

**Ministry of Education  
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**MARKETING AND ITS ROLE IN  
ECONOMIC DEVELOPMENT**

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**THE ANALYSIS OF IFRS AND US GAAP CONVERGENCE  
PROBLEMS OF PRIMARY USERS OF FINANCIAL  
STATEMENTS  
ABSTRACT**

The effects of IAS and IFRS applications on the results of the analysis of the financial statements of the enterprises have been examined in the study. In this direction, survey method was used in the study and the data of the questionnaire were subjected to regression analysis. Objective: to conduct a comprehensive analysis of international accounting and financial reporting standards, identify problems in accounting and reporting practices, and find ways to solve them.

Key words: IFRS, GAAP, Finance

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## **Introduction**

International Accounting and Financial Reporting Standards (IASs and IFRSs) have made significant changes in financial reporting. The financial statements prepared within the framework of these standards are intended to keep the preliminary plan for a fair view. The financial statements prepared according to the national accounting standards and regulations of the countries are inadequate to provide the financial information required especially for international markets and foreign investors. In this respect, financial statements must be real, transparent, consistent, understandable and comparable. In line with these requirements, UMS and IFRS are expressed as principle-based standards.

Especially when compared with US GAAP, UMS and IFRSs are far from rule based 3.

In this context, IMS and IFRS are important for communication between enterprises, investors, financial analysts and other elements in international markets.

The effects of IAS and IFRS applications on the results of the analysis of the financial statements of the enterprises have been examined in the study. In this direction, survey method was used in the study and the data of the questionnaire were subjected to regression analysis.

**Objective:** to conduct a comprehensive analysis of international accounting and financial reporting standards, identify problems in accounting and reporting practices, and find ways to solve them.

**Objectives of work:**

- analyze the literature on the research topic;

- to consider the concept, functions, purpose, principles, the process of developing the International Accounting Standards and Financial Reporting;

- describe the problem of the transition of Russian organizations to IFRS in the context of the globalization of the world economy;

- to develop an Action Plan for the transition of Russian organizations to the International Accounting Standards and Financial Reporting.

The subject of the research: the process of identifying problems in the practice of accounting and financial reporting under International Standards and finding ways to solve them

Object of the study: the content of international accounting and financial reporting standards.

The theoretical and methodological basis for writing this work was: regulatory and legislative acts, instructional and methodological materials, general economic and special literature, international standards for accounting and analysis, periodic and scientific and economic literature, etc.

**Chapter I:**  
**THEORETICAL BASES OF CONVERGENCE OF**  
**INTERNATIONAL FINANCIAL REPORTING**  
**STANDARDS**  
**1.1. GENERAL APPROACH TO THE IFRS AND**  
**US GAAP CONVERGENCE**

When deciding whether an IFRS or US GAAP accounting system will be prepared, two key factors need to be analyzed.

First, it is necessary to define the purposes of preparation of the financial reporting under the standards which are distinct from the Azerbaijan accounting standards (RAS).

For example, if a company plans to place its shares on the New York Stock Exchange, it is clear that the choice should be made in favor of US GAAP. Most companies are better off using IFRS to prepare financial statements (SEC, International Financial Reporting Standards. Round table "Road map", March 6, 2007, [www.sec.gov/spotlight/ifrsroad map / ifrsroadmap-transcript.txt](http://www.sec.gov/spotlight/ifrsroadmap/ifrsroadmap-transcript.txt)).

It should be remembered that in accordance with the draft law "On consolidated statements" since 2005, Azerbaijan organizations whose securities are admitted to circulation on stock exchanges and banks will be required to prepare their consolidated financial statements in accordance with IFRS.

Secondly, it is necessary to assess the existing differences between IFRS and US GAAP in relation to the specifics of the company's work and choose the accounting and reporting system that will allow to generate the most reliable information.



One of the significant differences in the preparation of IFRS and US GAAP reporting is related to the consideration of construction contracts. IFRS requires that a single method, the so-called percentage of facility readiness, be used to calculate revenue for the period. In RAS, there is a similar method called "Revenue by the cost of works as they become available." Revenues are determined as a part of all proceeds under the construction contract in proportion to the volume of work performed during the reporting period. US GAAP admits both the use of the "Percentage of Completed Works" method, and the definition of revenue upon completion of all works stipulated by the contract. The Azerbaijan equivalent is "Revenue by the value of the construction object". For most Azerbaijan construction companies, calculating the percentage of completed work can be a serious problem, since the accounting system does not allow doing this. Hence, in this field of activity it is easier to apply US GAAP and the method "Accounting for revenue after completion of all works provided for by the agreement".

IFRS includes the following regulatory documents (International Accounting Standards Board, International Accounting Standards Manual, London, USA, IASC Foundation, January 1, 2007. 18 Smith and Files, March 2011):

International Accounting Standards (IAS) - were adopted before July 1, 2003;

International Financial Reporting Standards (IFRS) - are accepted from July 1, 2003;

Mandatory annexes to standards (Appendixes);

Interpretations of standards adopted by the Standing Interpretations Committee of the International Financial Reporting Committee;

Guidelines for the application of standards (Applying IFRS Solutions);

National standards and industry practices in case they do not contradict the concept of IFRS.

The basic principles of accounting and reporting by US GAAP are set out in the Statements of Financial Accounting Concepts, which contain the objectives of drawing up and qualitative characteristics of the elements of financial reporting, the basic principles for assessing assets and liabilities, and the principles for their recognition.

The regulatory documents and provisions of US GAAP are structurally divided into five levels from the point of view of significance for record keeping (See Casey Reynecking, Don H. Chamberlain, Holly R. Rudolph and L. Murphy Smith "Considering the Convergence of Inventory Calculation in Accordance with Generally Accepted Accounting Principles and the Standardization of Financial Reporting," International Business Studies. "Available in SSRN: <http://ssrn.com/abstract=2112558>.):

Standards and interpretations of FASB, APB opinions, AICPA bulletins, SEC materials.

AICPA sectoral guidance on accounting and auditing, AICPA regulations, FASB technical bulletins.

Technical bulletins of Ac SEC, general opinion of EITF.

Interpretations and industry-wide instructions of the AICPA.

Clarification of problematic issues of AICPA; FASB conceptual reports; IFRS; other accounting provisions; textbooks and articles.

The most well-known and obvious difference between IFRS and US GAAP reporting is the presentation of information in the balance sheet (Cynthia Bolt-Lee and, 2009:48).

In the balance sheet prepared in accordance with IFRS, assets and liabilities are reflected either in decreasing liquidity or in decreasing maturity. In other words, the asset of the IFRS balance sheet always begins with fixed assets and intangible assets, and ends with cash in the accounts and in the cash department of the enterprise. In the beginning, capital items are first presented, then - long-term and short-term liabilities. The balance drawn up by US GAAP starts with the most liquid assets - cash - and ends with fixed assets. Then follows short-term obligations, then - long-term obligations. The balance ends with the section "Capital" (Cynthia Bolt-Lee and, 2009:48).

Another difference is associated with the presentation of comparative information. If according to IFRS the submission of comparative information for the previous period is mandatory, then according to US GAAP the submission of such information is welcomed. However, companies whose debt and equity liabilities are traded on the stock market are required to present comparative information in the balance sheet at least two previous years.

In accordance with the requirements of the US GAAP, financial implications and cash flows from extraordinary events, the recurrence of which is not expected in the future, are identified separately in the Income Statement and in the Cash Flow Statement. In IFRS from January 1, 2005, a separate presentation of the results of extraordinary events is prohibited. Extraordinary events are disclosed directly in the Balance Sheet and the Income and Expense Report and Cash Flow Statement.

Financial Accounting Standards Board (FASB) - Financial Accounting Standards Committee. Develops standards for accounting and interpretation of their application. The FASB includes: a working group of the Emerging Issues Task Force (EITF), the Financial

Accounting Foundation (FAF), and the Financial Accounting Standards Advisory Council (FASAC).

Securities & Exchange Commission (SEC) - Securities and Exchange Commission. Accounting Principles Board (APB) - The Accounting Principles Committee, which develops the basics of accounting, as well as acceptable accounting methods for solving a number of accounting problems. The Committee develops opinions and interpretations on existing standards, as well as additional provisions on record keeping. Despite the fact that it was abolished in 1973, some of its provisions remained in force.

American Institute of Certified Public Accountants (AICPA) - American Institute of Certified Public Accountants (Professional Association of Chartered Certified Public Accountants). Develops industry regulations on accounting and auditing, opinion on the accounting of certain economic transactions, organizes qualification programs, as well as scientific studies of trends and the latest methods of accounting (Best Paper Award 2008, the 31st annual meeting of the Association of Accounting).

Accounting Standards Executive Committee (AcSEC) - Executive Committee on Accounting Standards. AICPA, which develops opinions on the provisions issued by the FASB and the SEC, as well as recommendations on specific accounting problems.

