying the ISA without reference to national legislation (including the refusal of national regulation (even with regard to adaptation to jurisdiction)) and the need for auditors to review the practice of documenting stereotypes in practice conditions of application of the basic risk-oriented approach to the audit for ISA, and the specifics of the ISAs themselves regarding the audit documentation. One of the manifestations of this specificity is the restriction of the practical application of the professional judgment of the auditor. However, it should be borne in mind that ISAs are based on the Western accounting system, which in Azerbaijan conditions causes certain problems, despite the attempt to adapt Azerbaijan legislation to

IFRS standards (because the audit procedures are focused on key aspects of the accounting system that for a number of positions in RAS and IFRS are different). (Areeba, 2007)

It should not be forgotten that the ISAs themselves are not a constant. It is not by chance that TB. Turisheva notes that the adaptation of ISA in Azerbaijan practice is complicated in many ways by the frequency, size and complexity of the changes introduced in the standards [3]. In particular, ISA 700 (revised) "Forming an opinion and drawing up an opinion on the financial statements" came into force with respect to the audit of the financial statements for periods ending on or after December 15, 2016. Therefore, even in foreign practice, there has not yet been accumulated any significant experience in the mandatory application of this standard.

It is also worth noting that in the original ISA is only part of the system that relates to the regulation of audit and does not apply to other elements of auditing. Consequently, as noted by V.F. Massarygin and V.S. Petrunkin, making them only as official documents, which replace the domestic standards of auditing, is clearly not enough (Pacter, 2001). And in the Azerbaijan practice ISA is only a part of the legal system that regulates audit activity. For example, the criteria for assigning organizations to small ones, according to ISA, differ significantly from Azerbaijan practice: in ISA, the benchmark is made on qualitative characteristics (for example: concentration of ownership and management in the hands of a small group of people, simple operations, a small number of activities, products, , levels of leadership and employees). At the same time, the concept of a small business entity in Azerbaijan legislation is quite consistent with the criteria used in legislation of other countries and, in particular, in the European Union, such as revenue, asset value and number of employees⁹. As a

consequence, there is an inconsistency between the interpretations of small businesses used in the ISA and in Azerbaijan legislation.

The current state of affairs regarding the documentation of audits in the context of ISA application (in comparison with the requirements of Azerbaijan standards) is characterized by the following:

increase in the number of documents required for registration for verification (first of all, demanding written replies to requests to the client and third parties, regardless of the significance of the confirmation);

lack of interconnection in the ISA itself, for example, ISA 700 and ISA 800 contain a different structure of the sample of the audit report¹⁰;

low willingness to apply new requirements to documents due to objective (increased cost of verification, ignored by clients) and subjective (qualification of auditors) reasons;

