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THE IMPORTANCE OF FINANCIAL ACCOUNTING

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ABSTRACT

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The purpose of accounting is the accumulation and reporting of financial information on the effectiveness, financial position and cash flows of the business. Then this information is used to make decisions about how to manage a business or invest in it, or provide it with money. This information is accumulated in accounting records with accounting transactions that are registered either through standardized business transactions such as invoicing customers or vendor invoices, or through more specialized transactions known as journal entries.

Once this financial information is stored in the accounts, it is usually compiled into financial statements that include the following documents.

Financial reports are collected in accordance with certain sets of rules known as accounting structures, the most common of which are generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The results presented in the financial statements may differ slightly depending on the structure used. The framework that business uses depends on what the recipient of the financial statements wants. Thus, a European investor may want to see financial statements based on IFRS, while an American investor may want to see statements that are consistent with GAAP.

The accountant can generate additional reports for special purposes, such as determining the profit from the sale of the product or the revenues received from a specific sales region. They are usually treated as management reports, not financial reports issued to outsiders.

Thus, the purpose of accounting centers is the collection and subsequent reporting of financial information.

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INTRODUCTION

How a company presents information in its financial statements is very important, since financial statements are a central feature of financial reporting - the main means of transferring financial information to those who are outside the organization.

Globalization and the expansion of transnational business have led to an increase in the need for uniform rules so that financial reports in different countries are prepared on a similar basis and there would be no room for interpretation. Although at the international level various professional accounting organizations make efforts to harmonize the rules of financial reporting, for many reasons it was a sharp criticism of the address of financial statements. First, there are too many alternative ways of presenting financial information in financial statements (IASB, 2008). This makes it difficult to compare the financial reports of different organizations and makes it possible to make false conclusions about the success of the organization. Secondly, subjects in different countries make different demands on how to prepare financial reports (European Commission, October 25, 2011). This situation complicates the interpretation of financial results of organizations and the comparison of financial statements at the international level. Third, the financial reporting requirements set by companies often do not take into account the size of the company, and this raises the question of the need for differential reporting (Cole et al., 2012;

Fourth, what users view in the financial statements is different, and therefore, when compiling financial statements, the company must take into account the interests of the most significant user groups.

Taking into account the above criticism, it is important to analyze the structure of financial accounting in Azerbaijan and to conduct a study of whether users of financial reporting in Azerbaijan are experiencing the same problems. Taking into account that 99.9% of Azerbaijani companies are small and medium enterprises (SMEs), the author has concentrated research on these specific companies.

In addition, this doctoral dissertation contains a comprehensive review of changes in the accounting legislation of Azerbaijan from 1990 to 2012 using institutional theory. Firstly, only a few publications on accounting in Azerbaijan are published, and there is practically no educational literature based on registration, even at the local level in the Azerbaijani language. Therefore, this doctoral dissertation tries to fill this gap and gives a complete overview of the main changes. Secondly, this thesis uses institutional theory when analyzing country-specific factors affecting the development of financial accounting and reporting in Azerbaijan, as the interaction between practices, subprograms and institutions.

From an international perspective, this doctoral dissertation provides a full overview of various equity theories and links them to the conceptual framework of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). Although few authors have explored the conceptual framework using theories of justice, its application is generally underestimated, especially in terms of what the objectives of financial reporting are and who are considered users of financial reporting. In addition, the doctoral dissertation aims to provide an overview of the evolution of equity theory by determining the prevailing theory of the period and identifying the main users from the perspective of which financial reporting should be presented.

The aim of this doctoral dissertation is to first formulate an understanding of how current and future accounting standards that govern the preparation of financial statements of SMEs are expected to meet the needs of users. Secondly, how should a complete set of financial statements look that satisfy the needs of interested parties in Azerbaijan.

Although a general research question is aimed at identifying the needs of users of financial statements of SMEs and drafters in Azerbaijan, a broader approach to this issue should be considered. Since the economy of Azerbaijan is not a closed system, it is necessary to analyze the international factors influencing the development and compilation of accounting standards in Azerbaijan. It also means defining the basic concepts of current accounting standards and linking them to a comprehensive theory. The contribution of the theses from an international perspective is that the results of this study have implications for the regulatory authorities that are currently considering developing guidance for SMEs. From an EU perspective, this study can provide valuable information to Member States on how to implement the new Accounting Directive 2013/3.

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CHAPTER 1. FINANCIAL ACCOUNTING: BASIC CONCEPTS AND PRINCIPLES

1.1 Definition and introduction

Accounting is an orderly system for collecting, recording and summarizing information in monetary terms about the assets, liabilities, incomes and expenses of the enterprise and their changes by continuous, continuous and documented accounting of all business transactions.

In order to understand the essence of accounting, we will become acquainted with certain concepts, economic categories, terms used in its organization.

Since the issuance of the Civil Code of the Azerbaijan in normative acts issued by federal bodies with respect to economic entities, the concept of organization appears, which can cause linguistic difficulties, for example, Organization of accounting of fixed assets in the organization. In this regard, this training manual will often use the term enterprise as a synonym for the term organization.

The object of accounting application is an enterprise.

The organizational and legal form of the organization is determined by the Civil Code of the Azerbaijan.

The methodological foundations of the organization of accounting and its principles are defined by the Federal Law of the Azerbaijan Republic On Accounting.

The main tasks of accounting are:

- formation of complete and reliable information on the activities of the enterprise and its property status;

providing information necessary for internal and external users of financial statements to monitor compliance with the legislation of the Azerbaijan when the business conducts business operations and their appropriateness, availability and movement of property, liabilities, use of material, labor and financial resources in accordance with approved norms, standards and estimates;

- preparation of data for the preparation of reliable financial statements;
- formation of the actual cost price of the products (works, services);
- prevention of negative results of the economic activity of the enterprise and identification of economic reserves to ensure its financial stability;
- determination of the financial performance of the enterprise.

The main functions of accounting: control, information, property security, feedback, analytical.

The subject of accounting is the financial and economic activity of the enterprise, aimed at fulfilling the statutory obligations.

Objects of accounting are:

- property of the enterprise;
- obligations of the enterprise;
- economic operations carried out by enterprises in the course of their activities.

