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Azerbaijan Republic**

**THE APPLICATION OF IFRS IN
AZERBAIJAN**

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ABSTRACT

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The reason for the review is to show to the administration of elements and experts who are against the utilization of IAS/IFRS in Azerbaijan why it is important to acknowledge IAS/IFRS. The proposal plans to give contrasts of current bookkeeping approaches and techniques connected by those substances from IAS/IFRS and legitimize the use of IAS/IFRS. The proposition gives benefits related the acknowledgment of IFRS/IAS, and demonstrates the issues that might be confronted by the administration of elements.

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INTRODUCTION

The main neutral of accounting in Azerbaijan for the period of the Soviet Union governance was to fulfill with the wants of statistical and tax consultants. The condition was the same after liberation for some time. The changeover into market economy required assuming new accounting perceptions and principles in unity with market economy necessities. To be more precise, the accounting classification strictly espoused the concepts of historic cost convention to description fixed belongings, and did not evaluation provisions for suspicious receivables or out-of-date inventories. There was nowant to be in control to banks or shareholders for the show. Uniform Chart of Accounts was customary in order to control the bookkeeping system centrally. The principal function of bookkeeping was to record the true-life data necessary to measure plan accomplishments (ADB 2002).

In order to correspond the accounting scheme with international commentary standards and desires of economy of market, the Uniform Chart of Accounts was reintroduced, new concepts were familiarized and Accounting Law was delivered in 1995. But still, office system is regulated by administration who specifies what data should be manufactured, how it shouldbe produced, and whom it shouldbe delivered for. The government bylaw of accounting has also been reputable by the Accounting Law distributed in 2004.

In order to meet the desires of market budget and adopt IFRS, Accounting Reform Plan was arranged by the Ministry of Finance and conferring to this plan innovative Accounting Law was passed in 2004.

According to the Accounting Law of Azerbaijan Republic passed in 2004, the central objective of management regulation of secretarial is to prepare and instrument National Accounting Standards for revenue and state organizations based on International Financial Reporting Standards and International Accounting Standards (Accounting Law 2004, article4). According to 1995 Accounting Law, the chief objective of regime accountingregulation is to establish accounting scheme that is steady with the international office principles and principles (Accounting Law 1995,

chapter 38). In 2004 Accounting Law looks to specifically speech the government neutral of accounting bylaw. This law cliques deadlines on the submission of NAS and IFRS for changed entities.

All public notice entities, topics of small private enterprise and profit governments are required to acceptInternational Financial Reporting Standards (IFRS) and National Accounting Standards (NAS) for Commercial Organizations correspondingly. Subjects of minor entrepreneurships are trivial and medium entities operational in different areas. Non-government governments, which are volunteer, self-governed non-governmental societies that do not aim to receive profit as the main objective, are required to espouse NAS for Non-government Organizations by 2004 Accounting Law (Accounting Law 2004, article 8-9).

Even though there is a program and embracing deadlines for IAS and IFRS, there is some struggle to this change from about accountants, authorities and things. According to “Accounting and Financial System Restructuring in a Transition Economy: A Case Education of Russia” book by Robert W. McGee and Galina G. Preobrageskaya as the familiarity of other nations shows, there is struggle to the approval of the international criteria (McGee and Galina 2005). One of the aims for the resistance is that auditors and managers, who are relaxed with the organism they have used for a long time, do not want to variation. Affording to the same book, no one recognizes the new rules and most academies do not have experienced professors and most secretarial firms do not have anybody who has been skilled in the new directions. Nobody knows how to instrument the new instructions, but governments often badgelaws with deadlines; the product, the adoption cannot be implemented according to the government’s schedule (Robert McGee and Galina 2005, 8).

The purpose of the training is to illustrate to the board of entities and experts who are against the submission of IAS/IFRS why it is critical to adopt IAS/IFRS. The thesis ambitions to provide variances of current office policies andprocesses adopted by those beings from IAS/IFRS, and justify the implementation of IAS/IFRS.

This study may be used by the administration of entities who ruminates the adoption of IAS/IFRS, and may service them to adopt these principles. The study may also help the direction in the putting into practice of IAS/IFRS agreement.

The first chapter affords information about the bookkeeping system and accounting procedures in Azerbaijan Republic. The data about the accounting structure and office policies is provided by the sketch of differences of those procedures from IAS/IFRS. The aim in this evaluation is to illustrate to the chiefs in what ways Azerbaijan accounting structure and policies contrast from the test practice, and to illustrate how they can increase the accounting organism and reporting by adopting IAS/IFRS.

The second chapter provides material about the planning and presentation of commercial statements allowing to Azerbaijan accounting views and procedures, and the geneses of the financial testimonials. This information is also as long as by the illustration of the alterations from IAS/IFRS. The aim in this appraisal is to illustrate to the judgement makers the metamorphoses between Azerbaijan accounting policies and IFRS, and to clarify to the entity executive how he/she can improve fiscal statement tuition and presentation.

The third chapter affords information about the status of IAS/IFRS adoption and the evils that might arise through the adoption of IAS/IFRS. This chapter also provides plans as how to incredulous those problems.

CHAPTER I

THE NATIONAL ACCOUNTING SYSTEM AND ACCOUNTING POLICIES IN AZERBAIJAN REPUBLIC

1.1 NAS based on IAS/IFRS

In order to meet the wants of market economy and espouse IFRS, Accounting Reform Plan was primed by Ministry of Finance and bestowing to this design new Accounting Law was delivered in 2004.

According to Accounting Law of Azerbaijan Republic conceded in 2004, the main independent of government instruction of accounting is to formulate and to implement National Accounting Standards (NAS) for marketable and non-commercial societies based on IFRS and IAS.

Accounting Reform is measured by the Ministry of Finance. The regulatory build is responsible for conversion of International Financial Reporting Standards (IFRS) and IAS into Azerbaijani linguistic. The regulatory frame is also guilty for the obtaining authorization from the IAS Board approving Azerbaijani language translations as official changes. The Ministry also observers and reflects the deviations made to IAS to International Financial Reporting Standards (NAS) in a sensible manner (up-to-date changes). All these everyday jobs are given to the Ministry of Finance by the Accounting Law.

So that provide assistance to the Ministry of Finance and consult the department in accounting and pecuniary reporting topics, the Advisory Council for Accounting was instituted in 2005. The agency of Finance has to check with the Council about presentation of international canons and preparation of NAS (Accounting Law 2004).

The following wants were set by Accounting Law about the preparation of monetarist statements for changed organizations:

✓ All Public Interest Entities are essential to prepare their monetarist statements in unity with IFRS starting January 1, 2008.

✓ Subjects of slight entrepreneurship are prerequisite to prepare their monetarist testimonials in accordance with each “Simplified Accounting Rules for Subjects of Small Entrepreneurship” or “National Accounting Standards for Commercial Organizations” starting 1st January, 2006 (Accounting Law 2004)

✓ Commercial establishments other than public interest beings and subjects of small free originality were required to prepare their pecuniary speeches in peace with either “National Accounting Standards for Commercial Organizations” or International Financial Reporting Standard early from 1st January, 2008 (Accounting Law 2004, 10th article).

✓ Non-commercial organizations such as, boroughs, budgetary groups and non-budgetary funds need concoct their economic statements conferring to the National Accounting Standards for Budget Organizations early from 1st January, 2009 (Accounting Law 2004, 13.1st article).

✓ Non-government officialdoms are required to concoct their financial statements allowing to the National Accounting Standards for Non-government organizations opening from 1st January, 2009 (Accounting Law 2004, 13.2nd article).