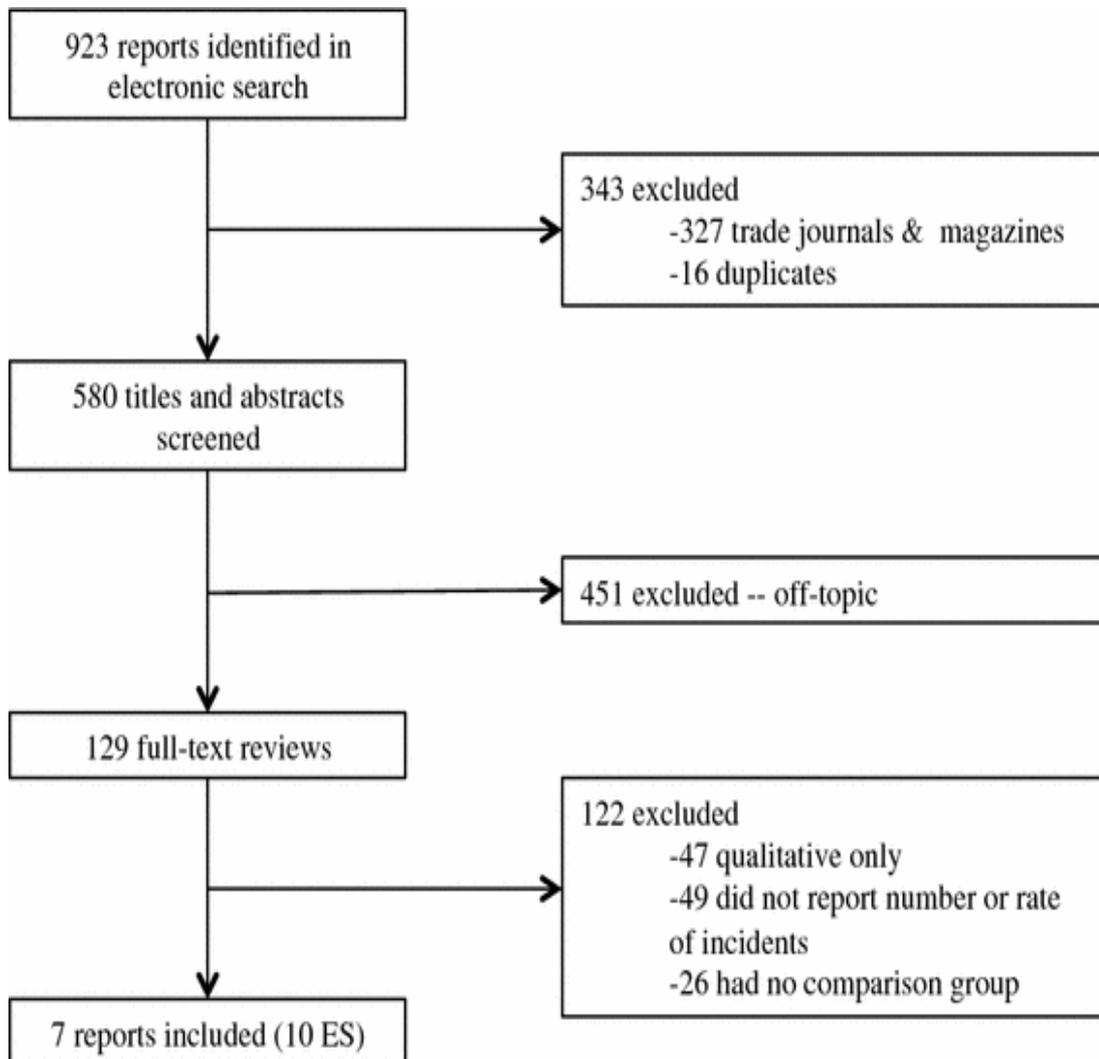
the delay in methodological support from the SRO in the provision of templates of working documents.

As a result, the working documentation on audit audits in 2017 (according to ISA) for most audit firms not related to Big-4 and TOP-10, is in an unsatisfactory state, with an increasing volume of problems.

The analysis of methodological support of its members by SRO ACC and SRO SAR as of May 2017 is given in Table. As a basis, samples of the proposed working documents and comments on their application, developed by the SRO, were accepted.

Table 1.

Status of methodological assistance from SROs on the documentation of audits (as of April 30, 2017)



From the table. the following conclusions can be drawn:

both SROs provided methodological support to auditors in the form of recommended forms of working documentation not in full;

each SRO has prioritized its priorities in the preparation of recommended forms of working documents;

each SRO for the same ISA recommends its number of documents, their composition and content;

the SRO forms of the working documentation abounded with inaccuracies, and therefore the SROs directly warn their members that these forms will be specified¹¹;

the practice of the application of forms of working documents in accordance with the ISA only develops, systematized constructive criticism has not yet been received or analyzed in the SRO.

Taking into account the actual situation, the following problems can be attributed to the number of possible problems related to the documentation of audits:

the completion of the transition period with regard to the application of the ISA will force the auditors to independently complete the methodological work initiated by the CPO, with the risk of a mismatch between the position and the relevant SRO committee for quality control;

the current uncertainty with the forms, composition and content of the working documentation will sooner or later cause a significant amount of unpaid work for the auditors to eliminate the accumulated defects¹²;

the actually increased amount of work not provided for in previously concluded contracts will cause an additional decrease in the profitability of audit activities;

the completion of the transition to ISA will lead to an increase in the cost of audit services, which may contribute to an increase in the proportion of "evaders" from compulsory audit.