An important difference in the presentation of financial information relates to the reflection of interest paid by the enterprise on loans. According to US GAAP, all interest on borrowed funds paid during the reporting period is reflected in the Cash Flow Statement and should be classified as part of the operating activities of the enterprise, regardless of the purpose of borrowing and using borrowed funds. In IFRS, interest on loans in the Statement of Cash Flows is allocated

between operating, investing and financing activities in accordance with the purpose of the borrowed funds.

In the case of making non-mandatory changes in the accounting policy (not related to the revision of existing standards) in the preparation of IFRS reporting, it is necessary to adjust the reporting of the previous period in order to ensure comparability of the data<sup>2</sup>. In the US GAAP, in most cases, the results of non-mandatory changes are reflected only in the statements of the period in which the change occurred. In accordance with US GAAP, when the accounting policy changes, the reporting of previous periods should be adjusted if (Daske, 2008:1085):

- the company transfers from the LIFO method to other methods of depreciation of inventories allowed for by standards;
- provides access to the IPO;
- the company's activities are related to the extractive industry.

There are also different approaches to reporting the results of changes in the method of depreciation of fixed assets. In accordance with IFRS, this change is considered as a revision of accounting estimates, therefore, it is necessary to apply a forward-looking approach to reflect changes. In the US GAAP, the change in accounting policy and, accordingly, the entire result of the change are reflected in the Income Statement of the period when it was decided to switch from one depreciation method to another.

In November 2004, the company decided to change the depreciation method for transport equipment from the declining balance method to the linear one. At the time of the decision, the company had a lorry on its balance sheet, put into operation in early 2002, with a useful life of five years. The initial cost of the car at the time of commissioning

was 1000 euros and has not changed since then, the estimated liquidation value is zero. The depreciation rate is 20%.

Car book value at the time of the change in accounting policy under both IFRS and in accordance with US GAAP was 640 euros [1000 - 1000 x 20% (first year) - 800 x 20% (second year)]. Depreciation charges for 2004 in accordance with IFRS will be 213 euros [640 euros (residual value at the end of 2003): 3 (remaining service life)] and 200 euros for US GAAP (1000 x 20%).

Accordingly, the residual value as of December 31, 2004 in accordance with IFRS will be 427 euros (640 - 213), and according to US GAAP - 400 euros [1000 x 20% x 2 (years)].

Completed postings will look like this (Daske, 2008:1085):

In accordance with IFRS:

Д-Т «Expenses of the current period – amortization” 213 euros

Ст "Accumulated depreciation" 213 euros

In accordance with US GAAP:

Д-Т “Expenses of the current period – depreciation” 200 euros

Accumulated depreciation of 200 euros

Д-Т “Accumulated depreciation” 40 euros

To "Undistributed profit at the beginning of the period" 40 euros

Retained earnings are defined as excessively charged depreciation [€ 640 (carrying amount at the time of the change in depreciation method) - € 200 (amortization of the reporting period) = € 400 (revised residual value)].

## **1.2. SIMILARITIES AND DIFFERENCES BETWEEN IFRS AND US GAAP**

At the beginning of the recently held conference of the International Association of Financial Managers (FEI) entitled "Unification of Global Financial Reporting Standards," I thought, "Yeah, we finally find out what this means in America for this" unification "of global financial reporting standards." Unfortunately, it did not happen. Apparently, the issue of standardization remains unclear not only for me, but also for a significant number of financial managers, reporters and analysts.

Firstly, the term "unification" may be misleading for the layman. Is there really a consolidation of accounting standards on a global scale? The International Accounting Standards Board (IASB), which includes leading international experts in accounting theory and practice, has developed a single package of accounting quality standards, the so-called International Financial Reporting Standards (IFRS). Many countries adopt IFRS as their local Generally Accepted Accounting Principles (GAAP / GAAP). The intention of the IASB is not to encourage the gradual transformation of hundreds of different standards of GAAP into a single IFRS system, as the term "global unification" implies (Daske, 2008:1085):

Second, many in America believe that "unification" means that the Financial Accounting Standards Board (FASB) is trying to align IFRS with U.S. GAAP. The Council of the SFO and the International Council of the SFO are working together to improve IFRS through several "unification programs", but this does not mean that the IFRS will gradually take the form of U.S. GAAP. Chairman of the Council of the Siberian Federal District Robert Hertz persistently supports standards

based on principles, while both Councils act as a single unit, striving for a common goal, the "single GAAP world", as Mr. Hertz called it.

Leaving empty words, how did Australia, Canada, Japan, China and the whole of Europe either have already passed or are in the process of transition to IFRS, while America is still talking about the results of the process of "unification"? Some observers, as well as the regulatory community of the United States, expressed concern that if the US directly adapts IFRS in its current form, the convergence processes initiated by the Council for the SFO and the International Council for SFO may stop, leaving the US only with the interpretation of some key issues (merger companies, conceptual framework, consolidation, earnings per share, employee benefits, fair value, income taxes, presentation of financial statements, insurance contracts, joint ventures rent, liabilities and equity, as well as income accounting) - as if the Council for the SFO suddenly lose interest in creating a single set of global financial reporting standards, or the International Council on SFO suddenly says: "Well, America, now that you have adopted IFRS, we will take matters into our own hands." The probability of either of these situations is practically zero (Christopher Nobes, 2006:235).

In defense of the US regulatory community and those who continue to emphasize unification rather than immediate implementation of IFRS as they are now, it is worth noting that perhaps this gives them an additional sense of security from their point of view: assuming that if IFRSs were created taking into account US GAAP standards (which, by the way, many still consider a more rigorous set of standards), then the interests of American investors will be better protected. Moreover, when it comes to adopting a set of financial standards that were not "made in America", they do not like it. Speaking about the practice of doing business and competition in America, Mark Olson, chairman of the



Public Companies' Oversight Committee, said: "We in the US are not internationalists."

On the other hand, it may simply reflect the desire of US regulators not to take unnecessary action in a world tired of Section 404 of the Sarbanes-Oxley Act (SOX) and AS2 / AS5 Accounting Standards, especially when the decision to adopt an extensible business reporting language is pending in 2008. The regulation of yet another stage of domestic spending for business in the US, not to mention the very likely increase in audit costs, may not be the best strategy for regulators. It also raises some issues that can not be called minor. For example, what will be the role of the IASB in the future? Should we expect the merger of the two Soviets? How will the International Accounting Standards Board (IASB) be funded? What is the role of the Securities and Exchange Commission (SEC) in terms of oversight and financing, if any, in comparison with the International Organization of Securities Commissions (IOSCO)? (Christopher Nobes, 2006:237)

The "wait-see" approach may simply reflect the need for a better understanding of the economic and political consequences of adopting IFRS before taking further action. America costly was spent on the implementation of Section 404 of the Sarbens-Oxley Act. All other countries that have adopted or are adopting any form of internal control certification are happy to reap the benefits of the experience and education that the US has transferred to the audit community. Perhaps it was America's turn to wait for the best methods - at least until there is sufficient evidence that the audit community has adopted and adopted IFRS.

Finally, the implementation of IFRS has far greater consequences than simply applying a new set of standards in financial reporting. As Bob Hertz explains, "In order to survive in a world of

standards based on principles, we need to reconsider our tactics. To do this, it is necessary to consider the entire system as a whole and make the necessary changes - institutional changes, cultural changes, changes in legislative and regulatory acts." (Ball, 2006:12)

Whatever the reason behind the emphasis placed on the "unification" process, let's put everything in its place: most experts and observers agree that the US will eventually move to IFRS, and it's only a matter of time.

In addition to various reasons for a slow and prudent transition to IFRS in America, there are also weighty reasons for adopting new standards, the sooner, the better. After all, the longer we delay the use of IFRS by US companies, "the more disadvantaged the US firms are, taking into account the costs," says Tom Jones, vice president of the International Council for SFI (IASB). It is assumed that international investors will gradually lean towards firms whose financial statements are comparable to international standards, which reduces the cost of capital. Secondly, attracting international capital can in any case require US firms to report under IFRS, that is, maintaining two types of financial statements, instead of one for firms initially operating under IFRS.

What will be the consequences of determining the date of implementation - for example, 2011, as in Canada? First of all, it sets a specific goal, without which most American companies (especially in the category of small and medium-sized businesses) are unlikely to go to such expenses. Secondly, four years is a sufficient period, but, as it was discovered in Canada, in order to be ready by 2011, the transition process must begin now, and this is more difficult than it seems at first glance. Here is an approximate schedule for the adoption of IFRS by 2011, compiled by the Canadian Council for SFO (AcSB) (Paullall and Schipper, 2004: 270).