The behind are the ratified NAS for moneymaking organizations based on IAS/IFRS:

Table. National Accounting Standards (NAS)

	NASCO №	STANDART NAME
1	NASCO 1	Presentation of financial statements
2	NASCO 2	Statement of changes in equity
3	NASCO 3	Current Tax
4	NASCO 4	Deferred Tax
5	NASCO 5	Cash flow statement
6	NASCO 6	Income
7	NASCO 7	Property, plant and equipment
8	NASCO 8	Inventories
9	NASCO 9	Events after the balance sheet date
10	NASCO 10	Provisions, contingent liabilities, and contingent assets
11	NASCO 11	Accounting Policies, changes in Accounting Estimates, and errors
12	NASCO 12	Intangible assets

13	NASCO 13	Borrowing costs
14	NASCO 14	Leases
15	NASCO 15	Financial instruments - disclosure
16	NASCO 16	Construction contracts
17	NASCO 17	Accounting for Government Grants and Disclosure of Government Assistance
18	NASCO 18	Combination of Business organizations
19	NASCO 19	Consolidated Financial Statements
20	NASCO 20	Accounting for Associates
21	NASCO 21	Interests in Joint Ventures
22	NASCO 22	The effects of changes in foreign currency rates
23	NASCO 23	Non-current Assets Held for sale and Discontinued Operations
24	NASCO 24	Impairment of Assets
25	NASCO 25	Related party Disclosure
26	NASCO 26	Fair Value Measurement
27	NASCO 27	Investment Property

1.2 Accounting policies

This area considers bookkeeping authoritative opinions built up by Accounting Law gone in 2004 and the Tax Code. Secretarial strategies are connected by the organization of generally creatures. The purpose behind this request is to outline to boss in what ways Accounting Policies of Azerbaijan fluctuate from global practice, and to elucidate how they can enhance composing by embracing IAS/IFRS and NAS focused on IAS/IFRS.

Data made on bookkeeping approaches associated to the bookkeeping of assets, liabilities, overheads and benefits is conveyed. Bookkeeping strategies for current possessions, noncurrent resources, existing liabilities, noncurrent charges, costs and benefits are giving progressively.

1.2.1 Accounting policies in accounts receivable

Accounts receivable are standard in the financial speech at their historical volume. There are two alternate policies for the acknowledgment of uncollectible receivables. There aren't any conditions for selection of the systems. One method is to assessment doubtful receivables according to the aging plan at the end of writing period and to build a separate reserve on undecided receivables (Accounting Law 2004, 22nd chapter). In this case, versions receivable are accepted in the financial testimonials at full expense, and shrank when uncollected. The uncollected receivables are stimulating to the reserve on suspicious receivables (Accounting Law 2004, 22nd chapter). If doubtful receivables are together and the amount of the deputy isn't used, the reserve for disbelieving receivables is shifted to the profit and defeat at the end of the era. The next method is direct write-off of uncollected receivables. So, in this case, an understudy for doubtful receivables isn't customary and accounts receivable are decreased when there are uncollectible receivables.

1.2.2 Accounting policies in inventory

Accounting for catalog according to Azerbaijan accounting dogmas has some similarities with and transformations from International Accounting Standards. These similarities are in fortitude of inventory expenses, valuations methods realistic; differences are in subsequent judgment, and application of LIFO means. These accounting dogmas that are used by mainstream of the entities were fixed at the beginning of switch to the economy of market. Some market tools such as, the inapproachability of the determination of impartial values and net reachable values did not countenance to adopt firmmatch accounting guidelines. These policies likewise have some appearances of the Soviet Accounting System (SAS). This is evident mainly in the allocation of overheads to the value of finished imports and work-in process register. Detailed information about bookkeeping policies for catalogues according to Azerbaijan GAAP (Generally Accepted Accounting Principles) is delivered in the following parts.

Azerbaijan GAAP defines register as assets that are seized for production of things, for rendering of amenities or performing mechanism with the tenacity of sale

(Sebzeliyev 2005, p 137). In the route of production of merchandises or rendering of services, catalog is expected to relocation its physical element or value into done goods or comforts at once, in gap to fixed monies, which are typical to transfer their value into complete goods or amenities gradually (Sebzeliyev 2005, p 138). Thus, assets that are cast-off once and transfer their element fully in the fabrication process are undercover as inventory. These assets comprise of raw materials, toil in process ingredients, fuel; that's used in the invention process, spare chunks, and other catalog.

Azerbaijan accounting dogmas require recognizing account according to promised agreements somewhere all conditions apropos theinventory legal title, ownership and cargo rules are customary (Sebzeliyev 2005, p 140). These promisedcontracts are main source of evidence that is taken into concern when recognizing inventory.

Accounting policies of Azerbaijan determine the charge of inventory conferring to the same ideologies as the principles ofInternational Accounting Standards(IAS). The cost of catalog is determined considering buying price, import duties and tariffs, insurance costs and transportation, and other costs that are essential in order to put register into usable ailment (Sebzeliyev 2005, p 140). These costs are budgets related to the obtaining of inventory.

There're also transformation costs related to the invention of finished things. These conversion costs are built-in in thefinished costs things, which are recognized separately for financial statements (Sebzeliyev 2005, p 141). Subsidiary costs, such as upstairs costs ofupstairs are attributed to the complete and work-in process assets on the actual worked hours,basesof labor outlays and other causes. Allocation of unplanned costs based on the customary capacity is also realistic (Sebzeliyev 2005, p 142).

When costs are distributed based on labor costs, these rates are allotted to the cost of created goods bearing in mind the section of power cost incurred in the production route. The allocation of unforeseen costs based on the concrete worked hours studies the proportion of genuine labor-time spent on the fabrication process (Sadigov 2002, chapter 2: p 36). Both of these division methods initially study the proportion of labor expenditures and worked hours in the overall labor costs and drove hours respectively, and then give the same proportion of overall slide costs to the produced noble. Example,

if the total waged hours spent on the invention of a good takes a week, that is the one quarter of one month, the one fourth of overhead expenses such as, periodic management salary, is built-in in the cost of the formed good.

If it is unusable to determine the actual register costs, they are approached using standard outlays (Sebzeliyev 2005, p 142). The similar submission is also applied by International Accounting Standards 2. Azerbaijan GAAP also relates retail method, contract costing systems. In the case of pact costing method, the cost of register is determined based on contract, bill prices and then adjusted as the totals of actual costs are vacant (Sebzeliyev 2005, p 142).

Azerbaijan accounting policies recommend using specific identification, average method, FIFO, and LIFO valuation methods. Azerbaijan GAAP doesn't prohibit the LIFO method application, in contrast to International Accounting Standards 2.

Azerbaijan GAAP requires what inventories are reported in Balance Sheet in costs of actual (Sebzeliyev 2005, p 147). This is measured by Accounting Law of AR. According to the 19th subdivision of the Law inventory, example, raw ingredients, spare parts, work-in method inventory, fuel is to be firstly reported at the bygone costs (Accounting Law 2004, chapter 19). Finished possessions are reported in the actual or regular costs if it's impractical to fix the actual total (Accounting Law 2004, chapter 19.2). Resale range is reported in the retail or obtaining prices (Accounting Law 2004, 19.2nd chapter). Paragraph 4 of the chapter 19 of the Accounting Law positions that if there is signal of the fall in selling amount, obsolescence and quality fall the inventory, kaput goods and resale goods are afterward reported in the realizable importance (Accounting Law 2004, 19.2nd chapter). Realizable price is based on the potential selling prices. If realizable value is junior than the current value of the portfolio then loss is recognized. This standard is close to International Financial Reporting Standards, but different from International Financial Reporting Standards, Azerbaijan accounting codes do not determine net practicable price. Realizable value based on probable selling prices without consideration of hawking costs is determined according to Azerbaijan GAAP.