Prospects for improving the current situation are seen in the following:

prompt conclusion by SRO of methodological development of working documentation forms;

SRO implementation of large-scale explanatory work on the order of application and execution of working documentation (including conferences, webinars, methodical recommendations, etc.);

integration of SRO's efforts to adapt auditors and economic entities to work in the ISA format;

the training of auditors in the content of ISA, as well as their practical application, the preparation of working documentation and preparation for internal and external quality control of audits.

First of all, we note that the implementation of IFRS or other internationally recognized accounting and reporting standards is a costly process. It requires certain costs for staff training. LUKOIL managed to create a service for 5 years, in which every third employee is a certified specialist in international standards or US GAAP. The company plans to increase this figure to 60 - 70%. On the other hand, with the creation of such a service, the firm reduced several times the cost of consulting services, which is millions of dollars a year.

But, perhaps, the most costly article (and not only financial) when implementing IFRS is the creation of appropriate information flows and systems. Thus, in order to meet the requirements of international standards for conducting an appraisal test for the value of long-term assets (in the Azerbaijann accounting it was introduced quite recently), it is necessary to continuously collect and process information on the effectiveness of assets and to analyze their future usefulness.

Another "expensive" problem is to ensure adequate disclosure of information about transactions with related parties. To do this, it is necessary to monitor all transactions with affiliated persons in the group. And for the purposes of IFRS reporting, the group is understood in a slightly different way than it is established in a similar more formal requirement of Azerbaijann standards.

The processing in a short time of a large array of information for accounting, tax and management accounting requires appropriate software, which also costs a lot of money.

3.2. Results for companies in implementation convergence

A reasonable question arises: how quickly do the expenses related to the transition to international standards pay off?

Immediate benefits of the firm can be obtained as a result of lower interest rates on loans, as they depend on the level of the credit rating, which is also determined, based on the quality of reporting. In addition, many banks (especially foreign banks) include in the loan agreement a provision on the reduction of the rate in case the company reports in accordance with internationally recognized standards.

The long-term effect from the implementation of IFRS is that more reliable and qualitative information will be used to make managerial decisions, which means that the business efficiency - both current operating activity and investments - increases.

Make the implementation of IFRS in the practice of Azerbaijan companies less costly and more dynamic will help the use of experience, companies that have already passed this way.

It is also important to take into account the opinion of the professional community, which is expressed by associations of industry experts. This will help overcome the mistrust of the accounting community in the ongoing changes.

The importance and necessity of the participation of the professional community in the reform of the Azerbaijan accounting system is also understood in state bodies. So, in terms of measures to

implement the Concept of Accounting Development approved by the Ministry of Finance, it is stressed that most of the work should be done by the professional community. This once again confirms that only through joint efforts can the country's task of transition to IFRS be solved.

Consolidated statements by 2007 will be prepared only under IFRS. But individual reporting in the medium term - uniquely according to Azerbaijani standards, which will be developed on the basis of international ones.

Leonid Shneidman, Director of the Audit and Accounting Department of the Ministry of Finance of Azerbaijan

For your information

The Ministry of Finance together with the professional community will prepare in 2005 a new version of the federal law on accounting, which forms the individual reporting of legal entities

The London Committee on IAS this year prepared an official translation of the international financial reporting standards into Azerbaijan

Figures and facts

1367 the organization will switch to IFRS in accordance with the draft law "On Consolidated Financial Statements". This is not only OJSC, but all commercial organizations that have the right to issue debt and equity securities.

180 days after the end of the reporting period is the period of preparation of the consolidated financial statements. In the future, this period will be reduced.

Although most organizations with large compute networks claim doubling data traffic every year or two, very few have taken steps to increase their network resources, budget, or the number of network

services staff. As a rule, accurate accounting of traffic growth is not made, and existing data are known to a very narrow circle of company specialists. The lack of such information has a very negative impact on the development of networks. To correct the situation, network administrators need, first, to develop a measurement methodology, and secondly, to make sure that the results obtained are known to most employees of the enterprise.