January 2006 - The Board announces its intention to adopt IFRS in Canada

2007 - The Council assesses the readiness of Canadian companies

March 2008 - Final approval of 2011 as the adopted date for the adoption of IFRSs after the readiness assessment

2008-2011 - Implementation of new Canadian GAAP standards in accordance with IFRS

2008 - Companies are required to familiarize shareholders with the plan for the transition to the new SFO system

2009 - Companies are required to disclose the effect of IFRS in the 2009 financial statements

January 2010 - IFRS standards should be put into action in practice (should be able to compare with the results of the financial statements of the previous year).

January 1, 2011 - Expected date of implementation of IFRS

In addition to understanding the main differences between the Canadian GAAP and IFRS standards, companies are considering the strategic and operational implications of unification, for example, how it will affect existing leases, tax issues, executive compensation, debt obligations, profit sharing programs and employee incentives, impact on critical risk factors, the role of external and internal auditors, the impact on certification and testing of internal control, changes in production, the impact on information management systems, legal relations and investor relations, asset management and hedging strategy, impact on the board of directors / audit committee, workforce and training requirements, not only in the financial environment, but also across the country. Alister Cowan, head of the financial service of BC Hydro, said: "Looking at the changes, it becomes clear that this is one of the most important financial

market revolutions we have seen. Most of all I'm not allowed to sleep at night thoughts about our information system and how to make it compatible with IFRS." (Reese and Michael, 2002: 70)

At the end of the conference, I leaned over to my fellow delegate and asked: "What do you think is really about standardizing the financial reporting standards in America?" He replied: "The evolution of IFRS and U.S. GAAP, during which they become virtually identical. " Fortunately, this confirmed my suspicion that I'm not the only one who is bewildered by the talk about the "unification" of the SFO in America. Please, let's make it clear. IFRS will be adopted in the US - the question is only when it happens - and they will be very different from U.S. GAAP. IFRS standards are based on principles, not rules, and most of the world has already recognized that IFRSs created by the International Council for SFO are high quality standards. As Richard Ketchum, president of the NYSE Regulation, Inc., said in his opening remarks: "Let's get down to business.

### **1.3. THE DIFFERENCE BETWEEN CONVERGENCE AND HARMONIZATION**

M. De Groot was one of the first models for reaching a consensus. In he considered the problem of matching subjective estimates of an unknown parameter. These assessments are compared to the members of the group acting as a single team. In the basis of the agreement of opinions, i.e. obtaining a single assessment for the whole group, there are iterations that consistently bring together the opinions of agents. If  $s(0) = (s_{10}, \dots, s_{N0})^T$  is the vector of initial opinions of the members of the group, and  $s(1) = (s_{11}, \dots, s_{N1})^T$  is the vector of opinions in the next step, then  $s(1) = P s(0)$ , where  $P$  is a stochastic matrix whose element

$p_{ij}$  determines the degree of influence of the  $j$ th agent's opinion on the  $i$ -th opinion. At the  $k$ -th step we obtain the vector of opinions  $s(k) = P^k s(0)$ . Consent is attainable if for some  $s^* \in \mathbb{R}^N$  for all  $i$   $\lim_{k \rightarrow \infty} s_i(k) = s_i^*$  holds. Consent is attainable for any initial opinions if and only if the limit matrix  $\lim_{k \rightarrow \infty} P^k$  exists, and all its rows coincide, in other words, if the matrix  $P$  is regular. Thus, in the De Groot model, the achievement of consensus is determined by the convergence of the degrees of the stochastic matrix of influences (Blanco and Beatrice, 2004: 30).

Some sufficient conditions for the convergence of the powers of  $P$  are given in: one of them is the presence of a positive column in the matrix  $P^k$  for some  $k$ , i.e. belonging to the class  $P$  of Markov matrices (Theorem 1 in [23]); other the mutual attainability of all states of the Markov chain corresponding to the matrix  $P$ , and its aperiodicity (in this case,  $P$  is primitive) is Theorem 2 in.

A probability vector  $\pi$  is said to be stationary for a stochastic matrix  $P$  if  $\pi^T P = \pi^T$  holds. The stationary vector is the left eigenvector  $P$  corresponding to the eigenvalue 1.

As noted in, agreement is reached if and only if there exists a vector  $\pi = (\pi_1, \dots, \pi_N)^T$  such that  $\lim_{k \rightarrow \infty} p_{ij}(k) = \pi_j$  for all  $i, j$ . The general opinion in this case is determined by the formula  $\sum_{i=1}^N \pi_i s_i(0)$ .

If (see Theorem 3 in) the agreement is attainable for any initial opinions, and the consensus view is  $\sum_{i=1}^N \pi_i s_i(0)$ , then the vector  $\pi$  is the only stationary vector for  $P$ .

If the agreement is attainable and the state  $i$  in the Markov chain determined by  $P$  is irrecoverable, then, as shown in,  $\pi_i = 0$  and the opinion of the  $i$ -th agent does not influence the consensus opinion. For example, if the matrix  $P$  has the form  $\begin{pmatrix} 1 & 0 & 0 \\ 0 & 1 & 0 \\ 0 & 0 & 0 \end{pmatrix}$  then  $\pi^T = (1, 0, 0)$  and the

consensus is defined by the formula  $13s + 10 + 23s20$ . Since the state corresponding to the third agent is irrecoverable, in determining the consensus, its opinion is not taken into account.

De Groot's model was generalized in the work of Chatterjee and Seneta, where the communication matrix changes at each step, and the iterative process is given by the product of matrices:

$$(k) = P_k P_{k-1} \cdots P_1(0).$$

The solution of the problem of matching opinions in this formulation reduces to investigating the convergence of inhomogeneous Markov chains. The basic results in this area are due to J. Hajnal. Thus, Theorem 2 of [1] is analogous to Theorem 3 below, obtained in [2]. Before proceeding to the results of [2], we present an earlier theorem. Consider an inhomogeneous Markov chain characterized by a sequence of stochastic matrices  $P_1, P_2, \dots$ , and introduce the notation

$$H_k = \prod_{i=1}^k P_i, \quad k = 1, 2, \dots$$

Note that the order of multiplication of the matrices  $P_i$  in (2) differs from the order of multiplication in (1). We also note that the trivial case  $P_i = 1v^T$ , where  $v^T$  is a probability vector, is not of interest for both inhomogeneous Markov chains and the problems of reaching agreement. In this case, for any stochastic matrix  $S$ ,  $SP_i = S$  is true, and the product  $P_i S$  is also a matrix with the same rows. Thus, in the model, if at least one factor has the same rows, then the agreement has already been reached, and the matrix-factors to the left of the matrix with the same rows do not play any role.

Let  $\mathcal{K}_1$  be the set of all primitive matrices. In it is noted that this set is not closed with respect to multiplication. In  $\mathcal{K}_1$  we select a subset  $\mathcal{K}_2$  as follows:  $P \in \mathcal{K}_2$  if and only if the product of  $P$  by any matrix of

$\mathcal{K}1$  is a primitive matrix. It is easy to see that if all elements of the main diagonal are positive for a primitive matrix, then it belongs to the class  $\mathcal{K}2$ . The class  $\mathcal{M}$  also belongs to  $\mathcal{K}2$ .

In this review, the main attention was paid to two areas in the literature on the decentralized management of multi-agent systems. First of all, this is the work where the analysis of discrete models of the consistency of characteristics is based on the classical results of the theory of Markov chains and stochastic matrices, and, secondly, work on controlling the joint motion of objects in Euclidean space with alignment (maintenance) of a given configuration. In no way claiming for completeness (as already noted in the introduction, in the mid-2000s, the flow of work on graph-theoretic models of decentralized management became avalanche-like in nature, and a whole series of "sub-streams" can be singled out in it), in conclusion we mention some other significant research (Reese and Michael, 2002: 71).

In the early 2000s, the problem of decentralized control of a group of moving objects with the structure of information links given by the graph was studied in. In, the problem of achieving agreement was studied for a fixed and changing (through switching) communications topology. The negotiation protocols without time delay and with a time delay are considered, and for both cases convergence conditions are obtained. Special attention is paid to the case when the communications digest is balanced. We note that in this paper the authors "rediscover" some results on the algebraic theory of oriented graphs obtained in and known to them by correspondence with the authors of this review.

Investigating the algebraic connection in the networks of the "small world" (small-world networks) R. Olfati-Saber considers ways of significantly increasing this indicator, which, in turn, significantly speeds up the process of reaching consensus.

In the paper, the relationship between the network connectivity and its stability in relation to faults of nodes and links is also studied. We also mention the paper, which provides an overview of research on the problems of achieving agreement and cooperation in networked multi-agent systems.