1.2.3 Accounting policies for plant, equipment and property

Accounting policies for belongings, plant and equipment also transfer the characteristics of the Soviet accounting and worldwide accounting schemes. Those policies are more like to the SAS (Soviet Accounting System) pretty than to the International Accounting Standards. Accounting policies for decline, subsequent valuation, and following costs incurred are embraced from Soviet Accounting System (SAS).

According to Azerbaijan GAAP, belongings, plant and equipment are categorized as Fixed Assets in the Balance Sheet and defined as physical assets that are believed for use in the invention or gas station or supply of goods, for administrative resolves for a use of more than 12 months, or for use in the ordinary course of operating cycle of more than 12 months (Sebzeliyev 2005, p 179). One of the major differences between the two conventions is the cost limit that is conventional by the Azerbaijan accounting procedures. According to this limit an point of a tangible asset that costs above 100 manats (1,6manat=\$ 1), and that transferals its value gradually to the finished things can be recognized as Fixed Assets in the financial announcements (Sebzeliyev 2005, p 179).

Azerbaijan accounting policies entail fixed assets to be leisurely initially at cost, which consists of currency, and cash equivalents paid and necessary costs that have to be acquired in order to bring the assets to the current location and condition (Sebzeliyev 2005, p 183). These essential costs include inspection of belongings at the point of acquisition, conveyance costs, and costs related to the fitting of assets (Sebzeliyev 2005, p 184).

There are costs invited subsequent to initial extent. IAS 16 clearly sets criteria for the respect of these costs. These costs must meet the respect criteria in order to be take advantage of (Epstein and Jermakowicz 2008, p 253). Azerbaijan GAAP sets some standards for the appreciation of such costs. Chapter 115 of the Tax Code launchesthresholds for the mending and maintenance budgets incurred succeeding to the initial recognition of static assets. The Tax Code requires outlay repair and conservation costs if they are 2%, 5% and 3% of the book value of property, plant; tools, machinery; and other fixed assets singly (Tax Code 2016, 115thchapter). If repair and preservation

costs exceed these beginnings then they are exploited and rise the current values of stable assets (Tax Code 2016, 115th chapter).

According to the Accounting Law, fixed monies are to be subsequently recognized in the poise sheet at historical fee (Accounting Law 2004, 18th chapter). 18th chapter of the Accounting Law countries that the historical cost of the stationary asset can be new when they are augmented (Accounting Law 2004, 18th chapter). Revaluation method is not reflected as an alternative method of judgment, but rather is required to be functional if there are some commercial indications. Examples for these economic warnings can be inflation, devaluation, and technological progresses. Revaluation can also be functional from time to time as a requisite of government (Sadigov 2002, p 191). This readjustment was mainly due to the transfer. The increase and decrease in the stentorian values are subtracted beginning or added to the bonus paid-in capital.

The historical expenses are also subject to amassed depreciation and book value of Fixed Assets is gritty as historical cost less hoarded depreciation. Impairment defeat is not considered in successive measurements.

Different from IAS 16, Azerbaijan accounting policies define depreciation of fixed assets by the presentation of annual depreciation quotients to the book values of fixed belongings (Tax Code 2016, 114.3rd chapter). The fall measurements differ relative to the class of motionless properties. The percentages are 7%, 25%, 25% and 20% for buildings and property, machinery and paraphernalia, vehicles and other static assets separately (Tax Code 2016, 114.3rd chapter). These measurements are applied to the carrying beliefs of fixed assets. The above calculations are only superior limits; an entity can apply the fall rate that is lower than the relative measurement determined for the class of an asset.

Azerbaijan Tax Code involves writing off the Fixed Assets whose book charge is less than 100 manats or 5% of the opening cost. If this occurs the enterprise will deduct the book rate of the fixed asset from the proceeds of the period (Tax Code 2016, 114.8th chapter). Azerbaijan bookkeeping policies do not cogitate the separate classification of monies that are intended for sale by the controlling. These assets are treated as

fixed assets and in case of sale these belongings will be accounted for as common sale of effects or a group of chattels.

1.2.4 Accounting policies for Revenue

According to Azerbaijan GAAP, revenue is defined as gross entry from sales, rendering of filling station and performance of works, and uncultivated inflow from non-sales happenings (Sebzeliyev 2005, 461).

Revenue from sales comprises income from the sale of goods swallowed for resale purposes, income from the sale of finished goods, as well as revenue from the sale of fixed and elusive assets (Sebzeliyev 2005, 464).

Revenue from non-sale goings-on comprises the income earned from the behind sources (Sebzeliyev 2005, 464):

- Revenues from the financial utensils, dividends on shares, goods on bonds.
- Revenue from leased and hired assets.
- Revenue from royalties.
- Revenue from forfeits paid by cheats
- Revenue from the upshot of recognition of takings from previous periods.

Revenue from foregoing periods might not be acknowledged as a result of their uncollectibility. If those returns are collected in later periods they are predictable in those later times.

Consistent with IAS revenue cool on behalf of third parties are not renowned as revenue.

Revenue recognition bestowing to International Accounting Regulations is based on accrual officemoralities. Azerbaijan accounting policies in uniformity with the Tax Code allow to recognize revenue based on either accrual or moneys accounting methods (Tax Code 2016, chapter 132). There are not any surroundings to use cash or accrual basis. An entity can apply either means, but the same basis is prerequisite to be applied concluded the reporting period. In later writing periods, an entity is permitted to revolution the accounting basis for revenue thanks.

Entities that apply cash office recognize income when they receive outflows for goods sold, services solidified, works performed, and payments received from non-sales activities. The time to recognize revenue is the time when the body receives payments through cash or transfers to accounts (Tax Code 2016, chapter 132.1).

Individuals that apply additionway recognize income when they obtain the right to accept the revenue. The period to recognize revenue is the period when the entity happened all the supplies of contracts and has the right to collectexpenses (Tax Code 2016, chapter 135.1). The following appreciationvalues are applied:

- Revenue from the auctions of goods is familiar when an entity has the precise to receive payments.

- Revenue from interpreting of services and performance of works is recognized when the rendering of services and performing of works is completed.

- Revenue from non-sales activities is recognized when the right to receive payments is established.

According to Azerbaijan GAAP, revenue is dignified at the fair value of the contemplationestablished. Trade deductions are deducted during the amount of revenue (Sadigov 2002, 128). The fair value of the merchandises or services received is painstaking in the measurement of profits in the exchange of unrelated goods and filling station. No revenue is recognized for the altercation of similar goods and overhaul station (Sadigov 2002, 128).

1.2.5 Accountingpolicies for Income Taxes

The main modification between Azerbaijan accounting procedures and IAS 12 is that Azerbaijan accounting return is determined by the Tax Code. There are nottransformations between accounting and payable profits since they are the matching. Temporary or eternal differences are not renowned. Deferred taxes do not arise since office and tax profits are the same. Tax expense is nonstop calculated by the tender of annual tax rate to the bookkeeping profit for the period. The expenses that are withheld from revenue are regulated by the Tax Code. The following overheads are some of the

overheads required to be abstracted in the determination of payable profit (Tax Code 2016, chapter 119):

✓ Uncollectible receivables. If an entity identifies revenue on accrual root and reports receivables as period proceeds, it can deduct those receivables that are uncollectible from the assessable profit of succeeding periods.

✓ Research and development expenses.

✓ Depreciation expenses. The rate of annual decline expenses are planned by the Tax Code

✓ Amortization expenses

✓ Repair expenses. Only the expenses within the almanac limits determined by the tax code are allowed to be deducted.

Period losses are allowed to be carried forward for up to five years. The amount of the loss to be withheld from the future period pay is not limited. The current ancient loss can be wholly deducted from the proceeds of the next epoch or it can be proportionally abstracted from the incomes of the resulting five years (Tax Code 2016, chapter 121.1).