In general, network managers need to constantly emphasize the important role of global networks in achieving a company's success.

Ideally, employees of the network department should bring the digital network to the level of all the usual utilities. To do this, it is necessary to constantly improve the functionality of the network and reduce the unit cost of services. It should also indicate to the management those functions of the network, investments in which, ultimately, should lead to an increase in the competitiveness of the organization. One possible way is to use the network to attract customers, suppliers and distributors.

The philosophy of global networks has passed a fairly long period of evolution. In the late 80's. Many enterprises deployed global networks based on the convergence of T1 channels and Time Division Multiplexing (TDM). This decision was dictated by the inability to purchase "fractional" communication services through the T1 channel.

In the future, already in the early 1990s, many organizations transferred their data traffic from dedicated T1 lines to frame relay channels. At that time, frame relay technology was limited in speed by the capabilities of T1. In fact, the frame relay was X.25 -based "steroid-fed" technology at a faster rate. And although the active implementation of frame relay began, many analysts claimed that soon the dominant

position would be taken by ATM-service, which started with the speed of T3 lines.

However, the example of Ethernet, IP and frame relay showed that if the technology is widely used, then in the future the industry always seeks to expand its functionality. And, of course, today frame relay technology provides a transmission speed at the T3 line level, and many suppliers have expanded its functionality by introducing, for example, QOS technology that allows selective processing of traffic of various classes. At the same time, the speed in ATM channels for many providers has dropped to the level of T1. Thus, the previously adopted rule for building global networks "At a low speed, use frame relay; for high speeds and QOS is necessary ATM "has become not very fair.

Specialists of network departments should carefully analyze whether there really is a need to replace the frame relay with ATM. However, they should be guided by three main factors: costs, support for new functions (such as QOS) and management capabilities (which will allow you to control both costs and network functions).

If in the late 1980s integrated networks were deployed in many enterprises, in the mid-1990s there was a reverse process, now there is again a small but growing interest in the convergence of network services.

Our survey, which involved 364 companies, showed that the decision of the organization's management on the transition to an integrated network is affected by various factors. Almost every fifth respondent (20.9%) from the staff of IT departments believes that integration is necessary to increase the company's competitiveness (see diagram). Approximately 40% of respondents see convergence as a way to improve the efficiency of the company's network usage and reduce the cost of communication channels.

In the broadest sense, convergence includes many components, including convergence of local and global networks, convergence of access to the global network. The possibility of saving money is easier to demonstrate with the help of the last component. At the same time, the convergence of access to the global network is understood as the dynamic aggregation of voice, video and data traffic in a common group of transmission channels from the enterprise to remote access points to the network (POP) of a particular communication service provider.

To understand how convergence of access to the global network affects cost reduction, imagine a company that has 200 branches with multiple T1 channels in each that lead to the points of entry into the network of the local communications service provider. Suppose that the average monthly cost of the T1 channel is \$ 500 and that they are configured to transmit voice, SNA and IP traffic. Further, suppose that due to the introduction of inverse multiplexing over ATM (IMA), the company was able to reduce one T1 line in each office of its branches. This resulted in a monthly saving of \$ 100,000, which is \$ 3.6 million in three years. If this company turns every dollar of turnover into 10 cents of profit, a saving of \$ 3.6 million is equivalent to a turnover increase of 36 million Doll.

IT professionals need to determine when and which elements of convergence are most relevant. However, it should be noted that for the successful deployment of an integrated network, it is also very desirable to implement QoS technology. This will strengthen the effect of the organization's transition to new, progressive, rails of managing network services.

Global networks, in contrast to local networks, are still characterized by high cost of bandwidth. For example, the Fast Ethernet port of a third-level switch can be purchased for less than \$ 400, which,

given the linear price decline over a three-year life cycle, gives a monthly cost of about \$ 10. The T1 line from Boston to Dallas costs about \$ 6,500 / months. Thus, the cost of the WAN bandwidth can be thousands of times higher than in the local network.