According to part one of the Tax Code, property is understood as the types of objects of civil rights pertaining to property in accordance with the Civil Code of the Azerbaijan.

To carry out economic activities, the enterprise has the necessary economic means. Depending on the role they play in the process of production and circulation, economic assets are divided into groups: non-current and current assets.

Fixed assets:

- capital investments;
- fixed assets;
- intangible assets;
- profitable investments in tangible assets.

Current assets:

- production stocks and costs;

- cash;

- funds in settlements (accounts receivable);

- financial investments.

The economic means necessary for the activity of enterprises are formed at the expense of various sources, which are divided into own and borrowed.

Own sources:

- authorized capital;

- Extra capital;

- Reserve capital;

- profit.

Borrowed sources:

- bank loans;

- commercial loans;

- debts to suppliers and contractors;

- arrears to staff, but wages;

- arrears of payments to the budget;

- indebtedness to other organizations and individuals. Economic processes should be considered as a set

constituent elements - the facts of economic life.

The economic processes performed at the enterprise include:

- the process of preparing the means of production;

- the process of production of products (works, services);

- the process of selling products, tangible assets, fixed assets, intangible and other assets.

These processes consist of a variety of economic operations. A business transaction is a fact of economic life (internal or external) that influenced the state of capital, property and financial liabilities of the enterprise. Basic principles of accounting:

- the enterprise is considered as a separate accounting entity.

The property and liabilities of this enterprise are accounted separately from property and liabilities of owners and other enterprises;

- the use of the accrual method and the delineation of business activity between related reporting periods. Income and expenses are recognized and reflected in those periods when there was a fact of the transaction;

The company is currently operating and in the near future. It has no intentions and the need to liquidate or significantly reduce activities, and consequently, the obligations will be repaid in accordance with the established procedure (the assumption of continuity of activity);

- property and liabilities are valued. Assessment should be made with possible accuracy and caution;

- the principle of materiality. Mandatory reflection in the accounting statements of such information, inaccuracy or absence, which affects the financial performance of the enterprise or the adoption of management decisions;

- the principle of prudence. The professional judgment of the accountant is based on the fact that revenues are recognized only when there is reasonable assurance of their receipt, and costs when there is a reasonable possibility of their production;

- the principle of objectivity. Means professional training and ethics of the accountant.

1.2 Financial statements

Financial reporting - a set of accounting indicators, reflected in the form of certain tables and characterizing the movement of property, liabilities and financial position of the company for the reporting period .

Financial reporting is a system of data on the financial position of the company, the financial results of its activities and changes in its financial position and is compiled on the basis of accounting data.

In simple terms, these are tables that are compiled according to the organization's accounting records. These tables are also accompanied by an explanatory note - a document that is an obligatory component of the financial statements.

The explanatory note should disclose information relevant to the accounting policies of the organization, as well as provide users of reporting with additional data - those data that are not sufficiently disclosed in the tabular form of reporting, but which are necessary for users to assess the performance of the organization.

Structure of financial statements.

One of the normative legal documents regulating the rules of accounting and financial reporting in the Republic of Azerbaijan is the Law on Accounting and Financial Reporting No. i-38 of April 18, 2006. Article 15 of this Law states that the financial statements include:

1) the balance sheet;

2) profit and loss account;

3) a statement of cash flows;

4) statement of changes in equity;

5) an explanatory note.

The new order that approved the forms of financial statements is intended primarily for organizations of public interest, as described in the text of the order. Organizations of public interest are financial organizations, joint-stock companies (except for non-profit organizations), subsoil users (other than organizations that produce common mineral resources) and organizations in whose authorized capitals there is a share of state participation, as well as state enterprises based on the right of economic management .

Does this mean that organizations that do not belong to public interest organizations should compile financial statements in some other forms? Moreover, if we consider some of the financial statements that are available in the new approved forms, they are not intended for ordinary partnerships. The answer is no. The list and forms of financial statements should be applied by all organizations.

So why did you need to cancel the reporting forms that worked before and to which we all had time to get used to?

The need for changes is due to the fact that changes are made to international financial reporting standards, where new terminology is already applied. And also those sections or articles are subject to more detailed disclosure.

And why do you need financial statements? To whom and for what purpose is it needed? Who will watch it?

Simultaneously with the corporate income tax declaration, the payer of corporate income tax submits annual financial statements prepared in accordance with international financial reporting standards to the local tax authority (Author's note: here it should be read or national financial reporting standards) and the requirements of legislation Republic of Azerbaijan on accounting and financial reporting.

In this case, in case of adjusting the previously submitted annual financial statements, the payer of corporate income tax shall, within thirty calendar days from the date of such adjustment, submit the adjusted annual financial statements to the tax authority at the location.

Thus, the obligation to compile and submit financial statements arises in the organization already according to the requirements of tax legislation.

Who else can be a user of financial statements?

1. Leaders.

Any manager needs information about the results of the activity for a certain period that will help him make the right decision that can affect future success.

2. Banks.

Banks may need such information to make a decision on the issue of a loan.

3. Investors.

Investors need information specified in the financial statements to analyze the reasonableness of future investments in a potential customer.

4. Other

Other customers may also need information on financial statements to decide whether to work with potential suppliers or buyers.

1.3 Concepts and Principles of Financial Accounting

The basic accounting concepts are referred to as the fundamental ideas or basic assumptions underlying the theory and practice of financial accounting and are broad working rules for all accounting activities and developed by the accounting profession. The concept is a system of views on something, the main idea.

The accounting concepts, which will be discussed, are not so obvious, and nowhere and no one is approved. Theorists can argue about certain concepts, but the examination of their essence and their application in practice serve as proof of the vitality of these concepts. Consider these concepts.

The concept of monetary measurement. Money is a generally accepted measure of measurement, through which the heterogeneous facts about the organization can be expressed in the form of numbers that can be added and subtracted. For example, the company owns 1 million dollars in cash, one building, cars, two hectares of land, the copyright for the release of commercial equipment. These assets can not be summed up to determine what the organization owns. However, by expressing their value in monetary terms, you can determine the total amount of the organization's assets. In our example, suppose that the building value in money terms is 5 million dollars, the cost of 5 cars is 4 million dollars, two hectares of land-8 million dollars, the cost of copyright is 2 million dollars, then the total value of the company's assets in financial accounting will be 20 million dollars. This concept is fixed in the Law, On Accounting. The concept of a separate enterprise. This concept reflects the fact that the accounts of the business unit are kept apart from the owners' accounts. For example, 100,000 dollars for personal needs were taken from the fund of organizations by its founder. In any case, this money belongs to the owner (regardless of what pocket money lies - the pocket of the organization or the pocket of the owner), but the accountant in accordance with the concept of a separate enterprise should show a reduction in the organization's money. Accounting records reflect only the economic operations of the organization itself, as an economic unit.