The taxes are to be paid quarterly. An entity is to assessment the quarterly expense of tax expense retaining following devices (Tax Code 2016, chapter 151.1):

- The one fourth of the annual tax paid last year is to be ingenuous and paid every district of the next year

- The ratio of paid tax to the revenue earned in the last year is to be determined and this ratio is to be theoretical to the quarterly revenue of the current period.

At the end of the year, annual income is calculated and income tax expense is determined. There might be differences between quarterly tax costs during a year and annual profits tax expense. If annual income tax outlay is higher than quarterly outgoings, the difference is paid to the management budget (Tax Code 2016, chapter 151.3). On the other hand, if annual profits tax expense is poorer than quarterly disbursements, the difference either is resumed to the entity or is used to settle other tax

problems, e.g. if there is a value-added-tax problem, the difference is used to resolve that liability.

CHAPTER II.

PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS ACCORDING TO AZERBAIJAN ACCOUNTING POLICIES AND PROCEDURES

2.1 Financial Statements required to be prepared according to accounting policies of Azerbaijan

This chapter provides information about the homework and presentation of economic statements according to Azerbaijan accounting strategies and procedures, and the foundations of the financial speeches. This information is on condition that by the photo of the differences from IFRS/IAS and National Accounting Standards based on IFRS/IAS. The aim in this association is to illustrate to the supervisors in what ways Azerbaijan accounting coordination and policies differ from the transnational practice, and to illustrate how they can increase the accounting system and writing by adopting IFRS/IAS and NAS.

Accounting Law of 2004 requires research and presentation of financial proclamations according to IFRS or based on IFRS. Since entities operating bulk in Azerbaijan, don't apply IFRS or National Accounting Standards, this chapter will elucidate the preparation and arrangement of financial statements according to Azerbaijan GAAP and 2004 Accounting Law. This statement have to objectively represent financial locus of an entity as of a specific date, the monetarist performance of an entity for the explicit period; and provide necessary evidence to judgment makers in order to consider the pecuniary position of an entity and to succor them in decision making. The reporting period is calendar year, which comprises period between January 1 and December 31. (Sadigov 2002, 2: 193).

According to Azerbaijan Republic Accounting Law, financial statements are to be presented to the following celebrations (Accounting Law 2004, 34.1st chapter):

- state statistics committee
- tax department
- shareholders
- other state bodies determined by the legislature, such as Central Bank, Ministry of Finance and Ministry of Economic Development

Financial information is essential to be presented in the undeviating form. The Finance Ministry issues special economic statement forms and beings fill in those forms, and present monetarist information. According to Azerbaijan Republic Accounting Law, these forms cover following testimonials:

- Balancesheet(Form 1)
- Profit Distribution andIncome Statement (Form 2)
- Supplement to Balance Sheet (Form 5)

The Accounting Law states that in tally to the above financial testimonials, the following statements can be presented. The preparation and staging of thesestatements are not binding. The Accounting Law does not oblige those statements to be open, but an entity can prepare and present these proclamations. These statements are (31.1stchapter, Accounting Law 2004):

- The explanatory notes. These illuminating notes give material about the complete and comprehensive analysis of production and commercial performance of anybody, and changes in an accounting policy of the entity for a next press period. Entities aren't required to concern these transcriptions.

- The statement of uses of government bequests, which is presented by the entities using control grants

Different from IFRS, financial statements primed according to Azerbaijan regulations are constant in form, and highly homogeneous. This uniformity and tuning of financial statements were also distinctive to the SAS (Soviet Accounting System). An auditor has to fill in those forms and contemporary financial information that is essential by the government bodies. Many articles consider these statements as information to the central government rather than a funds of decision making. This gaze to the role of financial proclamations will change as the management apprehends the importance of these statements in the judgment making process.

Entities also are not prerequisite to present audit reports. The monetarist statements are audited by the direction bodies, and if there are sensible misstatements companies are fined. The penalties are generally pecuniary. The amount of the penalty be subject to on the nature of the misstatement.

2.2 Presentation of financial statements according to Azerbaijan GAAP

The Accounting Law and bookkeeping policies establish some requirements on the presentation of economic statements. According to Azerbaijan GAAP, financial speeches must fully reflect the results of all industries. Assets, liabilities and equity must fully be encircled (chapter 2: p 193, Sadigov 2002). Financial statements must be reasonable and they must present the commercial position and enactment of an entity properly (chapter 2: p 201, Sadigov 2002).

It is also vital that financial statements must be like. Comparability is achieved through the presentation of virtual financial statistics between two years (chapter 2: p 201, Sadigov 2002).

According to Accounting Law, compensating of assets and dangers is not allowed (31.1stchapter Accounting Law 2004).

Financial statements are compulsory to be presented timely (chapter 2: p 201, Sadigov 2002). Accounting Law sets dates for financial account presentation (34th chapter, Accounting Law 2004). According to the Accounting Law, fiscal statements are to be offered in 90 day after the end of writing period. Reporting period commonly comprises the historical between January 1 and 31 December (32nd chapter, Accounting Law 2004).

According to Azerbaijan GAAP, fiscal statements have to present data about liabilities, assets, equity, expenses and income. Assets, dangers, and equity are the elements of steadiness sheet; income and overheads are elements of the payannouncement and profit dissemination (Sebzeliyev 2005, p 18).

2.3 Balance Sheet

According to Azerbaijan GAAP, Balance Sheet is the account prepared to replicate financial situation of the entity (Abbasov 1998, p 50). Balance Sheet is equipped according to the Accounting Law and accounting moralities and regulations. This statement reflects belongings of an entity on 1 side and the birthplaces of these assets on other side. Sources of the moneys reflect liabilities earned in order to obtain those monies and equity capital established as a result of ensues from shareholders. The equity and liability horizontal is called “passive” and asset side is just called “active”,

An asset is an assets of an entity comprising current assets, fixed assets, monetarist assets and stashes and intangible assets (Kerimov 2007, p12).

Current assets consist of ended goods, value added tax, work-in-process goods, resale goods remunerated on purchase, and other present assets.

Financial assets and cash equivalents and investments consist of cash, advance payments to suppliers, given loans and short term investments. Cash and deposits, cash held in bank accounts, cash equals comprise petty cash. According to Azerbaijan GAAP, when entity has the shareholders right over the asset, assets are recognized in Balance Sheet.

A liability is obligation incurred to obtain the asset or settle another charge (Kerimov 2007, p 12). Obligations can arise from economic tasks of an entity. i.e. liabilities are long and dumpy term bank credits, long and short stretch loans, onuses to the management budget, obligations to the traders, and others.

Equity is defined as a stashes made by the founders of the entity during this establishing (21.1st chapter, Accounting Law 2004). This classification is different from the IASB's explanation. The amount of fairness capital can be different according to the result of shareholders.

Reserves and retained paychecks are also reported in the equity. Bestowing to the Azerbaijan Republic Accounting Law, an entity can establish consumption, spare fund and social capitals by distributing period turnover. An entity can also establish a understudy for doubtful receivables. In Accounting Law, doubtful receivables are receivables what were not acknowledged within the time historical determined by the prescribed agreement. At the end of the commentary historical, anything examines its

Cash	xx
Shareholders' account	xx

- Stocks and costs

Stocks and costs current information about inventory, and some costs. The elements of this part are as follows:

- Production materials. This account records production constituents that are assimilated to be used in the creation of finished goods. Inventory materials embrace raw constituents, semi-finished goods and chattels, intermediate goods, spare parts. Semi-finished and intermediary products are products that are got from external sources.

- Work-in process register. This account reports costs of catalog which is in the production route. Basic Production account accounts all direct expenses invited in the production practice. This is a temporary expense and is closed at the end of the writing period. The debit balance of this expense shows that the cost of work-in route inventory and is barred as follows:

Basic production xx

Work-in process inventory xx

- Prepaid outlays. This account is parallel to Prepaid Expenses version applied by worldwide accounting practices. Prepaid incidentals include prepaid rent cost, prepaid insurance, site examination expenses.