To convince the company's management of the need to invest in global networks, it would be superfluous to show the possibility of making a profit in terms of invested capital. Let's return to the example of deploying IMA in 200 offices of the company's branches. For simplicity, let's assume that the cost of equipment providing IMA implementation is 6 thousand dollars per office, and the introduction of this technology does not require any other costs. The payback period (the time for which the saved funds are equal to those expended) in this case is one year. The return on investment ROI shows what annual profit the company must have for the initial investment (\$ 1.2 million) to be equal to the total savings (3.6% million dollars) for a three-year life cycle. In this case, the ROI is 44%.

IT managers need to periodically conduct ROI analysis to ensure the flow of continued investment in the development of networks. Analysis of this indicator is also required to determine the timing of the transition from one technology transfer of information to another.

We must strive to ensure that the degree of accessibility of work with global networks is equated to the use of utility channels. The convergence of networks provides the necessary potential for the activities of IT departments in all these areas.

Deloitte specialists note that their company, unlike the other members of the Big Four, has always been critical of the approach used by the Australian Council. AASB created a system of "Australian equivalents of IFRS" (sometimes called "A-IFRS") by verbatim copying

of original international standards. However, in the course of this process, the Council had:

Refuse altogether or strongly modify certain interpretations permitted under IFRS;

Provide users of the standards with additional instructions for use;

Require additional reports;

Independently implement additional standards for financial reporting, or additional paragraphs on existing standards adopted for the armament system.

The result can be called a "one-way" convergence: all companies that prepare their reports in accordance with A-IFRS automatically do so under IFRS (ie, the "original IFRS"), but the opposite (ie "prepare under IFRS and, hence, also according to A-IFRS ") is incorrect. This may mean that the ongoing "experiment" did not bring such high results, which were initially expected of him. Deloitte is aware that the implementation of international standards on a global scale is not generally as smooth as it would be desirable: many countries complain of embarrassment, misunderstanding, other difficulties. But Australia differs from all other countries in that it added its own to the existing difficult moments in the IFRS system.

In the published document Deloitte highlighted the following main disadvantages of the Australian system:

Local companies can not take advantage of all the benefits of IFRS, they do not have much of what is allowed under the "original" version;

The system of "Australian equivalents" scares off foreign investors, even if they know how close it is to IFRS;

Local branches of foreign companies are compelled to report on the Australian system, which is different from the practice of accounting in the parent company;

The costs of transition to IFRS are very high in the country: they are much higher in comparison with other countries due to additional requirements of regulatory bodies, which requires additional work with company personnel, training courses, etc.

Aware of this problem, the Australian Accounting Standards Board is preparing a trial version of possible regulatory changes that should bring together A-IFRS and IFRS. This includes the cancellation of a number of additional reports, rethinking the capabilities of companies within existing standards, the elimination of a number of requirements. Similar steps have already been taken in April 2006 - the results were not long in coming. So, within the framework of the program of information of two systems, firms were allowed to use direct and indirect method of preparing a cash flow statement, use a cost-effective method of accounting for investments of a certain type, keep a record of state grants by subtracting their value from the value of the corresponding assets. However, Deloitte notes that although the main differences between the two reporting systems have been eliminated, however, not all are. The work is not yet complete, and the forthcoming trial version of the new changes will be made public only.

CONCLUSION

The introduction of a full set of ISAs into the practice of Azerbaijan auditors serving as the basis for the work of leading audit firms around the world is certainly a positive step primarily because it is aimed at adapting the most progressive methods of process control of the provision of audit services, methods of planning and performing audit procedures, methods of summarizing the results.

At the same time, the desirability of abandoning the national audit standards is debatable. In particular, E.A. Mizikovsky, S.V. Kozmenkova, T.B. Turischeva, T.Yu. Serebryakov logical approach is recognized only for cases of audit of financial statements compiled in accordance with IFRS (Nobes, 1992). This is due to the fact that the ISA does not take into account (and can not take into account) the specifics of the national legislation of Azerbaijan primarily in the field of accounting and civil law, while a number of provisions of the ISA can be applied exclusively in relation to these norms (it is no coincidence that the ISA text abounds references to "jurisdiction").