The concept of an operating enterprise. This concept assumes that an enterprise as an economic unit is an organization that operates for an indefinite time and there is no confirmation that the organization is being liquidated (for various reasons), in which case the assets of the organization will have to be constantly valued at current value. While an operating organization, whose resources are used to produce goods or provide services, ultimately sold to customers, at the time of sale recognizes the value of goods, services at a selling price. The operating organization does not need to determine the cost of individual machines, mechanisms, materials and other means used in the production or provision of services because there is no intention to sell separately. The concept of cost accounting. In accounting, assets (money, fixed assets, intangible assets, inventories and other property) are initially recorded at their cost - the purchase price. This cost is the basis for all subsequent accounting of the asset. Usually this amount is not affected by the following changes in the price of the asset. Investors and others are more interested in determining the actual value of an economic entity in the present than the original value of assets. However, the concept of value provides a relatively objective and stable basis for accounting reports.

Users of financial information, knowing that it is based on the concept of value, must come to their own assessment of current value.

The concept of double entry. The balance equation is the equity of the organization's assets and liabilities. This equation determines the duality of accounting. On the right side of this equation is the assets of the organization represented by fixed assets, intangible assets, inventory, cash, receivables and other assets, the left part being the claims of owners and creditors to these assets. The requirements of the owners of the capital and creditors of the organization can not exceed the assets of the organization, therefore the equality of the right and left side of the balance equation will never be violated. The concept of double entry allows you to look at the points of view: any funds used by the organization (for example, purchase of inventories) are taken from somewhere (for example, a bank loan was received). At that time, any funds received by the organization (for example, the funds of the organization's owners or the share capital) should be used in some way (for example, to purchase assets or put on deposit with the bank).

Concept of the accounting period. In accordance with the concept of the current organization it is assumed that the work of the organization is not limited in time. However, users of financial information (primarily the management of the organization) need to periodically know about the state of the financial situation of the organization.

This need determines the concept of the reporting period, which means that accounting reflects the activities of the company for a specific period of time, called the accounting period. The calendar year is defined by the legislation of the Republic of Azerbaijan, accounting periods for all organizations.

The accounting concepts discussed above are of a general nature for the formation of information on the assets, liabilities and own capital of the organization.

They are also used in assessing the incomes and expenditures of subjects. At the same time, there are concepts related to the issues of determining only the income and expenses of the organization and, accordingly, influencing the formation of the final results of its activities. The application of these concepts is reflected in the report on the results of financial and economic activities. This is the concept of conservatism (caution), linking income and expenditure, implementation. The accrual method is based on the last two concepts.

The concept of conservatism (caution). The management of the organization usually wants to present the financial position of the organization it manages in a more favorable light than it really is. In accordance with the concept of conservatism (caution) for recognizing an increase in the entity's income, more weighty grounds are needed than for recognizing a decrease in revenues (i.e. expenses). The concept of conservatism (caution) has two sides:

1. income is recognized only when there is reasonable certainty.
2. The expense is recognized when there is a reasonable possibility.

On the concepts of conservatism (caution), Accounting Standard No. 5

Income.

Consider the example of income recognition. Suppose that you decided to buy in December 2002 a car from the company Toyota with its delivery in January 2003. In life there are different situations, and car sales may not materialize. In accordance with the concept of conservatism (caution), Toyota should recognize the revenue for the sale of the car only when the car is delivered to you: if the car is delivered in December, the income is recognized in 2002, but if the delivery is made in January 2003 , then the income is recognized in 2003.

Consider, for example, the recognition of costs. Let's admit at the same company Toyota in December, 2002 from the warehouse the insured car disappeared. It is not known whether a car will be found (it may have been stolen). Suppose that by the end of the year, the company has no reason not to be sure that there is a car. However, in accordance with the concept of conservatism (caution), the company Toyota should recognize in December 2002, the cost of the disappeared car.

In case of recognition of income from the sale of the car, the company has reasonable assurance (the fact of delivery of the car to the buyer). In the event of a vehicle disappearing from the warehouse, it is sufficient to recognize the expense.

The concept of implementation. From the previous examples it is clear that the concept of conservatism (caution) determines the period in which income should be recognized.

What amount of income needs to be recognized as an economic transaction can be determined with the help of the implementation concept. This concept is also closely related to the accounting standard Income. In accordance with this concept, the amount of recognized income from the sale of goods, works, services. For example, the sale of goods at a discount - in this case, the income is recorded at a lower amount than the usual selling price. When selling goods on credit, the company expects that all buyers will pay the bills. However, practice shows that not all customers pay their bills, so the income should be reduced by the amount of non-receipts (the amount of doubtful debts).

The concept of linking income with spending. Any sale of goods, works, services always has two aspects:

1. reflection of income, which means an increase in undistributed income.

2. Reflection of expenses, which reduces retained earnings, as assets have left the company.

The result of this operation will be correct if incomes and expenses on it will be reflected in one accounting period. This is the essence of the concept of linking income with costs-if an event affects both income and expenditure, the impact on each of them should be reflected in a single accounting period.

The accrual method is based on the concepts of implementation and linking income with costs. In accordance with it, the results of business transactions and other events are recognized upon their occurrence, and not when the funds are received or paid (in the IASC Principles, the accrual method is attributed to the underlying assumptions on which the company's financial statements are based). This method was an alternative method - a cash method, according to which the income is not taken into account until the money is received. Expenses are also recognized as they are paid.

The financial reporting concepts establish and define the properties of accounting information, reflecting its usefulness for the decision-making process.

According to the Law on Accounting, the following principles and main qualitative characteristics of accounting and financial reporting exist:

1. charge; continuity; intelligibility; relevance; reliability; comparability.