Another review, devoted to information consent in multi agent cooperative management, deals with the convergence of the procedures for matching characteristics with a fixed and changing structure of relationships, as well as asynchronous procedures with a time delay in the exchange of data. The last section of this work is devoted to the synthesis of matching algorithms. The problem of consensus for discrete and continuous models with a changing bond structure was also investigated in. The results of this work overlap with the results of, which were partially discussed above. In particular, we are talking about a theorem that, in order to reach agreement in a system with a changing bond structure, it is sufficient that in certain time intervals the association of communication graphs contain a spanning tree on the set of all vertices corresponding to agents.

A recent paper proposed a computational algorithm for matching trajectories under constraints imposed on control. This algorithm ensures alignment of trajectories in the event that the leaders of the group and the structure of the links change. The algorithm was used to match the trajectories of the robots. The work is also devoted to the implementation of protocols for coordinating trajectories of agents. Finally, note the monograph, which summarizes the results of the work on decentralized management conducted before 2008 by an active group of researchers from the State University of Utah in the United States.

Among the Azerbaijan-language works on various aspects of the management of group movement, we mention here. Of course, domestic



research on this subject, almost unknown in the West, requires separate consideration and presentation in the leading international publications. Otherwise, Western authors will not be unaware of their existence, how to gradually rediscover all the results obtained in them.

**CHAPTER II:**  
**ANALYSIS OF EXISTING SYSTEMS OF**  
**FINANCIAL REPORTING STANDARDS**  
**2.1 THE CURRENT SYSTEM OF FINANCIAL**  
**REPORTING STANDARDS IN THE WORLD**

Nevertheless, today's accounting system in Russia has its own specifics, which is related to its origin from accounting in a planned economy. Some features of this system objectively reduce its value for participants in economic turnover and hamper the normal development of the economy. Naturally, borrowing should not be blind, but should take into account the specifics of the Azerbaijan business environment.

The need for reporting under IFRS is due to objective reasons. This will compete in competition for foreign investment, as well as improve the quality of reporting for domestic users as a result of its transparency and comparability.

The transition of our country to a market economy leads to a significant expansion of the role of accounting and reporting, the preparation of information in international standards. International accounting experience is of practical importance in attracting investment in the Azerbaijan economy and is of great methodological importance for improving financial accounting in Russia in accordance with international standards.

The concept of the development of accounting and reporting in the Azerbaijan Federation for the medium term, developed by the decision of the Government of the Azerbaijan Federation, is aimed at improving the quality of information generated in accounting and reporting and ensuring guaranteed access to it for interested users.

The beginning of the third millennium for Azerbaijan accounting is connected with the continuation of the important work on its translation into international norms. The program of accounting reform in accordance with International Financial Reporting Standards (IFRS) was adopted by Government Decree No. 283 of March 6, 1998. The goal of the accounting system reform is to bring the national system in line with the requirements of the market economy and international financial reporting standards.

In this regard, it is expected to develop about 20 new national standards in the form of regulations on accounting with the simultaneous preparation of guidelines for each of them.

Currently, standards are being developed in three groups:

accounting standards;

standards related to property and liabilities;

standards related to financial results.

When preparing the standards of the first group, the main focus is on consolidated reporting standards in connection with the emerging problems of mergers, companies; consolidated reporting of different levels of management, as well as reporting by segments of activity, i.e. industries, sub-sectors, activities in accordance with the recommendations of international standards.

When developing the standards of the second group, issues of accounting for trust management of property, leasing of fixed assets, financial investments, intangible assets and a number of others are highlighted.

According to the third group of standards, new approaches to calculating the income and expenses of the organization, selling products, etc., have been determined for our practice.

Obviously, these issues are closely related to the new requirements for tax accounting contained in the Tax Code, which for the first time set the provisions for deferred taxes and payments to the budget.

The methodological basis for developing a series of new and improving previously created provisions on accounting (standards) is the Concept of Accounting in the Market Economy of Russia, approved by the Methodological Accounting Council under the Ministry of Finance of the Azerbaijan Federation and the Presidential Council of the Institute of Professional Accountants. It defines the basis for building an accounting system in the new economic environment, that is, it proposes an orientation toward a model of a market economy using the experience of countries with developed market economy and internationally recognized principles of accounting and reporting.

Based on the methodology for generating information for internal external users, the Concept clearly defines the purposes of accounting, confirms adherence to the fundamental principles of world accounting practice - in particular, the principles of quantitative reflection (measurement); autonomy of the organization; continuity of the operating enterprise; the principle of the reporting period; charges; caution in evaluation (conservatism); constancy of existence.

A new approach to creating accounting information for use in the tax system is new. The task of accounting is the preparation of data on the activities of the organization, where you can get the necessary indicators for taxation.

The clarity of the conceptual apparatus used plays a fundamental role in the development of national financial reporting standards. - A new approach, for example, to determine the assets, capital and debts of an organization arising from existing international standards. The same

approach should be taken in recognition of the definition and financial results of the institution's incomes and expenditures adopted in world practice.

In this context, it seems that special attention should be paid to internationally recognized financial reporting standards in order to deeply understand the processes of restructuring the national accounting system in Russia.

The collapse of 1929 on world stock exchanges, which led to a long-term economic crisis in industrialized countries and regions, revealed the inadequacy of the accounting and financial reporting system used. The conceptual principles of compiling financial statements of different companies in different countries, even in one country, differ significantly from each other. Users do not always correctly understand the reporting of different companies. This turned out to be inappropriate, irrelevant, for a serious analysis of the business, and led to incorrect and ambiguous results about the efficiency and financial position of the companies reported by the company.

By the early 30's. In the United States of America, he began to develop generally accepted accounting and reporting standards that are voluntarily applied by large companies represented on exchanges. Based on this, over time, the US GAAP system has come out and has risen to this day.

In Europe, companies followed the mandatory implementation of national accounting schemes in accordance with the model of the well-known Austrian accountant E. Schmallenbach. After the Second World War, these diagrams yielded a national accounting system taking into account the gross domestic product and other indicators of national economic statistics.

Nationally recognized accounting standards (GAAP) in the United States are common in Canada, the United Kingdom, Mexico, and Italy. Each of these countries has its own characteristics of GAAP, but everywhere there is a certain approach to unity and stability. accounting and preparation of financial statements; comparability with reports of other national companies; increase reliability and reliability of reporting; Increased confidence from different users. The European Commission has established the Fourth and Seventh Directives, which combine the financial reports of the countries of the European Union (Blanco and Beatrice, 2004: 30).

National GAAP is gradually but surely and inevitably replaced by International Financial Reporting Standards. Although IFRS absorbed many of the "generally accepted accounting principles", they went further than the latter in developing standard rules for the reflection in the financial statements of new phenomena in the economy and finance.

The last decades of the twentieth and early twenty-first centuries. noted the increased attention to the problem of international unification of accounting. The development of business, accompanied by the growing role of international integration in the economy, makes certain demands on the uniformity and transparency of the principles of formation and order of calculating profits, the taxable base, the terms of investment and capitalization of earned funds, etc., applied in different countries, etc. This is exactly what our specialists in the field of accounting in the transition of the country to a market economy and establishment of business contacts with foreign investors at the level of the body (enterprises), joint-stock companies, and so on.

The problem of non-conformity of accounting models is inherent not only in Russia. It is global in nature. In the process of compilers and

users of financial reports, the problem of unification of accounting arises around the world.

At present, the most famous is the approach to its solution: - convergence. It should be noted that the goal of maximum convergence (convergence) of IFRS with national accounting systems is different from the previously stated goal of harmonizing financial reporting standards around the world. Harmonization was a more vague, purely theoretical concept, ideally assuming that, ultimately, countries would switch to the use of IFRS as a national accounting system. Convergence does not imply a direct transition to IFRS, confining itself to more practical aspects of convergence of IFRS with national standards involving the involvement of professionals from different countries of the world in the process of developing and improving IFRS, and thus achieving unified approaches to addressing accounting and reporting issues at national levels (OleKristian, Jin and Kang, 2006:5).

The idea of standardization of accounting procedures is realized within the framework of unification of accounting conducted by the International Accounting Standards Board (IASB), developing and publishing international financial reporting standards (IFRS). The essence of this approach is the development of a unified set of standards applied in any situation in any country, so there is no need to create national standards.

Currently, several accounting systems are known, in particular, Anglo-American, European and a number of others. However, according to experts, the standards developed by the IASB will be used by most countries of the world in the near future.

The growth in the popularity of international standards was due to two events. The first event was the signing of an agreement between the IASB and the International Organization of Securities Commissions

(IOSCO), which reflected the desire of the financial community and the US Congress to attract more foreign companies to quote their shares on US exchanges.

The second event that accelerated the transition to IFRS, occurred at the unification of Germany. This fact largely predetermined the need to attract capital to the country. In this regard, the financial statements of companies should have more focus on the external user, for example, on stock exchanges or international investors. That is why companies that were listed on stock exchanges and compiled consolidated financial statements were forced to adopt IFRS.