MCA prescribe to carry out various auditor procedures, to reflect their carrying out and results in working documents, to document a mass of other actions and procedures on the most different questions, etc. This approach is certainly justified in the audit of large business units, where a risk-based approach allows time-consuming evaluation and documentation of risks of an audited person to save time on detailed tests. Accounting for the specific features of small and medium-sized businesses from the point of view of organizing, conducting and documenting the audit is allowed only with reference to the criteria of small business provided for in ISA. As a result, the audit in small and medium-sized enterprises (according to the criteria of the Government of the Azerbaijan Federation) may be accompanied by an increase in the

time spent on the preparation of working documentation with an inevitable decrease in the performance of the procedures for collecting evidence (Cairns, 2000).

In addition, since a large part of the Azerbaijan audit community (in addition to Big-4 and TOP-10) is represented by small business, auditors will actually incur substantial expenses for organizing the translation of the existing practice of providing services to the ISA platform. This involves not only the development and adaptation of revised working document templates, but first of all the revision of the verification technology itself, the attitude to risk assessments related to the audited persons' reporting, and the planned procedures in response to risks, the allocation of time costs for verification between the stages of its conduct and between procedures, methods of quality control of the provision of audit services. And the issue of costs for small businesses is connected with the problem of its survival.

It is also necessary to take into account the specifics of the ISA text, namely the detailed description of specific audit procedures in specific circumstances (casual regulation), which makes it difficult to understand the general meaning of the norm. As a consequence, in order to understand the necessary and sufficient content of the auditor's working paper with respect to individual audit procedures, an in-depth analysis of not only the text of the relevant standard, but also references to other standards, related norms of other standards and recommendations for their application, pores and the quality of documentation of inspections.

The processes of globalization inevitably lead to the need for harmonization and convergence of many spheres of society, including economic life. Financial accounting permeates the entire economic sphere as a circulatory system, and it is not surprising that for the proper

functioning of the whole "organism" a holistic and well interacting accounting system is needed. Thus, the processes of harmonization and convergence could not pass by it.

The paper examined the concepts of harmonization and convergence, their role and importance in the unification of modern accounting standards at the international level, it was revealed the objective need to bring national financial accounting standards of all countries participating in world economic processes to unified standards based not on their approval at the legislative level, but on the development of general principles that will make the system more flexible and enable it to better adapt to any national and regional accounting.

Over the past decades, significant results have been achieved in the standardization of financial accounting. These achievements are caused by the common interest of economic entities to facilitate the conduct of international transactions and access to full and reliable information about their partners. At the current stage, the main task is the further convergence, that is, consolidation and development, of the two dominant accounting and reporting systems of US GAAP and IFRS, and the creation on their basis of a unified system.

Thus, the introduction of the ISA in the territory of the Azerbaijan Federation causes a significant increase in the burden on practicing auditors from the standpoint of the need for theoretical development and practical adaptation to the application of a huge array of regulatory regulations.

The current situation will require taking certain steps both by self-regulatory organizations of auditors and by the auditors themselves, in the direction of improving the skills of auditors, as well as improving the effectiveness of external and internal quality control systems for

providing audit services. Ultimately, the transition to the ISA will significantly change not only the existing audit practice, but will also serve as an impetus for a fundamental rethinking and qualitative development of the audit theory.