The main criterion for evaluating the company's financial reporting by users is its utility. The four qualitative characteristics that make information useful in financial reporting are clarity, relevance, reliability and comparability.

Clarity. The main quality of information provided in the financial statements is its accessibility for understanding. It is assumed that users should have sufficient knowledge in business and economic activities, accounting and the desire to study information with due diligence. However, information about complex issues that is important for economic decision-making by users should not be excluded from financial statements because it may be too complicated for users to understand.

Relevance. Information is relevant when it affects the economic decisions of users, helping them evaluate past, present and future events, confirm or correct their past decisions. The prognostic and confirmatory functions are interrelated. Information on the financial position and performance of past periods is often used to predict future financial position and performance, as well as other aspects directly interested in users. For example, the forecast potential of a report on the results of financial and economic activities is increased if non-standard, unusual and rare items of income or expenditure are disclosed separately. Reliability. The reliability of information is seriously influenced by its nature and materiality. Materiality is not a qualitative characteristic for the usefulness of financial information. Information is considered reliable if its omission or distortion can affect the economic decisions of users. Comparability is a characteristic feature of the relationship between two types of information, rather than within one of them.

It gives users the opportunity to identify the similarities and differences in the information provided in two packages of financial statements of one entity in two periods or at a certain point in time. Comparability of financial statements of an economic entity is strengthened with the constant use of the same accounting policy. There are two aspects of comparability-a sequence that determines the use of the same accounting policy from year to year and unity, meaning that companies that use similar transactions and operate under similar circumstances use the same accounting principles.

Relevance refers to the acceptability of accounting information for various categories of external users who are authorized to make decisions when using financial statements. They use accounting information in pursuit of their goals:

1. Forecasting the economic future.

2. Confirmation of the reliability of previous forecasts in order to improve future techniques of forecasting.

Measuring the degree of reliability of accounting information is possible using the following three aspects of quality:

1. Timeliness. Accounting information should be available to external users authorized to make decisions. Like the world news, outdated financial information never exerts such an impact as fresh information. Lack of timeliness reduces the degree of significance.

2. The value of forecasting. Accounting information should be useful to external users authorized to make decisions by increasing their ability to accurately predict the results of past or current events. Those who are authorized to make decisions that use accounting information that has little or no value in forecasting, simply make guesses.

3. Feedback. Accounting information should also be useful to external users authorized to make decisions, when confirming past forecasts or when making any adjustments, amendments to current forecasts.

Accrual basis. According to this method, the results of operations and other events are recognized on the fact of their commission (and not when paid). They are reflected in the accounts and are included in the financial statements of the periods to which they relate.

The financial statements prepared using the accrual accounting method inform users not only about past transactions related to the payment and receipt of funds, but also about the obligation to pay money in the future, and about the resources representing future cash flows.

Continuity of activity. Financial statements are usually prepared on the assumption that the company is acting, and will act for the foreseeable future. Thus, it is assumed that the company is not going to and does not need to eliminate or significantly reduce the scale of its activities; if such intention or necessity exists, the financial statements must be compiled on a different basis, and the applicable framework should be disclosed.

CHAPTER 2. INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Financial Accounting Standards

In order to facilitate understanding of financial statements by its users, a number of generally accepted accounting principles (GAAP) were developed, consisting of criteria, rules and procedures commonly referred to as accounting standards as a guide to financial accounting and reporting.

As discussed earlier when determining users of accounting information, enterprises of different countries compose and present financial statements in different ways. Moreover, in some countries, such as France, Germany and Japan, accounting standards are established by law; at the same time in other countries, such as Australia, Canada, Sweden, the United Kingdom and the United States, the accounting profession is more actively involved in the standard setting process. For example, in the United States, the Financial Accounting Standards Board establishes accounting standards, which are then monitored by the US Securities and Exchange Commission, which is a public body for the protection of investors.

The purpose of the International Accounting Standards Board (IASB) is to harmonize regulations, accounting standards and procedures around the world by developing a set of International Accounting Standards that all can agree with.

Standards adopted before 2001 are called International Accounting Standards (IAS), all subsequent standards are called International Financial Reporting Standards (IFRS). Given that the main purpose of financial reporting is to provide information useful for making economic decisions, the IASB believes that these accounting standards will meet the needs of most users.

Of course, national standards bodies and governments will also want to include some differing or additional requirements for their own purposes, but this should not prevent the basic need to provide relevant information for economic decision-making.

However, accounting standards do not resemble the immutable laws of nature used in such areas as chemistry and physics. They are developed by accountants, businesses and legislators to meet the needs of decision makers and can change as best practices or circumstances change.

In this material, we present the main elements of accounting practice based on international accounting standards. We also try to explain the reasons or theory behind the practice, and adopt a global perspective that takes into account the practice of different countries, where appropriate.

Both theory and practice are part of the study of accounting. It should be understood that accounting is a constantly changing, growing and improving discipline. Just as for the introduction of a new surgical method or life-saving medicine, years of research are required, and it may take years for research and discovery in accounting. As a result, you may encounter in practice with inconsistent cases.

International Accounting Standards - IAS / IAS

IAS 1. Presentation of Financial Statements.

IAS 2. Stocks.

IAS 7. Statement of cash flows.

IAS 8. Accounting Policies, Changes in Accounting Estimates and Errors.

IAS 10. Events that occurred after the balance sheet date.

IAS 11. Construction contracts.

IAS 12. Income Taxes.

IAS 14. Segment reporting.

IAS 16. Fixed Assets.

IAS 17. Leases.

IAS 18. Revenues.

IAS 19. Employee Benefits.

IAS 20. Accounting for Government Grants and Disclosure of Government Assistance.

IAS 21. The Impact of Changes in Exchange Rates.

IAS 23. Borrowing Costs.

IAS 24. Disclosures about related parties.

IAS 26. Accounting and reporting on pension schemes.

IAS 27. Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

IAS 28. Accounting for Investments in Associates.

IAS 29. Financial Reporting in Hyperinflationary Economies.

IAS 30. Disclosure of information on financial statements of banks and other financial institutions.

IAS 31. Financial reporting on participation in joint activities.

IAS 32. Financial Instruments: Disclosure and Presentation of Information.