## **2.2 THE CHOICE OF THE MAIN SYSTEM BETWEEN THE TWO MAIN COMPETITORS: US GAAP AND IFRS**

International Financial Reporting Standards (IFRS) are generally accepted rules for the recognition, valuation and disclosure of financial and business transactions for the preparation of financial statements by firms all over the world. This allows you to compare reports between firms, companies, enterprises around the world, to receive information for external users.

Each standard contains requirements for the object of accounting, the recognition of the accounting object, the valuation of the accounting object and the disclosure of information about the accounting object in various forms of financial reporting.

Currently, there are several forms of use by countries of International Financial Reporting Standards (Pickell, 2009):

the application of IFRS as national standards (Cyprus, Kuwait, Latvia, Malta, Pakistan, Trinidad and Tobago, Croatia);



use of IFRS as national standards, but on the condition that national (Malaysia and Papua New Guinea) are developed for issues not affected by international standards;

use of IFRS as national standards; however, in some cases, they can be modified according to national circumstances (Albania, Bangladesh, Barbados, Colombia, Poland, Sudan, Thailand, Uruguay, Zambia, Zimbabwe);

national standards are based on IFRS and provide additional explanations (China, Iran, Slovenia, Tunisia, the Philippines);

national standards are based on IFRS, but some standards may be more detailed than IFRS (Brazil, India, Ireland, Lithuania, Mauritania, Mexico, Namibia, Netherlands, Norway, Portugal, Singapore, Slovakia, Turkey, France, Switzerland, South Africa) ;

national standards are based on IFRS, except that each national standard includes a provision that compares the national standard with IFRS (Australia, Denmark, Italy, New Zealand, Sweden).

The EU countries, whose enterprises issue shares listed on the stock market, have switched to IFRS since January 1, 2005.

Currently, international standards are used mainly by large Azerbaijan companies, oil and gas enterprises and banks. As of the end of 2004, there are about 400 such enterprises (this is mainly JSC). Banks of Russia reported for 9 months of 2004 in accordance with IFRS. In 2010, all Azerbaijan enterprises, including medium and small businesses, will switch to the use of IFRS.

However, the complete replacement of Azerbaijan accounting and reporting rules in IFRS is a dead end development, as it is based on ignoring the accounting system of a particular economic situation, the application nature of this system (The new SEC chairman doubts the IASB).

In Russia, one of the most rational ways of applying IFRS - their adaptation - has been selected. It involves the gradual improvement of Azerbaijan accounting and reporting rules aimed at the formation of high-quality financial information in accordance with the requirements of international standards. This method of implementing IFRS is consistent with the approach of most European countries, therefore, it approximates economic integration, the convergence of accounting and reporting systems. It is especially important that, as a result of the adaptation, the comparability of the financial statements of Azerbaijan and foreign companies is achieved.

Consider the positive and negative features of IFRS (White, 2007).

Their objective advantages over national standards in individual countries are:

clear economic logic;

generalization of the best modern world practice in the field of accounting;

ease of perception for users of financial information around the world.

At the same time, international standards allow not only reducing the costs of companies preparing their financial statements, especially in the context of consolidating the financial statements of enterprises operating in different countries, but also reducing the cost of attracting capital.

The combination of these advantages largely ensures the desire of different countries to use IFRS in national accounting practices.

However, it should be noted and the shortcomings of IFRS. Among them, in particular, are:

the generalized character of the standards, which provides for a sufficiently wide variety of accounting methods;

lack of detailed interpretations and examples of application of standards to specific situations.

In addition, the introduction of standards around the world is hampered by such factors as national differences in the level of development and traditions, as well as the reluctance of national institutions to give up their priority in regulation and accounting methodology.

The International Accounting Standards Committee takes into account these negative factors and is actively working to eliminate them.

Although the IASB does not depend on other organizations, however, since 1983 it has developed business relations with the International Federation of Accountants. These two organizations are working together, but in different areas. At the same time, the IASB includes all professional accounting organizations that are members of the IFAC. The Federation does not issue accounting standards. However, its role in the standardization process is very significant, because, firstly, the IFAC holds congresses of accountants and, secondly, makes substantial contributions to the revenue part of the budget of the Committee on International Standards (Bannister and Scanlon, 2008:12).

In 1987, cooperation between the IASB and the International Organization of Securities Commissions (IOSCO) began. At the next IOSCO conference it was decided to promote the expansion of the practice of using international standards in accounting and auditing. As a result, in 1993, an agreement was signed between the IASB and the IOSCO, according to which companies wishing to receive quotation on the stock exchange should prepare reports in accordance with international accounting standards.

In addition to the IASB, the Intergovernmental Working Group of Experts on International Standards in Accounting and Reporting at the United Nations and the Working Party on Accounting Standards of the Organization for Economic Cooperation and Development are also currently standardizing accounting. However, it is generally recognized that the leading role in this process belongs to the IASB.

Consequently, the International Accounting Standards Board is an independent organization whose main goal is to achieve uniformity of accounting principles used by enterprises and organizations around the world for financial reporting.

The IASB headquarters is located in London. Until 2000, the Committee had 153 member organizations and 112 countries.

At present, membership in the IASB has been canceled, 14 members of the IASB Board represent Australia and New Zealand, Great Britain, Germany, Canada, USA, France, South America, Japan. Russia is represented on the Advisory Board of Standards under the IASB along with 28 other countries and five international organizations - the World Bank, the International Monetary Fund, etc. After the IASB was reorganized in 2001, the new Board renamed standards from the International Accounting Standards International Financial Reporting Standards.

The work of the IASB is financed by professional accounting organizations, transnational companies, financial institutions and other organizations. The IASB also benefits from the sale of its own developments and publications.

The functions of the Committee include:

it is in the interest of the public to formulate and publish accounting standards for use in the financial reporting process, and to ensure their acceptance and implementation around the world;

to carry out general work to improve and unify the rules, accounting standards and procedures related to the preparation of financial statements.

The organizational structure of the IASB is characterized by the presence of five functional levels (Smith, Sagafi-Nejad and Wang:2008):

- Board of the committee;
- Board of guardians;
- Advisory Group;
- Interpretation Commission;
- Staff of the Committee.

The Board controls the activities of the IASB and representatives of accounting organizations from 13 countries appointed by the IFAC Council and no more than four other organizations involved in the preparation of financial statements.

The role of the Board of Trustees is to promote the adoption of international accounting standards and the strengthening of the authority of the Committee.

In 1981, the Board of the IASB set up an international Advisory Group that includes representatives of international organizations of developers and users of financial statements, as well as organizations regulating exchange activities and securities circulation.

The IASB meets twice a year with the Advisory Group to discuss the Committee's projects, its work program and long-term development prospects. Thus, the Advisory Group plays an important role in the process of developing and adopting international accounting standards.

In order to achieve the highest degree of acceptability of the International Financial Reporting Standards in terms of their use at the company level, an Interpretation Commission was established in 1996. It includes experts who are representatives of the organizations that make

up the Advisory Group. They participate in the discussion and adoption of international accounting standards. The work of the Interpretation Commission is one of the highest priorities in the development of the IASB,

The traditional process of developing international accounting standards includes six stages (Zabiholla, 2010:20):

I stage - the formation of the Editorial Commission. It usually includes representatives of the accounting profession from at least three different countries. It is headed by an authorized representative of the Board.

II stage - development of the draft international standard. The Editorial Board reviews the emerging issues of preparing and submitting financial statements, and discusses the IASB's work plan on these issues. In addition, the Drafting Commission studies the requirements for accounting and accounting practices at the national and regional level, including various accounting systems in different economic conditions. As a result of discussion of these issues, the Editorial Commission submits for consideration by the Board the "General plan for the development of a draft international standard for financial reporting".

Stage III - preparation of a working draft of the provisions of the standard. The Drafting Commission prepares a "Working Draft Provisions" whose purpose is to establish those principles that will be used in preparing the "Draft International Financial Reporting Standard". All interested parties can make their suggestions and comments at the drafting stage, which usually lasts four months.

IV stage - approval by the Board of the working draft of the provisions of the standard. The editorial committee reviews the list of comments on the "Working Draft Provisions" and agrees its final version, after which the document is submitted for approval by the Board

and is used as the basis for preparing the "Draft International Financial Reporting Standard".

V stage - drawing up a plan for the development of an international standard. The drafting committee develops a plan for the "Draft International Financial Reporting Standard", which is subsequently reviewed and, if adopted, is published, all interested parties can submit their proposals and comments at the drafting stage, which usually lasts from one month to six months.

Stage VI - preparation of the draft international standard. The Editorial Commission reviews all proposals and comments and prepares the "Draft International Financial Reporting Standard" for consideration by the Board. After the approval of the project, which requires at least the votes of the members of the Board, a new standard of accounting is published.