REFERENCES

1. Сагетдинова Е.А. Будущее финансовой отчетности по стандартам US GAAP // Корпоративная финансовая отчетность. Журнал МСФО. - 2009. - №8. - из. 39-44
2. Агеева О.А. Международные стандарты финансовой отчетности: Прог. пособие - Москва: Издательство «Бухгалтерский учет», 2007. - 464 с.
3. Международные стандарты финансовой отчетности / Под ред. проф. В.Г. Гетьман, 2008. - 656 с.
4. Качалин В. В. Финансовый учет и отчетность в соответствии со стандартами GAAP. - Москва: ЭККСМО, 2007. - 400 с.
5. Генералова Н.Н. Международные стандарты финансовой отчетности: учебник. Помогите. - Velbi ТК, 2008. - 413 с.
6. Горбатова Л. Общий обзор последних изменений в МСФО / Financial Gazette, 2004. - №48. - из. 23-27
7. Шешукова Т.Г., Городилов М.А. Аудит: теория и практика применения международных стандартов аудита: Учеб. пособие .- М .: Финансы и статистика, 2003 - 512 с.
8. Сотникова Л. Принципы международных стандартов финансовой отчетности / Финансовый бюллетень, 2004. - №47.
9. Гершун А. Тенденции в разработке международных стандартов финансовой отчетности. // Финансовая газета. Региональный номер, № 35, 2003 г.
10. МСФО. Комитет по международным стандартам финансовой отчетности: пер. В И. Тарусин / Ред. доска: А.С. Бакаев Л.В. Горбатова Т.Б. Крылов и др. - М .: 1998. - 126 с.
11. Любушин Н.П., Жаринов В.В. Теория учета: Прог. пособие. - 2-е изд., Перераб. и дополнительные. - М .: ЮНИТИ-ДАНА, 2002. - 312 с.

12. Kuter M.I. Учет: основы теории: Proc. пособие. - М.: Экспертное бюро-М, 2000. - 214 с. Bolton, L. (2002). Cracking on. Accountancy, March: 106-107.
13. Cairns, D. (2002). Waving another flag. Accounting, September: 104-6
14. Cairns, D. and Nobes, C. (2000). Handbook on convergence: a comparison between International Financial Reporting Standards and UK financial reporting requirements. Institute of Chartered Accountants in England and Wales.
15. Campbell, J.E., Hermanson, H. M. and McAllister, J.P. (2002). Obstacles to the convergence of international accounting standards. Journal of CPA, Vo. 27, issue 5, pp. 20-28.
16. Chen, R.S. (2003). Development of accounting profession in Taiwan. Journal of the American Academy of Business 2 (2): 288-292.
17. Chen, S., Sun, Z. and Wang, Y. (2002). Data from China about whether harmonized accounting standards harmonize accounting methods. Accounting horizons, v. 16, No. 3, pp. 183-197.
18. Cheney, G. (2001). American standard setters are watching Washington and the world. Accounting and business, March: 10-12.
19. Frank, W. G. (1979). An empirical analysis of international accounting principles. Journal of Accounting Research 17 (2), Autumn: 593-605.
20. Mueller, G. (1967). International accounting. New York: Macmillan.
21. Nair, RD and Frank, VG (1980). Effect of disclosure and measurement practice on international accounting classifications. Accounting review 55 (3), July: 426-450.

22. Nelson M.V. (2003). Behavioral evidence of the impact of principles and rules based on rules. *Accounting horizons*, March, vol. 17, Issue 91, pp. 91-104.
23. Nobes, C. (1992). *International Classification of Financial Statements*. 2nd edition, Routledge, London.
24. Ong, A. (2003). The theory of erroneous accounting: data from the UK. *Journal of Management Research* 3 (1), April: 23-30.
25. Pacter, P and Yuen, J. (2001). Accounting standards in China: progress report. *Accounting*, February: 23-5.
26. Salter, S.B. and Niswander, F. (2005). Cultural influence on the development of accounting systems at the international level: a test of the theory of Gray (1988). *Journal of International Business Studies* 26 (2), 2 nd quarter: 379-94.
27. Schipper, K. (2003). Principles of accounting based on principles. *Accounting horizons*, March, Volume 17, Issue 1, pp. 61-72.
28. Simmonds, A. and Sangi-Johnson, N. (2003). Everywhere. *Accounting*, (2003), June, pp. 100-101.
29. Street, D. L. (2002). GAAP 2001 - Comparative analysis of national accounting standards in relation to IFRS: a summary of the results. *Journal of International Accounting, Audit and Taxation* 11: 77-90.