Finished goods. This account intelligences finished belongings. Finished goods are initially conveyed at plan (standard) costs, and later in step to actual costs. When the invention of the certain good is finished and it is arranged for sale, related expenses acquired (plan or actual costs) are written off to the complete goods account. The accounting entry to recognize kaput goods produced in the contemporary historical is as follows:

Basic Production xx

VAT payable to the government budget xx
Finished goods xx

At the end of one month the unsteadiness of the VAT on paid on purchase is abstracted from the VAT outstanding to the government modest, and the difference is to be paid to the supervision budget. On the other hand, if the unsteadiness of the VAT paid on purchase is grander than the VAT unsettled to the budget, the consistency is carried headfirst.

- Receivables, Cash and other current assets

So, This part of active side reports current effects such as, cash and cash parallels, debtor loans, receivables. The elements of this amount are as follows:

-1. Debtor loans. This account reports debtor loans receivable from regulars, regime budget, employees and other debtor give a loan. Debtor loans account is the same as interpretations receivable account. For pattern, accounting entry to high the sale of finished goods is as surveys:

Sale of finished goods xx
Debtor loans (customers) xx

-2. Advances given to brokers. This reason reports the extent of advances given to suppliers. Accounting entry for the given advances is as follows:

Cashxx
Advances given to suppliers xxx

-3. Short-term financial stashes. This account reports short-term monetarist moneys in short-term bonds, guarantees and given lends.

Cash and cash twins comprise petty cash, bank account, overseas currency account, and other the books in banks. Foreign currencies held in panels are reported in

the foreign legal tender account. Other accounts in banks accounts money put down for special devotions.

The amounts of any current and forgoing period losses are re-counted at the end of the full of life side of Balance Sheet. This bookkeeping regulation is different from IFRS. IFRS hearsays period losses in the parity side of the unsteadiness sheet. Specifically, if there is archaic loss the capital or recalled earnings accounts are shrank by the extent of the epoch loss.

2.4 Liabilities and equity

- Equity

Submissive side of the balance sheet grants information about fairness and liabilities. Equity is open firstly and followed by problem accounts. Short term dangers are preceded by long duration liability accounts. Parity reports the expanse of savers' equity, reserves and other center. The elements of equity are as follows:

1. Equity Capital

2. Additional paid-in capital. This justification reports reassessment surpluses, bonuses received above the par assessment of shares, and donated assets. When anything revalues its tangible fixed resources, the increase in value is known in the credit of this justification. The modification between market and par values of dividends is also recognized in this description. The value of bequeathed assets received from outward parties is recorded in this account. The bookkeeping entry to record the donated monies received is as monitors:

Additional paid-in capital xx

Tangible fixed assets xx

3. Spare fund. The expanse of spare and other fund is single-minded by fusion articles. Spare fund is customary out of current returns, and the independent is to pay damages for future expenses and harms. If an entity earned loss in the current epoch and

is not able to pay surpluses, the amount of spare stock can be used to pay surpluses. An book-keeping entry to record this contract is as follows:

Shareholders' account	xx
Spare fund	xx

4. Consumption fund. Consumption stock is also conventional out of current income, and the detached is to pay for edifice and development expenses, employee impetus expenses, servant benefit expenses and employee credits.

5. Retained earnings. Retained earnings is determined as the difference between period profit and distributions made over and done with this profit. In demand to report period profit and retained earnings the behind accounting entries are made:

Profit distribution xx

Profit or loss xx

To record the scatterings made through period profit

Retained earnings xx

Profit or loss xx

- Liabilities

This part of the balance sheet records obligations of an individual. The elements of part followed:

- Bank credits. Bank glories include long-term and short-range bank credits, as well as panel credits for workforces.

- Taken loans. These finances comprise long-term and makeshift loans from financial societies and other beings.

- Creditor credits. This account reports creditor debts to suppliers, employees, government budget and further creditor debts. This account summarizes amounts of accounts payable, salary payable, tax payable and other liabilities.
- Advances received from customers.
- Revenues of future periods. This account is similar to unearned revenue account. Revenues of future periods reports rent, insurance, subscription revenues.

When we observe the balance sheet set in accordance with the office regulations of Azerbaijan Republic, we can witness that the statement is arranged in accordance with liquidity main beliefs. The more liquefied assets are go before by the less liquid assets. Belongings are classified as stationary assets and further non-current assets, catalogues and other current effects, and cash, receivables and other effects.

The second part of the balance sheet includes equity capital and responsibilities. This part replicates the amount of speculation into operations of the unit and the source and the environment of these moneys. The classification of parity capital and dangers is based on the rightness of the obligations to the vendors and to the third parties. Onus to owners is reported before the compulsion to the third celebrations which has to be steady firstly. Liabilities are also off the record according to their time of settlement. The most hot settlements are to be off the record the most recent.

Current liabilities, such as short-term loans are expected to be settled in the normal course of private within the enterprise's going cycle or are due to be unsettled within twelve months of the date of the avowal of financial position any is shorter.

Balance Sheet arranged according to Azerbaijan bookkeeping regulations has active (asset), passive (liability and equity) and active-passive financial statement. Active-passive versions might have debit or credit stabilities depending on the operation. If an active-passive justification has a debit balance, it is recounted as an active justification and if an active-passive reason has a credit balance, it is recounted as a passive account. One of these active-passive the books is Shareholders' Account, which is represented in the previous paragraphs. When bondholders are pleased to pay for the shares they attained, this account is conveyed as an asset. Nevertheless,

compulsions of the entity to investors are recognized as a danger. For example, when an article is required to pay surpluses then shareholders' excuse is recognized as a liability reason. The accounting entries to high the transactions with investors are as follows:

Cr. Capital xx

Dr. Shareholders' account (active account) xx

To record the obligation of shareholders. The amount of capital that shareholders must pay.

Dr. Cash xx

Cr. Shareholders' account xx

To record the disbursement of the commitment.

Dr. Retained earnings xx

Cr. Shareholders' account (passive account) xx

To record the obligation of an entity to pay extras.

Dividend payments are charged to retained earnings.

Dr. Shareholders' account xx

Cr. Cash xx

To record the imbursement of dividends.

The other distinctive of the Azerbaijan bookkeeping system is the story of some contacts in the out-of-balance sheet the books. These pecuniary events are not testified in the balance sheet, but familiar in the out-of-balance sheet financial statement. This facts is not required to be vacant to external financial proclamation users, but rather conserved for the internal reporting devotions. An illustration for these explanations is Rented Tangible Fixed Assets excuse. This account reports operating leases.

Functional leases are not recounted in the balance sheet for they are considered as objects that are not preserved by the being. These items are not the assets of an entity and are not unswerving with the thanks criteria for assets. Other case in point for these explanations are inventory of the third celebrations accepted for shelter, fixed assets of the third bashes accepted for fixing. The resulting is the Balance Sheet prepared according to Azerbaijan GAAP:

2.5 Income statement and profit distribution

Azerbaijan GAAP requires things to concoct the “Loss and Profit Statement” as an alike to the statement of all-inclusive income. This announcement is reported only for one time and consists of three fragments (Kerimov 2007, p 342):

1. Payments to the government budget
2. Profit distribution
3. Income Statement

Any taxable return (loss) is recognized in the income account. Taxable profit or loss is categorized as taxable return (loss) from sales and taxable yield (loss) from non-sales goings-on (Sadigov 2002, chapter 2: p226).

Sales taxes (VAT) and rate of sales are deducted from car boot sale expenses to determine the extent of gross profit from jumble sale (Sadigov 2002, chapter 2: p226).