As for the forward-looking developments of the IASB, they are primarily related to the implementation of an agreement with the IOSCO to create a unified set of standards. In accordance with this agreement, in 1999 a basic set of standards was issued. It is assumed that these standards will be used in place of national ones in the preparation of financial statements in the event that the company wants to be listed on any stock exchange. This document is a key element of the IASB's business strategy.

Thus, it can be said that the role of the IASB in international business is constantly growing. This is manifested in various aspects. Firstly, the number of members of the Committee is constantly increasing. Secondly, the standards have very solid business support, since the largest transnational corporations already now compose reports in accordance with international standards. Thirdly, other international professional organizations are directly or indirectly involved in the work

of the Committee. Fourthly, the attitude towards the standardization of accounting has changed, and, consequently, the work of the IASB. And not only from the national professional institutions, but also from the governmental bodies of economically developed countries, which, under the conditions of integration, began to make decisions about the appropriateness of using international standards.

## **2.3 OBSTACLES AND PROGRESS IN CONVERGENCE OF INTERNATIONAL ACCOUNTING STANDARDS**

The globalization of capital goods markets over the past two decades of the past century has significantly increased the requirements for the quality of public financial reporting. It became obvious that all market participants need to have transparent (more open) information about the financial position and performance of each participant acting on the market. Transparent information creates conditions for predicting the relations that arise in the market; allows to consciously act with a lower cost to resolve crisis situations typical for any market; in the early stages of anticipating such situations.

Market participants are interested in receiving full and open (frank) information about each other's actions. Market relations give rise to interested accountability of borrowers to lenders, issuers to investors, banks to depositors, directors and management companies to shareholders. Based on transparent financial statements, one can see the effectiveness of decisions and the responsibility of decision-makers. Decision-makers are prone to confidentiality, which makes it possible to hide information about incompetent erroneous decisions, to evade responsibility. Understanding the need for uninterrupted, conflict-free



operation of market mechanisms conducive to normal profitability of market transactions forces market participants to take care of the transparency of their public reporting. But the contradiction between transparency and confidentiality really exists. Its overcoming, even if only partially, occurs on the basis of awareness of the benefits of transparent reporting for all, including for its drafters.

Transparent reporting will be useful to market participants and the general public provided that it is understandable or can be understood by all interested users. An indispensable condition for transparency of reporting is its compilation according to a single well-thought-out rules that are known to all (Smith, Sagafi-Nejad and Wang:2008).

The International Accounting Standards Board is guided by the general principles of preparation and preparation of IFRSs, which set forth the goals sought by the Committee in developing and approving IFRS. The principles of preparation and preparation of financial statements (hereinafter - the Principles) are formulated as a separate document that precedes the set of IFRS. This document is not a standard, does not replace standards, does not contain requirements and recommendations that are mandatory for use in accounting when preparing and compiling financial (accounting) statements. The authors of the document specifically emphasize that if certain provisions of individual standards (IFRS) contradict the Principles, then the provisions of the approved standard apply. The Committee on International Financial Reporting Standards believes that when developing and clarifying new versions of IFRS, their divergence from the Principles will decrease and will gradually come to naught.

The principles reveal the general approaches of the IASB to the content of international standards, help compilers and users of financial

statements, and auditors correctly interpret certain IFRS provisions and reflect transactions that have not yet been standardized.

The Principles outline the main objectives of financial (accounting) reporting and the general concepts underlying their compilation and presentation (Reese and Michael, 2002: 70).

The purpose of the financial (accounting) reporting is to provide the necessary useful information to all potential users interested in obtaining information about the financial position of the enterprise and its changes, the results of economic activity, management effectiveness and the responsibility of managers for the assigned business. The document on the Principles sets forth the various information needs of users of accounting information: potential investors; shareholders; employees of the enterprise and the public; lenders, suppliers and customers; government bodies - tax, statistical, regulatory, etc.

The principle of continuity of activity assumes that the enterprise operates and will continue to operate in the foreseeable future (at least within a year). It follows that the enterprise has neither the intention nor the need to liquidate or reduce the scale of its activities. Therefore, the assets of the enterprise are recorded at their historical cost, excluding liquidation costs. If there is such an intention or need, the financial statements should state this fact in the following order (Blanco and Beatrice, 2004: 35):

- to reflect the valuation of property at liquidation value;
- to write off assets that can not be received in full;
- to accrue obligations in connection with the interruption of contracts and economic sanctions.

The principle of accrual is based on the fact that the income and expenses of the enterprise are reflected as they arise, and not as the

actual receipt or payment of cash or cash equivalents. Thus, this principle assumes:

recognition of the result of the operation as it is committed;

the reflection of transactions in the statements of the period in which they were implemented;

formation of information about liabilities to payment and obligations to be received, and not only about actually generated and received payments.

The implementation of the accrual principle ensures recognition of revenues and expenses as economic benefits and resource consumption arise. Financial reports prepared on the basis of this principle inform users not only about past transactions, including payment and receipt of cash, but also about future obligations to pay cash and future cash flows. The principle of accrual makes it possible to predict the impact of transactions on the financial position.

There are also qualitative criteria for information contained in financial statements that are designed to make information useful to users: - transparency, relevance, reliability and comparability.

Transparency (clarity) is the main quality of information, since it assumes its rapid perception by users.

Relevance. Information should be meaningful for decision-making by users. The importance of information is determined by its materiality, timeliness and rationality. Information is considered essential if its absence or distorted representation can affect the economic decisions of users. Information is timely if it does not facilitate delay in making adequate economic decisions. Rational information can be called when the benefits from its receipt exceed the cost of its provision.

Reliability. Information is reliable if it does not have significant errors and is objective. Reliable information must meet the following requirements:

full view - information should fully reflect the facts of economic activity;

the predominance of the essence over the form - information should take into account not so much the legal side of transactions and other facts of economic activity as their economic essence;

neutrality - the information should be neutral in order to ensure its reliability, that is, the information in the reports should not be fabricated, but should reflect only those facts that actually occurred;

cautiousness is observance of a sufficient measure of caution in the assessment of assets and liabilities in the decision-making process.

Comparability. The information contained in the financial statements of the organization should be comparable in time and comparable with the information of other enterprises to identify trends in financial position and performance. Therefore, the measurement and reflection of all business transactions should be carried out consistently, in accordance with the chosen accounting policy.

# **CHAPTER III: 3. METHODOLOGY AND RESULTS OF THE PRACTICE OF APPLYING INTERNATIONAL FINANCIAL STANDARDS REPORTING**

## **3.1 METHODOLOGY**

Characteristics of the main indicators of financial and economic activity of the FSUE "Altai Experimental Agriculture" of the SB RAS

Altai Experimental Agriculture of the Siberian Branch of the Russian Academy of Sciences (AESC SB RAS) was established in 1980 as a research and production base for the creation of collections of gene pools of domestic and wild animal species.

The AES of the SB RAS takes part in the regional level exhibitions, taking prizes, as well as at agricultural fairs, selling maral meat, beef, lamb.

FSUE NPP of the SB RAS is a participant of the Federal Register "All-Russian Book of Honor" since 2008. The farm was entered in the National Register "Leading agroindustrial and agricultural organizations of Russia".

Address: 649219, Altai Republic, with Cherga, Sviridov St., d 16.

Main activities:

- preservation of the gene pool of small and endangered animal breeds: European bison, gray Ukrainian cattle, Yakut horse;

- is a pedigree reproducer for breeding cattle of the dairy direction of the Simmental breed and the meat direction of the Galloway breed;

- production of milk, meat, wool, maral antlers;

- sale of livestock products and the results of its processing;
- Development of the base of own fodder production.

The total area of the territory of the farm is 68 thousand hectares, including 37 thousand hectares covered with forest, arable (including under perennial grasses) - 4,2 thousand hectares, pastures - 21,5 thousand hectares.

There are up to 3,000 animals in cattle, including 1,000 Galloways, 1900 Simmental and 100 heads of gray Ukrainian breed. The horses have 230 heads, 65 of them are Yakut breeds. Sheep 1000 heads of mountain-Altaic breed group. 850 marals, of which 450 horns, from which they receive pant products.

The Siberian Branch of the Siberian Branch of the Russian Academy of Sciences implements pedigree cattle in peasant and farming enterprises of the Altai Republic, as well as in other regions of the Russian Federation: Kemerovo, Novosibirsk, Moscow Regions, Altai, Krasnoyarsk, Perm Krai, Tyva, Khakassia, Yakutia.

The total volume of sales of agricultural products is about 50 million rubles a year.