IAS 33. Earnings per share.

IAS 34. Interim Financial Reporting.

IAS 36. Impairment of Assets.

IAS 37. Provisions, Contingent Liabilities and Contingent Assets.

IAS 38. Intangible Assets.

IAS 39. Financial Instruments: Recognition and Measurement.

IAS 40. Investments in real estate.

IAS 41. Agriculture.

2.2 International Financial Reporting Standards (IFRSs)

International Financial Reporting Standards (IFRS) is a set of international accounting standards that specify how specific types of transactions and other events should be reflected in the financial statements. IFRS are published by the Council on International Financial Reporting Standards, and they accurately determine how accountants should maintain and present accounts. IFRS have been created in order to have a common language of accounting, because business standards and record-keeping can differ from company to company, and from country to country.

The purpose of IFRS is to maintain stability and transparency in the financial world. This allows enterprises and individual investors to make qualified financial decisions, as they can accurately see what is happening with the company they want to invest in.

IFRS are standard in many parts of the world, including the European Union and many countries in Asia and South America, but not in the United States. The Securities and Exchange Commission (SEC) is in the process of deciding whether to adopt standards in America. The countries that benefit most from the standards are those who are leading international business and investing in it. Experts suggest that the global implementation of IFRS will save money on alternative comparative costs, and will also allow for more free information transfer.

In countries that have adopted IFRS, both companies and investors, it is advantageous to use this system, since investors are more likely to invest in the company if the company's business practices are transparent. In addition, the cost of investment is usually lower. Companies that conduct international business benefit most from IFRS.

IFRS Standards

The following is a list of effective IFRS standards:

Conceptual framework for financial reporting

IFRS 1 First-time Adoption of IFRS

IFRS 2 Share-based Payment

IFRS 3 Business combinations

IFRS 4 Insurance contracts

IFRS 5 Non-current assets held for sale and discontinued operations

IFRS 6 Exploration and evaluation of mineral resources

IFRS 7 Financial Instruments: Disclosures

IFRS 8 Operating Segments

IFRS 9 Financial Instruments

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint activities

IFRS 12 Disclosure of Participation in Other Entities

IFRS 13 Fair value measurement

IFRS 14 Deferred Tariff Differences Accounts

IFRS 15 Revenue under contracts with customers

SICs / IFRICs Decisions on the interpretation of standards

IFRS for Small and Medium Enterprises

Presentation of financial statements in accordance with IFRS

IFRS covers a wide range of accounting transactions. There are certain aspects of business practices for which IFRSs establish binding rules. The fundamentals of IFRS are the elements of financial reporting, the principles of IFRS and the types of basic reports.

Elements of financial statements in accordance with IFRS: assets, liabilities, capital, income and expenses.

IFRS principles

Fundamental Principles of IFRS:

principle of accrual. In accordance with this principle, events are reflected in the period when they occurred, regardless of the movement of money.

the principle of business continuity, which implies that the company will continue to work in the near future, and the management has no plans or the need to curtail activities.

Reporting in accordance with IFRS should contain 4 reports:

A statement of financial position: it is also called a balance sheet. IFRSs influence how the balance components are interrelated.

Statement of Comprehensive Income: This can be one form, or it can be divided into an income statement and an income statement, including property and equipment.

Statement of changes in equity: also known as a statement of retained earnings. It reflects changes in profit for the financial period.

Cash flow statement: this report summarizes the company's financial transactions for the period, while cash flows are divided into flows for operating activities, investments and financing. Recommendations on this report are contained in IFRS 7.

In addition to these basic reports, the company must also submit applications with a summary of its accounting policies. A full report is often considered in comparison with the previous report to show the changes in profit and loss. The parent company must create separate reports for each of its subsidiaries, as well as consolidated financial statements of IFRS.

Comparison of IFRS and American Standards (GAAP)

There are differences between IFRS and generally accepted accounting standards of other countries that affect the calculation of the financial ratio. For example, IFRS are not so strict in determining revenue and allow companies to report incomes more quickly, therefore, therefore, a balance within this system can show a higher revenue stream. IFRS also has other cost requirements: for example, if a company spends money on development or investments for the future, it does not need to show them as an expense (that is, they can be capitalized).

Another difference between IFRS and GAAP is the definition of inventory accounting. There are two ways to track stocks: FIFO and LIFO. FIFO means that the most recent inventory unit remains unsold before the sale of the previous stock. LIFO means that the latest unit of inventory will be sold first. IFRS prohibits LIFO, while US and other standards allow participants to use them freely.

History of IFRS

IFRS arose in the European Union with the intention of spreading them throughout the continent. The idea quickly spread around the world, as the common language of financial reporting allowed to expand communications around the world. The United States has not yet adopted IFRS, as many see US GAAP as the gold standard. However, as IFRSs become a more global norm, the situation may change if the SEC decides that IFRS is appropriate for US investment practice. Currently, about 120 countries use IFRS, and 90 of them require that companies' IFRS. IFRS are supported by the IFRS Foundation. The mission of the IFRS Foundation is to ensure transparency, accountability and efficiency in financial markets around the world. The IFRS Foundation not only provides and monitors financial reporting standards, but also makes various suggestions and recommendations to those who deviate from practical recommendations. The purpose of the transition to IFRS is to maximize the simplification of international comparisons. This is complicated, because each country has its own set of rules. For example, US GAAP is different from Canadian GAAP. The synchronization of accounting standards around the world is a continuous process in the international accounting community.

Transformation of financial statements in accordance with IFRS

One of the main methods of preparing financial statements in accordance with the requirements of IFRS is a transformation.

The main stages of the transformation of financial statements in accordance with IFRS:

Development of accounting policy;

Selection of the functional and presentation currency;

Calculation of initial balances;

Development of the transformation model;

Evaluation of the corporate structure of the company with a view to identifying subsidiaries, associates, affiliates and joint ventures included in the accounting records;

Identify the features of the company's business and gather the information needed to calculate the adjustment adjustments;

Regrouping and reclassification of financial reports according to national standards before IFRS.

Automating IFRS

Transformation of IFRS financial statements in practice is difficult to imagine without its automation. There are various programs on the 1C platform that allow you to automate this process. One such solution is WA: Financier. In our solution, it is possible to translate the accounting data, carry out mapping on the accounts of the IFRS accounts chart, make various adjustments and reclassifications, and eliminate the intra-group turnover when consolidating the accounts. In addition, four main IFRS reports have been set up.