Revenue from sales embraces income from the transaction of finished personal property or from resale, and income from execution of gas station (Sadigov 2002, chapter 2: p227).

Sales taxes cover value added tax, duties and new taxes supplementary with the deal of goods and chattels (Sadigov 2002, chapter 2: p227).

Expenses related with the production and auction of the goods include cost of the goods; salary, depreciation, announcement, upstairs and other costs (Sadigov 2002, 2: 228).

Goods cost include costs linked with the obtaining of the raw tackles obtained in order to produce finished goods, costs associated with the purchase of finished goods obtained in direction to resale. These costs consist of purchase price of inventory,

moving and insurance costs, i.e. costs that are produced in order to bring catalog to the usable form (Sadigov 2002, 2: 229).

Gross earnings (loss) from non-sales accomplishments comprises earnings from the interest or share payments, payments of advantages, effects of deviations in foreign cashexchange rates, and pecuniary results from other non-sales goings-on (Sadigov 2002, 2: 229).

As noted, this part of The Profit and Loss Statement fixes the volume of the taxable return or loss. Cost of the goods vended is not separately categorized in the proclamation, but is built-in in the “expenses supplementary with the assembly and sale of the goods” item of the speech.

The second part of the announcement reports the uses and circulations of profit. Profit can be distributed as following (Kerimov 2007, 343):

- Payments made in charity considerations and other payments
- Payments to reserves and funds
- Payments to the government budget

Period salary tax comprises profits tax payable to the modest for the press period.

Payments to assets reserves comprise the outflows to established monies. These disbursements are made from present-day period profit. Models for payments to reserves are outflows to consumption reserve, outflows to reserve for suspicious receivables, bonus reserves, spare fund, ingestion fund, social supply.

Payments made in contributions considerations contain payments to charity organizations. An entity may also begin special reserves for charity resolves.

The third part of the declaration reports the outgoings to the budget. These payments encompass tax payments; such as expense of property tax, revenue tax, value added duty; the payments for the use of incomes and for the setting pollutions, prices and other payments to the regime budget (Kerimov 2007, 343).

Penalties paid to the regime budget comprise prices that are payable to the modest. These prices originate from past due taxes, intentionally decreased tax beginnings, from unsettled of other penalties.

2.6 The Supplement to the Balance Sheet required by Azerbaijan GAAP

Different from IFRS Azerbaijan GAAP involves preparation of the increment to the balance sheet speech. The supplement to the sense of balance sheet benevolences additional info to the users about changes in elements of balance sheet during period. Statement is prepared based on the cash nor accrual center of

accounting. This speech consists of behind parts (Kerimov 2007, 344):

Changes in Investments

Changes in Equity Capital and Reserves

Changes in Debtor and Creditor Loans

Changes in Taken Loans

Changes in Fixed Assets

Changes in Intangible Assets

In the alterations in equity capital and stashes part of the appendage to the balance sheet, deviations in the reserves, such as ingestion reserve, surplus funds and changes in justness are reported (Sadigov 2002, chapter 2: p234). The monies are conventionalthrough using retained earnings, and overheads of owners and other parties. The bequeathed assets are also renowned in the reserves (Sadigov2002, chapter 2: p234). The volume of these assets is renowned in the paid-in resources.

The statement of vagaries in taken loans reflects the volume and changes in the loans obtained from groups and from other revelries (Sadigov 2002, chapter 2: p235). This announcement also reflects the expanse of debts that are belated.

Statement of insolvent and creditor loans imitates the amounts and activities of these loans which are confidential as short-term and long-term debts. Defaulter loans contain receivables from clients and other revelries. Creditor loans cover payables to traders and other get-togethers (Sadigov 2002, chapter 2: p235)

The account of changes in insubstantial assets reflects the content and standards of intangible assets and the vagaries during the historical in the satisfied of those assets (Sadigov 2002, chapter 2: p236). The statement be made up ofof the changes in the values of patents, inventions, directorial costs. Organizational expenditures consist of

costs that are invited in registration of the entity, negotiatoroverheads and other costs necessary in the institution of the entity (Sadigov 2002, chapter 2: p236). These expenditures are remunerated in 10 year times period (114.3.6thchapter, Tax Code 2016).

The speech of changes in fixed moneys reflects the vagaries in the fixed assets classified according to their forms. The speech reflects the ideals of leased moneys, bought stationary assets and fixed effects that are not used in the fabrication, i.e. fixed assets that are in stock. The value of sold, leased, destroyed and other fixed assets is moreover reported (Sadigov 2002, chapter 2: p237).

The proclamations of changes in hoards and financial capital reflect the alterations in the amounts of short and long duration given loans, the expense of investments in shares and words and other havens (Sadigov 2002, chapter 2: p236). These monies are informed at historical price tag (Sadigov 2002, chapter 2: p237).

The statements of changes in reserves and financial capital imitate the changes in the sums of short and long tenure given loans, the amount of reserves in shares and bonds and other sanctuaries (Sadigov 2002, chapter 2: p236). These stashes are reported at historic cost (Sadigov 2002, chapter 2: p237).

Azerbaijan GAAP does not entail the preparation of the discrete statement offering the changes in cash, but instead next sections of the “Supplement to the Balance Sheet” can be hand-me-down to receive data about cash flows during a broadcasting period:

Changes in Taken Loans

Changes in Equity Capital and Reserves

Changes in Intangible Assets

Changes in Debtor and Creditor Loans

Changes in Investments

Changes in Fixed Assets

If the above declarations are prepared on the cash root they can provide data about cash influxes and outflows during the old-fashioned. For example, from the variations in

justice capital and reserves segment it is possible to gain information about cash incursions and outflow to the capital justice and different reserves, from the changes in taken allows section it is possible to obtain material about the amount of cash incursions from loans and cash depletions to pay for those loans, from the changes in pledger and creditor loans subdivision it is possible to obtain evidence about cash inflows and depletions from those loans. The stalls giving information about these divisions are presented above. Specially, from the Table 10 we see that there was an intensification of 2420 manats in kit, which means that cash drip of 2420 manats was earned; from the Table 8 we realize that 3600 manats of short-term creditor mortgages were paid, this signposts that 3600 manats of coins outflow was incurred all through the passe.

In summary, training and presentation of economic statements according to Azerbaijan office policies and actions mainly carry the features of the Soviet Accounting System. The homogeneous financial statements essential by Azerbaijan government is the same as the financial speeches required by the Soviet Accounting System. Nevertheless, with the transition to the market bargain financial statements prepared according to Azerbaijan GAAP recognize and provide information about some market economy trades and events. Examples for these commercial events are the recognition of concrete assets, financial renting, financial appliances.

An entity prepares and presents pecuniary information in order to tale to the government the ruling classes on the financial position and monetary performance of the article. External manipulators other than rule bodies also use these statements for decision construction tenacities. But, these accounts stay not unswerving with IFRS and do not provide universal decision makers with requisite evidence. One of the main reforms between the two regulations is the arrangement of disclosure notes. The appearance of disclosure notes is essential by the IFRS, but it is not required by the Azerbaijan secretarial practices. Majority of articles do not prepare discovery notes. The main reason for the presence of leak notes lies in the unavailability of alternative bookkeeping policies. Since accounting procedures to be applied by the management is stringently regulated and unvarying, in attendance might not be need for superfluous disclosure notes. Nonetheless, disclosed information about accounting regulations and

dogmas will be of great assist to the external decision architects. Financial Statements can be settled based on either adding or cash accounting. Since the announcement of cash streams is not required by Azerbaijan accounting philosophies, conclusion makers can acquire material approximately cash flows based on the information of financial statements prepared based on the cash accounting. For instance, income declaration and increment to the balance sheet speech prepared based on the cash accounting may provide information about cash flows. Nevertheless, presentation of the detached statement of cash flows is essential for the understandability and fair-mindedness of financial information.