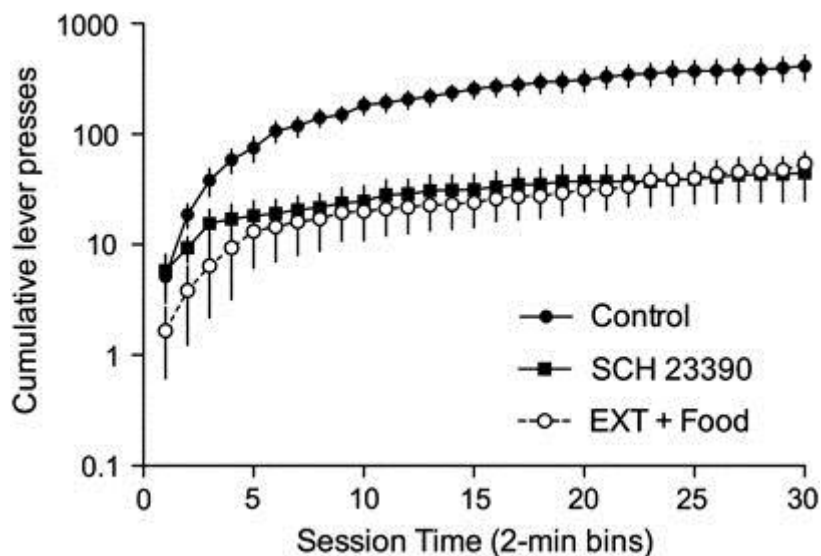
Accounting is maintained using a working Chart of Accounts, developed on the basis of a standard chart of accounts approved by the order of the Ministry of Finance of the Russian Federation of October 31, 2000 No. 94n.

The AES of the SB RAS applies an automated accounting system using the "1C-Accounting 8.2" program. For reporting to the tax inspection, the Pension Fund, the Social Insurance Fund, a special program "Sbis ++ Electronic Reporting" is installed and applied.

The main indicators of financial and economic activity of the NPP of the SB RAS are presented in Table 3. The data sources are the balance sheet, statements on financial results (appendices 3 and 4),

reports on the number and wages form No. 5 - agribusiness in 2011 - 2013.

Table 1. The main indicators of financial and economic activities of the NPP of the SB RAS for 2011 -2013.



for the analyzed period, proceeds from the sale of products of the NPP of the SB RAS in 2013 compared to 2012 increased by 2816 thousand rubles. or 5.65%, which was due to the discovery of new markets in the territory of the Altai Republic. The cost of production also tended to increase, but at a lower rate, which was associated with an increase in profit and profitability of the organization. In 2012 gross profit decreased by 12% and amounted to 16261 thousand rubles. In 2013, this indicator increased by 9%.

The total number of employees in the company in 2011-2013. constant and is 51 people.

At the same time, the payroll of the enterprise's employees in 2012 increased by 11.5%, in 2013 the increase was 4.5%, at the end of the reporting period, the payroll accounted for 11383 thousand rubles.

As a result of the fact that the number of personnel for the study period was constant, the average monthly wage for years had the same growth trend as the wage bill. In 2013, the average monthly salary was

18599 rubles. Against the backdrop of an increase in wages and a payroll for workers of the enterprise, there is a decrease in the labor productivity of one employee, which indicates a surplus of the wage fund and inefficient use of labor resources. Labor productivity in 2012 decreased by 3% and amounted to 977.65 rubles. In 2013, it decreased by 4% and amounted to 938.53 rubles.

The average annual cost of fixed assets of the company increased by 1396 thousand rubles. At the same time, fixed assets are not used efficiently in the analyzed period, as evidenced by the low value of the return on assets ratio (below one). The labor force of the enterprise's employees is the highest in 2013, and the lowest in 2011. This is evidenced by the change in the ratio of the ratio of assets to equipment.

Summarizing, we can conclude that in 2011-2013. the financial position of the enterprise can be considered stable. Significant impact on the financial condition of the organization is provided by fixed assets, accounting which is an important task of accounting, which we will consider in the next paragraph.

## **3.2. RESULTS**

International standards have emerged as a result of the consensus of national accounting systems based on the market system of management. They retain the possibility of their deepening and concretization in accordance with the Russian tradition of accounting regulation.

The regulation of accounting in Russia historically differs from the approaches adopted in the countries of a market economy, but at present the regulatory framework for accounting is undergoing significant changes that are aimed at using the principles that form the basis of the international accounting system. The result of changes over



time should be the language of accounting, which is equally understandable to both international and Russian users of financial reporting.

The international experience of accounting has a purely applied importance: the development of foreign economic relations and the attraction of investments dictate the need to provide potential partners with reliable financial information that allows them to make informed decisions when building economic relations between Russian enterprises and organizations. Not unimportant role is played by the issue of bringing financial information (both real and predictive - business plans) to potential investors in their usual format. This means that in the near future accounting in Russia will be based on new approaches, focused on obtaining information that is useful for making decisions to investors.

Following the results of the first chapter, we can say the following. Fixed assets play a huge role in the labor process, as they in their totality form an industrial and technical base and determine the productive power of the enterprise. For proper accounting, it is important to properly assess the fixed assets. They can be estimated at the initial, residual and replacement cost. Channels for the receipt of fixed assets in the NPP of the SB RAS are: purchase for a fee, contribution to the authorized capital, production by own strength, in exchange for other property, under a gift contract.

Accounting for fixed assets in the NPP of the SB RAS is conducted on account 01 "Fixed Assets" within the framework of automated data processing using the accounting program 1: C Accounting 8.2.

During the audit, violations related to the accounting of movement and security at the NPP of the SB RAS, the following violations were identified:

1). There is no order on the appointment of materially responsible persons responsible for the safety of fixed assets.

2). The contract on full financial responsibility is concluded only with the storekeeper. There are no contracts of material responsibility with workers for which fixed objects of fixed assets are fixed.

3). There is no order to appoint a permanent inventory commission

These violations are significant and they need to be corrected, by issuing appropriate orders, signing contracts.

Recommendations on the results of the study:

- approve the circle of persons responsible for the receipt and release of fixed assets for the correct and timely processing of these transactions, as well as the safety of fixed assets;

- the chief accountant to strengthen internal control over the registration of primary accounting documents for operations with fixed assets;

- make adjustments to the accounting registers in terms of reflecting the receipt of fixed assets, the cost of acquiring fixed assets must be reflected in the account 08 "Investments in non-current assets", and only then put on the account on account 1 "Fixed Assets".

### **3.2.1 PROBLEMS OF CONVERGENCE IFRS AND US GAAP**

US accounting rules (US GAAP) are the strongest competitor of IFRS. This is due to the extent to which the United States economy is developed: the US at this stage is the largest and most developed market in the world, offering the most favorable conditions for attracting capital.

The capitalization of American companies is about half the world's capitalization, while all European companies - about a quarter.

Compared to IFRS, US GAAP has both pluses and minuses. On the one hand, it is more convenient for compilers to use detailed, prescriptive US GAAP standards. On the other hand, close to excessive detail, the lack of a clear structure, a complex hierarchy of US standards make it difficult to use them. As for the quality of information generated on the basis of IFRS and US GAAP, in the opinion of the author, preference should still be given to IFRS: American standards are somewhat more likely to compromise with the reliability of reporting in favor of rationality and simplicity of accounting.

At the same time, to compromise with other accounting systems, US authorities regulating and controlling the use of US GAAP, go far less willingly. All foreign companies that are listed on US exchanges must reconcile their accounts to comply with US GAAP requirements. So far, this applies to organizations whose accounts are prepared in accordance with IFRS.

The seriousness of this problem is quite high. According to Michel Prada, it concerns about 400 European companies that are listed on European and American exchanges. The same applies to about 800 companies from 50 countries around the world who must conduct a reconciliation of their statements for listing on the NYSE or NASDAQ. The press sometimes states that large companies are forced to spend \$ 5 to \$ 10 million annually to meet these requirements. These, by and large, meaningless costs are one of the main stumbling blocks in communi

cation between European and American financial regulatory bodies. Especially considering the fact that, as indicated above, the European stock exchanges have introduced significantly less stringent requirements for American companies.

It is when IFRS reporting will be recognized on US stock exchanges without additional reconciliations, approvals, disclosures, etc., IFRS will become truly global reporting standards. Abolition of the requirements for reconciliation will be facilitated, above all, by the rapprochement of American and international standards. The differences between IFRS and US GAAP have been monitored by major audit firms and regulators for many years. In 1999, the FASB (the main body that approves US GAAP standards) issued a study on this issue: a list of differences between IFRS and US GAAP was outlined on 500 pages.