CHAPTER 3. THE IMPORTANCE OF FINANCIAL ACCOUNTING

3.1 The benefits of IFRS/IAS application

The purpose of financial reporting is to be the same language, an information transfer tool - about the performance of the company, its financial stability and creditworthiness, profitability, etc.

As mentioned in the first chapters of the manual, the historical prerequisites and national priorities for the formation of financial reporting in different jurisdictions are different. In Azerbaijan, for example, the state's priority in accounting is the tax interests of the state, we have civil law, and financial statements are formed on the basis of the Accounting Regulations (PBU). In the UK, priority is given to the interests of shareholders and investors, the country has a common law, and financial reporting is formed using UK GAAP (Generally Accepted Accounting Principles).

Of course, one can not say that the Ukrainian language is better (or worse) for interpersonal communication than Polish. It can not be said that the Swedish national standards are worse (or better) for the Swedes than the Dutch ones. They are just different.

In a situation typical for the economies of the 18-19th centuries - the economic closeness of national borders - this poses no problems.

But in the context of globalization of the economy, in conditions when international capital markets appeared, when the shares of Azerbaijan companies are successfully listed on Western exchanges, and foreign investors and lenders are looking for partners in Azerbaijan, the national languages of communication - both interpersonal and reporting standards - are becoming The barriers to these processes.

There is a need to develop or define a single, universal language of communication, an information transmission tool.

For the language of interpersonal communication, this language became de facto English. IFRS assumed the problem of single, global approaches to the formation of financial statements.

The use of unified approaches to the formation of financial statements makes the reporting of companies of different countries working in different sectors of the economy comparable. You can prepare a single set of financial statements - and it will be adopted on both the European and Asian exchanges.

In the context of applying IFRS, users of financial statements are easier to make business decisions, and the rating of companies preparing for them is bound to increase, because the quality and transparency of the reporting prepared according to international standards meet the highest requirements.

From the standpoint of those who prepare financial statements, the transition to IFRS will greatly facilitate their work both with regard to the preparation of reports for a particular enterprise and for their group. It is well known that TNCs incur additional costs in the preparation of financial statements.

3.2 Problems arising in the application of IFRS/IAS

Many organizations around the world compose and submit financial statements to external users. While it may appear that such financial statements are similar in different countries, there are differences that are likely to be due to a variety of social, economic and legal circumstances, and also that in setting national requirements in different countries, the needs are taken into account different users of financial statements.

This wide range of different circumstances led to the use of various definitions of financial reporting elements, for example: assets, liabilities, equity, income and expenses. This also led to the use of different criteria for the recognition of financial reporting items and the preference for different assessment bases. The composition of the financial statements and the amount of information disclosed in it were also affected.

The Board of International Financial Reporting Standards intends to reduce the scale of these discrepancies, seeking to harmonize regulations, accounting standards and procedures for the preparation and presentation of financial statements. The Board believes that further harmonization can best be achieved by focusing on financial statements prepared to provide information useful in making economic decisions.

The purpose of general purpose financial reporting is to provide financial information about the reporting organization that is useful to existing and potential investors, creditors and other creditors when making decisions about the provision of resources to the organization. To assess the organization's prospects for future net cash inflows, existing and potential investors, creditors and other creditors need information about the organization's resources, requirements for the organization and about how efficiently and effectively the management and management of the organization fulfilled their responsibilities for using the organization's resources.

Examples of such responsibilities include protecting the organization's resources from the adverse effects of economic factors, such as price and technology changes, and ensuring that the organization complies with applicable laws, other regulations and contractual terms. Information on the fulfillment by the management of their obligations is also useful in making decisions by existing investors, creditors and other creditors who have the right to vote on the actions of the management of the organization or can influence them in any other way.

Many companies that compose IFRS accounts are faced with the fact that the reporting, formed according to Azerbaijan accounting standards, does not even closely resemble those figures that users will see in reporting under international standards. As a result, a lot of problems arise, the least of which is the need to explain to the head why, according to the traditional Azerbaijan reporting, the company made a profit, and in the statement of comprehensive income by international standards - a loss, and why the amounts in the Azerbaijan balance sheet and the statement of financial position differ so much according to IFRS. This creates some problems in planning the financial activities of the company, if Azerbaijan reporting is used as one of the sources of information.

There are many reasons for this, and the main ones are the differences in the approach to accounting and evaluation of many operations.

To date, IFRS in Azerbaijan is already an official document. It should be noted that the challenge for Azerbaijan organizations interested in attracting foreign investors, entering international capital markets, establishing partnerships with foreign counterparts, is the practical application of IFRS for the preparation of financial statements. Foreign companies operating in the Azerbaijan market and Azerbaijan organizations with foreign investments also need financial reporting compiled in accordance with standards understood by foreign investors. The transition to IFRS does not mean a rejection of the traditions of domestic accounting. It would be more correct to speak not about the reform of Azerbaijan accounting, but about the wise use of innovations that IFRS propose. Linking the goals of transition to IFRS only with the need to develop the Azerbaijan economy is incorrect. International standards were chosen not only because of the high quality of IFRS, the usefulness of the information generated on their basis, the need to reduce the time and resources that need to be spent on developing accounting and reporting rules, but also because the Azerbaijan economy should become a full-fledged part of the world system. Harmonization of accounting and reporting rules is a necessary prerequisite and condition for the development of integration processes.

First, IFRS takes into account the relationship between economic growth and financial accounting and reporting as a tool for generating and disseminating transparent financial information. Second, in accordance with this approach, the application of IFRS involves the implementation of the entire set of reform goals in the Azerbaijan economy - both micro- and macroeconomic. Thirdly, the integration, the world economic component of changes in accounting and reporting is taken into account, that is, the transformations in the Azerbaijan economy are tied to the overall.