CHAPTER III

THE IMPORTANCE OF AND THE PROBLEMS ARISING DURING THE APPLICATION OF IAS/IFRS

3.1 The benefits of IFRS/IAS application

This section examines the notoriety and issues of demand of IFRS/IAS or National Accounting Standards built on IFRS for substances. This examination is basically in view of the data procured from three reviewers utilized for International Auditing Firms in Azerbaijan. The ability of other move countries was similarly examined. The inspectors were assented a survey. The conclusion survey requested the benefits, costs and the significance of IFRS claim in Azerbaijan. The poll and the responses of examiners are given in an Appendix A.

- As noted for an earlier part, Azerbaijan is in changeover to International Financial Reporting Standards, however the standard of elements are unwilling to embrace IFRS. Tolerating IFRS/IAS or National Accounting Standards in view of IFRS/IAS gives a few aids to substances. These advantages can be summed up as takes after:

- Increase in clearness. The utilization of IFRS/IAS bolsters straightforwardness in monetarist revealing. Bookkeeping systems connected, and budgetary explanations set and displayed by IFRS/IAS is convenient over bookkeeping arrangements connected, and money related declarations readied and open as indicated by national bookkeeping rule and practices. As noted in the before parts, Azerbaijan bookkeeping structure is mostly in light of SAS (Soviet Accounting System). This framework does not manage the cost of straightforward business explanations. The fundamental objective for the need in straightforwardness lies in the inaccessibility or nonattendance of uncover notes. Divulgence notes are one of the focal wellsprings of material to chiefs. The nonappearance of those notes bolsters less straightforwardness in the budgetary position and money related execution of bodies.

- Growth in quality of financial accounts. Application of IFRS/IAS affords decision makers with extra qualitative financial information. Since IFRS/IAS has been contrived for the needs of a unit operating in the market economy, the acceptance of these principles is compulsory in order to achieve a great quality financial recording. Accounting policies and processes according to Azerbaijan GAAP do not offer high quality financial reporting for an entity functioning in the market economy. Thus, the application of other qualitative financial reporting standards is of countless importance.

- Facility in judgment. Financial statements arranged according to IFRS afford decision makers with more and rational financial information.

Especially, foreign shareholders rely more on the commercial statements prepared based on IFRS. There are some benefits of IFRS for decision makers. These advantages are by way of follows (Accounting and Business Research 2016, p5-27):

- Financial statements prepared centered on IFRS promise more truthful, comprehensive and well-timed financial information.

- Financial statements prepared based on IFRS cuts international dissimilarities in accounting standards and rises the comparability of financial statements.

- Financial statements equipped based on IFRS eases the work of an investor. An investor agreeable to invest in the entity has to estimate an entity for decision making commitments. Thus he/she has to understand the accounting programs and procedures that are used in the planning of financial statements. This process increases costs for the stakeholder. On the other hand, planning of financial announcements based on IFRS removes extra effort and costs accompanying with the decision making process.

- Financial statements organized based on IFRS reduces investor risks, and information risks.

Thus, an entity intending to invite foreign investment has to consider application of IFRS/IAS.

- Facilitate the citation of entity dividends on foreign stock interactions. The performance of financial speeches prepared based on IFRS will afford more

understandable, translucent financial statements and simplify the quotation of shares on external stock exchanges.

- Overview of fair and applicable financial statements. Entity which organizes its financial proclamations based on IFRS offerings more fair and appropriate financial information. One of the features of a relevant financial announcement is the attention of present economic surroundings in the financial information. IFRS accomplishes this through the presentation of fair value accounting. It is essential for the decision makers to estimate an entity based on the financial statements that return the changes in the commercial environment. The adjustment of noticeable fixed assets, fair worth measurement, lower of fee or market standard, recognition of weakening losses are all main to accomplish fair and appropriate financial proclamation presentation.

- Benchmark with worldwide competitors. Request of IFRS increases the comparability of fiscal statements. The management of an entity working in Azerbaijan might benchmark its financial position and performance with an foreign entity. The application of IFRS facilitate this comparison.

- Availability of inner comparison. In totaling to the profits of international evaluation, an entity operating in diverse countries (owning subsidiaries, joint-ventures) might use IFRS/IAS for inner comparison. For instance, by adopting IFRS/IAS the administration of an entity operating in Azerbaijan might associate the financial position and performance of its subsidiaries operating in Turkey or additional countries.

- Finally, the preparation and presentation of financial statements according to IFRS/IAS and forming accounting system in steadiness with the international secretarial principles and actions provide some benefits to an entity. Those benefits are rise in transparency, eminence and understandability of financial statements, facility in decision making for foreign investors, increase in foreign direct savings, participation in far-off financial markets, introduction of fair and relevant financial statements, and expansion in comparison.

3.2 Problems arising in the application of IFRS/IAS

The adjustment of bookkeeping framework is not a forthright procedure. Amid the change, substances may confront a few shades of malice. These issues are all the more plain in the bookkeeping frameworks that are more differing from the bookkeeping framework to be acknowledged. As past parts noted, Azerbaijan bookkeeping techniques and systems are different from IFRS/IAS, and at times the appraisal of both directions is not material because of the non-attendance of comparable applications. Subsequently, a substance in the interpretation procedure is to confront the issues connected with the utilization of IFRS/IAS or NAS traditions. These issues can be gathered as takes after:

- Transition to IFRS is a pricey process. The costs associated with the transition to IFRS are preparation of personnel, software, consulting and other costs. Training of personnel is essential in the switch process. First time agreement of IFRS/IAS or NAS involves substantial training of accounting and finance man. This exercise also has to be constant since the standards are moving and improving endlessly. The establishment of a suitable IT scheme is also significant for an entity in transition. This computer system is compulsory in order to reduction the costs to gather financial information and to formulate financial statements.

- The application of IFRS might effect in the change of economic position and performance. The outline of fair value financial broadcasting approach will result in the explosiveness in the balance piece and salary statement. Forexample, recognition of weakening losses and redefinition increases or decreases might shrinkage or increase the justness of an entity. Financial station of an entity capacity change as a result of alterations in the amount and valuation bases for belongings, liabilities and justice items. This capriciousness might present further difficulties in the creation relevant judgments for the management and stakeholders who are not trained at IFRS.

- Compound nature of intercontinental financial reporting ideals. The complex nature of some IFRS/IAS might existing problems in proper presentation of them.

Standards related to the hedge accounting, diminishing test, and accounting regulations for pecuniary instruments are some of those compound regulations. Anbeing might lack necessary expertise in the application of these regulations. Another complexity in the application of IFRS transmits to the way accounting is accompanied at the entity. Accounting has been measured as a legislative system for a long time. Judgment was not prerequisite from accountants, but the tender of IAS/IFRS requires some decree. This requirement also changes the gaze to the accounting structure. Accounting will not be deliberated merely a parliamentary system, but a judgement making system.

- Demand for change in the accounting philosophy of workforces. For many decades, accounting has been considered as bookkeeping and recording to the central administration. However, IFRS affords some options in the commercial reporting and an auditor has to employ his conclusion and thinking in the office process. Consideration of accounting as a earnings of providing important information for the judgment making tenacity must be conventional at the entity.

- Running equivalent accounting systems. Since accounting evolution does not mean switch in the tax accounting, this might educate problems in the employment of parallel accounting organisms. IFRS/IAS and tax law apply different policies and an entity has to conserve two accounting structures in order to fix financial statements and information to the tax authorities.

Entities are not used to this equivalent reporting structure. This might product in the further intensification in writing costs.