Since then, IFRS has changed significantly, and work has also started on the convergence of American and international standards. In 2002, the so-called Norvolk agreement was signed, according to which the FASB and IASB will join forces to eliminate the main differences between IFRS and US GAAP. The joint work of the FASB and the IASB has not been in vain for the past several years: the "Similarities and Differences: Comparison of IFRS and US GAAP" research published by PWC in February 2006 is more than five times less than the FASB study in 1999 . And from the point of view of CESR, which conducted a study on the possibility of listing on European stock exchanges of companies with US GAAP reporting, there are only two principal differences: it is the perimeter of consolidation and stock option accounting. By the way, one of these problems has already become less, since the FASB has approved the stock option accounting standard, which applies the same approach that is set in IFRS 2.

Recently, the IASB has been working with the FASB more and more tightly. On 27 February 2006, they adopted the second post-2002 memorandum of understanding, which reflected the CESR recommendations and the SEC's plans to abolish reporting requirements for non-US GAAP reporting. In general, all parties (SEC and FASB on

the one hand, and EC, CESR and IASB on the other hand) agree that convergence should not end with a package of identical standards used in Europe and the US. It is only a matter of significant differences, the elimination of requirements for the reconciliation of reporting and the agreement between the FASB and IASB for future changes in standards.

### **3.2.2 ACCOUNTING OF THE MAIN BUSINESS OPERATIONS ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The most significant costs for the preparation of IFRS statements are the costs of hiring and training staff, as well as consulting and auditing services. The salaries of specialists who know IFRS and have certificates confirming this knowledge are much higher than those of other financial specialists. Typically, costs are highest when moving to IFRS, but after the introduction of the international accounting system, they will decrease.

#### Ways to prepare IFRS statements

There are two main ways of preparing reports on international standards:

- transformation of Russian accounting data in accordance with IFRS;
- Parallel accounting for Russian and international standards.

Transformation is a "translation" of the Russian financial statements into an international one by adjusting certain indicators (the methods of obtaining them according to Russian standards differ from IFRS). Usually, when using this method, enterprises incur less material

and time costs. Often it is also considered as a temporary measure in the transition to parallel accounting according to international standards.

Parallel accounting for international standards is the reflection in accounting under IFRS of each business transaction. For a large enterprise, this is technically impossible without the introduction of an expensive automation system. Complex integrated accounting systems present significant requirements for formalization and unification of business processes in the enterprise, which also leads to the restructuring of the accounting system itself.

The choice of the method of reporting under IFRS is usually due to the expected costs and the purpose of implementing international standards in the company. The more management is going to use the information prepared on the basis of IFRS (for example, for the purposes of management accounting and budgeting), the more often companies choose parallel accounting. This method, according to the author, is more effective, since it allows the company to build an internal reporting system on the same principles as the external one.

The process of transition to IFRS is quite long and expensive. This is a separate project of the company, in which not only accountants and financiers should be involved, but also employees of other divisions. At the very beginning of the project, it is necessary to choose the method according to which the company will keep accounting under IFRS (transformation or parallel accounting). From the chosen method depends all further work on the transition to IFRS.

### **3.2.3 FORMATION OF FINANCIAL RESULT UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The main stages of the transition to the preparation of financial statements under IFRS

The process of transition to IFRS reporting is rather complicated, so the IFRS Committee has developed the IFRS 1 "First-time adoption of IFRS" standard, which came into effect on January 1, It is mandatory for all companies that first compile financial statements in accordance with IFRS, and has a clear algorithm for preparing such statements.

To bring the indicators of Russian financial reporting in accordance with IFRS, the main preparatory stages can be identified.

Step 1. Determination of the reporting date and the date of transition

When preparing the first IFRS reporting, it is necessary to clearly distinguish the transition date (the beginning of the first reporting period) in IFRS and the reporting date (the end of the first reporting period). Another requirement of IFRS is the need to provide comparable data at least for one previous period. For example, the company prepares its first IFRS financial statements as of December 31, 2005 (the reporting date). The starting point from which the company starts applying IFRS should be at least two years earlier than the reporting date in order to comply with the principle of comparability of data. In our case, this is January 1, 2004, that is, the date of the opening balance sheet (the date of transition to IFRS), for which the opening balances of IFRS are determined (see step 3).

There is a mandatory requirement that the first complete financial statements, including comparative information, comply with all

standards in force at the balance sheet date. However, not all the standards that were applied in 2004 coincide with those that operated in 2005. In order to solve this problem, the IASB issued a fixed list of new standards, which come into force on January 1, 2005 and should be applied to all periods presented as of December 31, 2005<sup>1</sup>.

Stage 2. Formation of accounting policy in accordance with IFRS

The company must draw up and approve a new accounting policy<sup>2</sup>, corresponding to IFRS, which will be effective as of the reporting date. It should be taken into account that the adopted accounting policy should be applied to all reporting periods reflected in the financial statements.

Errors in the creation of accounting policies and the choice of methods and principles of accounting can cost the company very costly, since the introduction of changes in the accounting policy under IFRS is possible in very rare cases. As a result, the company will be forced to use the method that is prescribed in its accounting policy. Although, perhaps, an alternative version of this method of accounting would be able to present the financial result of the company in a more attractive form.

Step 3. Definition of assets and liabilities under IFRS

After the approval of the accounting policy, the company must analyze all its assets and liabilities at the date of transition to IFRS for recognition or cancellation in accordance with IFRS. In this case, an asset or a liability can be accepted for accounting under IFRS, even if they are not reflected in accounting under Russian standards, and vice versa. In particular, the company may not recognize in accordance with RAS certain deferred tax assets or liabilities that will be recognized under IFRS, for example, deferred taxes on revaluation of fixed assets. Or, in accordance with Russian accounting rules, the company has



created a reserve of future expenses for the repair of fixed assets, which will not be recognized in accordance with IFRS.

#### Step 4. Valuation of IFRS assets and liabilities

The next step is to assess the recognized assets and liabilities for the purposes of IFRS. As in the case of recognition, there are differences in the valuation of assets and liabilities between RAS and IFRS. They can be related either to the different composition of capitalized items, or to different estimates of future cash flows that form a balance sheet of assets or liabilities. For example, in accordance with IFRS, fixed assets leased are recorded at the present value of lease payments, and according to RAS - at the nominal value of lease payments.

The difference in approaches to the formation of the book value of accounting items can lead to practical difficulties in their application. For example, when assessing the initial value of fixed assets included in the opening balance sheet in accordance with IFRS, problems may arise due to a lack of information on the cost of their acquisition.

## CONCLUSION

As a result of our work, we conducted: an analysis of the literature on the research topic; The concept, functions, purpose, principles, process of development of the International standards of the account and the financial reporting are considered; The problem of the transition of Russian organizations to IFRS in the context of the globalization of the world economy is characterized; a plan of measures for the transition of Russian organizations to the International Accounting Standards and Financial Reporting was developed.

The study and analysis of theoretical aspects of the issue of international accounting standards and financial reporting allowed the following conclusions to be drawn from the results of the work:

1. Summarizing the advantages of IFRS, we can say that for financial analysts and investors it is - understandability, comparability, transparency, reliability, lower costs for analyzing reporting; for companies - lower costs for attracting capital, one accounting system, no need to reconcile financial information, a sequence of internal and external accounting; for auditors - the uniform principles of accounting, the opportunity to participate in the adoption of standards, training on a global scale; for national standards developers - the exchange of experience, the basis for national standards, greater confidence in national standards, convergence of standards; for developing countries - reducing the costs of developing national standards, attracting investors.

2. Reform of accounting and financial reporting should be carried out taking into account the existing national traditions, the specifics of Russia's economic development, and not through blind copying of Western experience. Therefore, at this stage of the reform of the accounting and financial reporting system, there should be a gradual smoothing of inconsistencies, which will contribute to more successful

promotion of Russian companies to the capital markets. At the same time, speaking about the reform it is necessary to emphasize that automatic adoption of IFRS is impossible without any changes. After all, in fact, international standards are a compromise between the leading accounting systems in the world.

3. We proposed the following measures for the transition of Russian organizations to IFRS:

- formation of the regulatory framework for financial accounting on the basis of a systematic approach based on the general requirements for the system of standards, and taking into account costs;

- setting a higher quality level of information support for external users of financial statements prepared in accordance with IFRS, compared with information support in accordance with the norms of Russian accounting legislation;

- development of an algorithm for deciding on the transition to the preparation of financial statements under IFRS, which should be based on a consistent analysis of the benefits and costs that should be considered in the transition to IFRS;

- use of ways to reduce the costs of organizing the transition of Russian business entities to IFRS, providing for the linking of the following processes;

- submission of a consolidated, consolidated report on international standards to holdings and groups of associates, companies that issue business securities;

- preparation of a draft law obliging to submit reports and conduct mandatory audits in accordance with international financial reporting standards.

It is important that the need for transition be understood both at the level of the authorities, and among business and the accounting community.

Thus, the goal of the work, which is to conduct a comprehensive analysis of international accounting and financial reporting standards, identify problems in accounting and reporting practices, find ways to solve them, and accomplish the tasks.

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