Problems trends to adapt domestic accounting to IFRS is associated with the peculiarities of mentality of Azerbaijan accountants have traditionally performed function, guided by centralized regulations, detailed instructions, leaves no room professional judgment. Therefore, it takes time that they overcome this dependence and learn how to formulate and defend their professional judgment about the facts of economic and financial activity and their recognition in accounting and financial reporting. The minimum that a chief accountant needs to know when a company needs IFRS financial statements is understanding that if your company cooperates with foreign partners or takes a loan abroad, it will have to report not only on Azerbaijan, but also on international standards art am. And in those companies where there are no full-time IFRS specialists, third-party consultants are usually invited. And the chief accountant will inevitably have to talk with these experts: to provide information, to explain the nuances of activity. And perhaps, and monitor their work. To do this, it is worthwhile to know at least in general terms what the international reporting standards are.

But even if the organization does not need large cash infusions and does not have foreign partners, a forward-looking entrepreneur always works for the future, preferring to have reports compiled in accordance with IFRS, in order to be able to take advantage of the opening perspectives, if necessary. The organizations are practically not asking whether it is worthwhile to train IFRS staff. Currently, all major Azerbaijan holdings have moved to the IFRS system, many organizations are preparing to move to international standards, so this area of accounting is one of the most sought after. Nevertheless, at the moment in Azerbaijan there are great difficulties with the technical base of accounting and the level of qualification of accounting staff. With the exception of some seminars, there is no free IFRS training. In addition, there is no free educational and methodical literature in our country, and what can be found on the Internet independently does not give a complete picture of the proper conduct of international standards. Also, the reasons for the difficult perception of IFRS accountants lie in an incorrect translation, which can confuse any financier - even someone who has a fairly high by Azerbaijan standards qualifications. Many organizations do not have the financial capacity to independently conduct training for accountants and auditors, and professionals in IFRS in Azerbaijan are still very few. Thus, it turns out that without a proper number of specialists, the transition to IFRS will be extremely difficult.

Today, more and more economists emphasize that the principles of IFRS determine the purpose of preparing general-purpose financial statements, which consists in that each user - the founder, creditor, employee of the company - should make on its basis the correct economic conclusions, and therefore, the reporting prepared under IFRS should be used for making management decisions. IFRS formulate the fundamental principles on which financial reporting should be built. They do not affect the actual accounting technique, the formation of a chart of accounts, specific entries. IFRS defines the principles for the formation of financial statements, which reflects the vision of the top management of the company for its current and future financial situation.

In practice, two methods of reporting in accordance with International Financial Reporting Standards are most widely used today:

1. Formation of financial statements through the transformation of financial statements compiled according to Azerbaijan rules. Under this method, the IFRS indicators are formed on the basis of reporting indicators prepared according to Azerbaijan standards, adjusted for the values of certain and specified differences. Reflecting the facts of economic activity in the system of national standards and the rules of IFRS, i.e. accounting under IFRS as an independent type of accounting. The main feature of the method is that every fact of economic life is accounted for at least twice: the first time - according to Azerbaijan rules, the second time in the order prescribed by IFRS.

That is, the organization ensures the keeping of records in accordance with the requirements of international accounting, tax accounting and other types of accounting. Nevertheless, there are still a number of problems in applying IFRS:

1. Absence of qualitative and accessible software for reporting under IFRS. Lack of quality teaching (training centers) according to IFRS. This problem is especially acute for the regions of Azerbaijan.

Lack of qualified personnel, both from the position of employers, and from the position of companies - customers of IFRS services. Mentality of Azerbaijan accountants. Many specialists note that it is difficult for accountants to restructure from accounting and tax accounting according to strictly regulated norms for compliance with IFRS principles. High cost of training for obtaining international certificates in accordance with IFRS.

High cost of services of audit and consulting companies. Many Azerbaijan experts noted that IFRS imposes essential requirements for the disclosure of information, which in the eyes of a significant number of owners and management of companies constitutes a trade secret. Another part of the Azerbaijan experts pointed out that in companies where IFRS reporting is compiled at the request of legislation, the approach is the same as for Azerbaijan reporting - in many respects formal. Accordingly, it is impossible to consider such statements of the relevant IFRS.

The research problems of the transition to IFRS by Azerbaijan companies allowed us to formulate the following recommendations, which can be applied by Azerbaijan organizations:

1. Consider the full range of problems of applying IFRS, identified on the basis of international experience. To develop a strategy for the formation of an institutional mechanism for implementing IFRS in national practice (the establishment of special advisory bodies representing the interests of various stakeholders, bodies responsible for approving IFRS for use, ensuring interaction with other entities and statistical bodies, an evaluation institution, a corporate governance institution, etc.)

2. Ensure the systemic nature of the mechanism for the legal implementation of IFRS. To develop approaches to solving technical problems of applying IFRS (translation of standards, development of training materials, training of personnel, etc.)

Among the consequences of the transition to IFRS in Azerbaijan, the following can be attributed:

1. Expansion of the circle of specialists who understand and own the standards. Improving the processes and procedures for reporting. Growth in the value of IFRS statements for investors and management of companies.

Improving the quality of financial information. Currently, more than 100 countries either ask for permission to apply IFRS, or are in the process of convergence with IFRS. The European Commission required the application of IFRS by all public companies in the European Union, so IFRS is used throughout the European Union. Swiss companies also apply IFRS. The role of IFRS is very important in any country under any economic conditions. Undoubtedly, the markets are now global and interrelated. For their normal functioning, it is necessary to use only one set of qualitative accounting standards on a global scale, so that investors in the market can assess their capabilities on a comparable basis, rather than allocating their capital inefficiently. This can happen if you use different accounting systems in different parts of the world. IFRSs are based on a logical framework that will help organizations achieve their growth, and company managers better understand their business when they see the financial statements prepared for these standards. This will also help to increase the flow of bank financing and other investments, as various enterprises, including small and medium-sized businesses, will have financial statements that are easily understood and comparable to other companies. Today, keeping records under IFRS is no longer the sole prerogative of large companies, banks and insurance organizations. The scope of international standards is constantly expanding. Now reporting under IFRS will be non-government pension funds, management companies of investment funds, mutual funds and non-government pension funds, and clearing organizations. Not far off is the day when IFRS accounts will be compiled by all without exception. Optimizing the process of preparing IFRS statements will help maximize convergence of accounting policies on Azerbaijan and international accounting standards.