In summary, anbeing may face some complications in the IAS/IFRS adoption. Those harms are high costs of transition, the variation in the financial recording practices, change in the financial situation and performance, complication of IFRS.

3.3 Suggestions

The reception of IFRS/IAS or NAS in view of IFRS/IAS is boss for elements working in Azerbaijan. There are compensations and issues of satisfying IFRS, yet benefits repay the issues related with the accommodation. The aftereffect of the study

and the experience of different countries receiving IFRS reveal that it is fundamental to embrace IFRS and the aids of IFRS repay the expenses.

Keeping in mind the end goal to instrument the move strategy, the substance can help from the guide of worldwide analyzing firms. Also known over, one of the issues identifying with the utilization of IFRS is the planning of staff and organization of significant data structure. The aptitude of intercontinental evaluating organizations experienced in the change to IFRS can be utilized as a part of the educating of staff and establishing of important data framework. Numerous people in remote nations apply this technique in the move course (McGee and Galina 2005). Be that as it may, it must be noticed that the capability of the evaluating firms must be enlisted in the correct way. The administrators of numerous substances occupation these examining firms mostly with a specific end goal to set up their money related articulations, however not to change over their bookkeeping frameworks. The ability of remote substances and the learning of Azerbaijan organizations spreading IFRS demonstrate that elements that are essential to exhibit their money related declarations as per IFRS by government engagement worldwide evaluating firms to figure their budgetary tributes. In sense, universal inspecting firms stock the reports that are prepared without anyone else's input. This must not be mirrored a move procedure since the bookkeeping arrangement of the element stale works as indicated by the antiquated controls. The changeover of bookkeeping framework incomes deliberate and vital change in the money related announcing.

The intricate greenery of IFRS can be avoided by the issuance of fitting bookkeeping control. There might bring up an issue concerning the issuance of the direction. Fastidious direction may be inaccessible. Be that as it may, a substance may overawed this issue by referencing to the act of neighborhood and outsider organizations applying IFRS. Government which is the help of the move to IFRS needs to bolster elements in this veneration. The Finance Ministry can assume a basic part by conveying itemized bearing on the operation of complex secretarial techniques.

Another significant issue is the change in the connection to the bookkeeping. Bookkeeping must be measured as a noteworthy supplier of financial data and a

noteworthy device in basic leadership. This adjustment in the with respect to the workplace framework will convey the business procedure to insignificant rate. The administration must perceive the significance of bookkeeping; bookkeeping must not be meticulous as an answering to the legislature, however as a discourse to the administration and decision making process. The gathering of this belief system will expand move handle in person. The bookkeeping framework in view of IFRS can likewise be utilized for internal administration tenacities. The announcements and bits of gossip must be reflected for outward revealing purposes as well as for focus administration duties.

3.4 Discussion and results

As noted, there are a few advantages and consumptions related with the move to IFRS. A substance ought to adjust the advantages and costs of the move procedure. It is beneficial to embrace IFRS for an article meaning to raise, to pull in outside wander, and to be more translucent. Consequently, it is basic to receive IFRS/IAS in Azerbaijan since the delicate of IFRS/IAS will build the greatness of money related revealing and abroad direct venture. The inquisitorial of a few checkers working for the reviewing organizations in Azerbaijan exposed that it is essential to embrace IFRS if an individual needs to pull in remote stock, be more straightforward, and increment the greatness of choice generation. Outside speculators mostly require money related declarations to be sorted out as indicated by IFRS so as to make choices with respect to a clear organization. On the off chance that an outside shareholder needs to put into an element useful in Azerbaijan, he/she initially dispatches a global investigating firm to review the body and present IFRS based monetarist proclamations. This is a standard preparing in Azerbaijan and is the most boss wellspring of inspecting firm wage.

As the shape uncovered, the well known of neighborhood substances don't cook budgetary explanations in view of IFRS or NAS in light of IFRS, yet ask evaluating firms (International ones chiefly) to sort out. Numerous neighborhood substances are not mindful in the use of IFRS, but rather they need to request that investigating firms

plan budgetary talks in light of IFRS for them when they need to secure credit from superfluous money related organizations.

As observed, it is imperative to receive IFRS for a thing and for the economy in general. Expanding Azerbaijan spending plan is in the requirement for the more subjective and evident monetary information that is utilized by shareholders for basic leadership responsibilities.

The appropriation of IFRS in various Post-Soviet Republics (Russia, Ukraine, and Kazakhstan) was additionally examined. All Post-Soviet states appear to have related advantages and issues of IFRS grasping. It is hard to assume whether these domains have benefitted from the IFRS application, since the work of IFRS still in progression. Be that as it may, the economy and things are required to benefit from the IFRS appropriation. The examination of the measure of Foreign Direct Investments (FDI) in Russia, Ukraine and Kazakhstan demonstrated that FDI principally expanded since the start of the utilization of IFRS.

Russia, Ukraine and Kazakhstan elements have offered money related articulations bearing to IFRS since 2004, 1999 and 2003 independently. The measurable information demonstrate that FDI extended from \$ 13072 million to \$ 27797 million in the midst of 2005 and 2007 in Russia. FDI to Ukraine has likewise expanded continuously from 1999 to 2008. There was in tallness increment in FDI from \$ 1715 million to \$ 7808 million in the vicinity of 2004 and 2005. FDI to Kazakhstan has been erratic; it diminished from 2001 to 2003 and expanded from 2005 to 2006. Be that as it may, it is hard to reason that the impulses in the FDI are because of the presence of more subjective financial data. Supplementary reasons additionally impact the aggregate of FDI, and the support of monetary material to the venture deluge must be contemplated.

CONCLUSION

The focal aim of this theory was to illuminate to the management of entities and specialists who are against the acceptance of IAS/IFRS in Azerbaijan why it is necessary to adopt IAS/IFRS. The thesis delivered major differences between IAS/IFRS and Azerbaijan GAAP, and analyzed the explanations that stand behind those dissimilarities.

The first chapter introduced information about enlargement of accounting system in Azerbaijan and related accounting policies recognized according to Azerbaijan GAAP and IFRS. The aim in this association was to illuminate to the managers in what ways Azerbaijan accounting system and policies diverged from the international training, and to illustrate how they could expand the accounting system and commentary by adopting IAS/IFRS.

The second chapter shown the preparation and arrangement of financial statements conferring to Azerbaijan GAAP. The unit also commented on the differences between the two principles over the purpose and chunks of financial statements.

The third chapter explained some benefits and snags, as well as suggestions on the problems of employing IAS/IFRS.

There are essential differences between office policies and procedures based on Azerbaijan GAAP and IFRS. The main cause for this difference deceits in the accounting systems. Azerbaijan accounting system is principally the renewed form of the Soviet Accounting System, whose chief purpose in the planning and exhibition of financial speeches was reporting to the vital government. This purpose over the monetarist statements is still applicable, and major entities organize their accounting procedures in the way that simplifies the reporting to the principal government. This look to the financial writing must be rejected in the conversion to market economy. Accounting system is to be ordered in the manner that affords transparent, applicable, fair and credible financial evidence.

Management should contemplate accounting as the foremost tool of the decision making method. The adoption of IFRS is compulsory in order to accomplish competent and effective accounting system that is in reliability with the market economy. Collected with the privatization and legal modifications, thorough accounting restructurings also have to be completed in the transition to the shop economy. In the way to transition, Azerbaijan regime has begun the agreement of IFRS. But there is some struggle for the acceptance of IFRS/IAS and NAS based on IFRS/IAS. This conflict mainly derives since the denial of the compulsion of IFRS adoption. Many think that it is not obligatory to adopt IFRS for the mounting family like Azerbaijan. However, the approval of IFRS will make vacant many doles to persons. The approval of IFRS adds more buff and attracts more nonstop foreign hoards, which is essential for the evolving economy.

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