3.3 Suggestions and results

The reception IFRS / IFRS or NAS in the light of IFRS / IFRS is the chief for the elements operating in Azerbaijan. There are compensations and issues of meeting IFRS, however, the benefits return issues related to placement. The consequences of the study and the experience of different countries receiving IFRS show that it is fundamental to include IFRS, and IFRS means repay costs.

Taking into account the ultimate goal to measure the promotion strategy, the substance can help from the leadership of the global analysis firms. It is also known that one of the issues related to the use of IFRS is staff planning and the organization of a significant data structure.

The ability of intercontinental assessment organizations experiencing changes in IFRS can be used as part of staff training and the creation of an important data structure. Numerous people in remote countries apply this technique to the movement course (McGee and Galina 2005). Be that as it may, it should be noted that the ability of valuation firms should be included in the right way. Administrators of numerous substances employed by these audit firms basically have a definite ultimate goal - to create their own money-related language, but not to change their accounting structure.

The ability of remote substances and the study of Azerbaijani organizations that disseminate IFRS demonstrate that elements that are important for issuing their money-related declarations in accordance with IFRS through government participation around the world assess firms to determine their budget positions. In a sense, universal inspection firms submit reports that are prepared without the involvement of anyone else.

This should not be reflected in the move procedure, because the item's accounting system becomes obsolete, as indicated by the obsolete controls.

The transition to the accounting structure leads to a deliberate and significant change in the announcement of money.

Intricate greenery of IFRS can be avoided by issuing an adjustable accounting control. There may be a problem with issuing the manual. A fast direction may not be available. Be that as it may, the substance can surpass this issue, referring to the act of neighboring and outsiders applying IFRS. The government, which helps move to IFRS, it is necessary to strengthen the elements in this veneration. The Ministry of Finance can take over the bulk, passing a detailed approach to the work of complex secretarial methods.

Another significant problem is the change in the relationship with accounting. Accounting should be evaluated as a deserving provider of financial data and a device worthy of attention in the main guide. This adjustment to the workplace framework will result in a minor evaluation of the business procedure. Administration should understand the importance of accounting; Accounting should not be meticulous, as a response to the legislature, but as a discourse for the administration and decision-making process. The collection of this belief system will expand the handle of the movement personally. The structure of accounting taking into account IFRS can also be used to ensure the sustainability of internal administration. Ads and pieces of gossip should be reflected for the purpose of disclosing information, as well as for responsibilities for administering the focus.

Discussion and results

As already noted, there are several advantages and costs associated with the transition to IFRS. The substance must correct the benefits and costs of the movement procedure. It is advisable to include IFRS in the article, meaning increase, pull out from the wander and be more transparent. Therefore, it is basic to obtain IFRS / IFRS in Azerbaijan, since the subtlety of IFRS / IFRS will help strengthen the faith and open foreign direct investment.

The Inquisitor of several checkers working in the reviewing organizations in Azerbaijan showed that it is important to adopt IFRS if a person must pull out shares, be simpler and increase the grandeur of the choice.

Outside speculators, it is mainly required that declarations related to money be sorted, as specified in IFRS, in order to make a choice with respect to a clear organization.

Proceeding from the fact that the external shareholder should use an element useful in Azerbaijan, he initially sends a global research firm to consider this body and submit monetarist proclamations based on IFRS.

This is the standard training in Azerbaijan and is the most basic source of payroll verification firms. Since the disclosed form is well known from neighboring substances, it does not prepare budgetary explanations from the standpoint of IFRS or NAS in the light of IFRS, but ask about the assessments of firms (mostly international).

Numerous by-products do not take into account the use of IFRS, but they must ask research firms to plan budget negotiations in the light of IFRS for them when they need to secure a loan from unnecessary organizations connected with cash.

As noted, it is extremely important to obtain IFRS for everything and for the economy as a whole. Expansion of the expenditure plan of Azerbaijan consists in demanding more subjective and obvious monetary information that is used by shareholders to fulfill the basic responsibilities of management.

Additionally, IFRS allocations were made in various post-Soviet republics. It seems that all post-Soviet states have related advantages and problems related to the understanding of IFRS. It is difficult to guess whether these domains have benefited from the application of IFRS, since work on IFRS is still ongoing. Be that as it may, the economy and everything that is required must receive appropriations under IFRS. The study of the measure of foreign direct investment (FDI) in Azerbaijan, Russia and Kazakhstan showed that FDI has largely expanded since the beginning of the use of IFRS.

Be that as it may, it is difficult to understand that impulses in FDI are due to the availability of more subjective financial data. Additional reasons additionally affect the aggregate of FDI, and it is necessary to provide support for monetary material for the enterprise.

CONCLUSION

This thesis introduced an introduction to some of the basics of accounting. You have studied the main terminology of accounting and accounting, general purposes and functions of accounting and the differences between the two types of accounting (financial accounting and management accounting). You must also now describe the various elements of financial information, such as income, costs expenses, assets and liabilities, and determine the main financial statements (profit and loss account, balance sheet and cash flow statement) and their objectives.

Performance evaluation will help the company understand the various aspects of its business operations, on the one hand, by analyzing performance in a given period and helping the company forecast their future business performance. This information received from business presentations can be used by a number of parties, various stakeholders, which include shareholders, creditors, employees, tax authorities, government, the media, etc. All expertise can use these performance data to assess business operations of the company, the future of the company and can contribute to the decision-making process in the company, as the evaluation will give a clear idea of the financial condition or status of organizations, financial targets nature, profitability and resource management. Also, with the right information, investors and shareholders will be able to make the right decision in terms of their investments, where appropriate opportunities for a potential positive result can be determined. In Tesco, with recent changes in the market and the economy, many changes have also been made to the organization. This is due to recessions, as well as to changes in retail trade, which affected all players in the market. When evaluating financing options for a company such as Tesco, it is important to evaluate the industry and evaluate the company's effectiveness using different coefficients to understand the situation in the company. With such an understanding, a company like Tesco can go further and think about new investments to decide which options to choose and how to finance these options.

The capital structure of the company decides how the company intends to finance its activities in the long term, in order to obtain greater benefits and maximize its wealth. Because of this, they can choose the best options for financing their needs and want to achieve these goals when, in the case of Tesco, he needed to assess the sources of long-term and short-term financial structure and financial disciplines before concluding.

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