



**Azərbaycan Dövlət  
İqtisad Universiteti**



Ministry of Education Republic of Azerbaijan

Azerbaijan State University of Economics

UNEC SABAH

*Aziz Aghaev*

**The Analysis of Impact of Implementation of  
IFRS Standards in Azerbaijan on Tax System**

Supervisor : Rovshan Jamalov

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## **Abstract**

The purpose of this bachelor thesis is to analyze effects of adoption of IFRS on taxation system in Azerbaijan. Research period starts from march to may in 2019. This bachelor thesis is devoted to analyze effects of implementation of IFRS specially for taxation system. Although, there is no direct effect of IFRS on taxation system, but there are some indirect effects, because of relationship between financial accounting and tax accounting. That's why in this paper, it is mentioned some negative and positive effects of IFRS implementation on tax system in case of Azerbaijan. Additionally, it is written both advantages and disadvantages of IFRS. In case of Azerbaijan, there are few knowledgeable and experienced people who can work with IFRS standards. The limitation of research data is as mentioned previously, there is no direct effect of IFRS on taxation.

Additionally, goal of writing first part of thesis is to give theoretical information to users about IFRS, advantages and disadvantages, differences between IFRS and Azerbaijan GAAP.

Second part is aimed to provide information about effects of transition to IFRS. How will it effect on taxation system of Azerbaijan? Does it have positive or negative effect?

Finally, third part shows result of research thesis. Conclusion shows result of analysis of transition to IFRS on tax system. Is it good for taxation to implement IFRS standards or not?

## **List of abbreviations**

AR – Azerbaijan Republic

IFRS - International Financial Reporting Standards

IASB - International Accounting Standards Board

COGS - Cost of Good Sold

IAS - International Accounting Standards

IASC - International Accounting Standards Committee

GAAP - General Accepted Accounting Principles

LIFO – Last in First out

FIFO – First in first out

SSRN - Social Science Research Network

FASB - Financial Accounting Standard Board

SEC - The Securities Exchange Commission

USA - United States of America

## Table of Contents

<b>Acknowledgements</b> .....	<b>ii</b>
-------------------------------	-----------

<b>Abstract .....</b>	<b>ii</b>
<b>List of abbreviations.....</b>	<b>iii</b>
<b>I.THEORETICAL BACKGROUND OF IFRS IMPLEMENTATION.....</b>	<b>3</b>
1.1 IFRS AND QUALITY OF ACCOUNTING INFORMATION .....	<b>4</b>
1.2 IMPORTANCE OF IMPLEMENTATION OF IFRS .....	9
1.2.1 ADVANTAGES AND SHORTCOMINGS OF IMPLEMENTATION OF IFRS .....	13
1.3 Differences between IFRS and Azerbaijan GAAP .....	21
<b>II.EMPIRICAL RESEARCH METHODOLOGY ON THE IMPACT OF IFRS IMPLEMENTATION IN TAX SYSTEM OF AZERBAIJAN .....</b>	<b>26</b>
2.1 IMPORTANCE OF TAX SYSTEM .....	<b>26</b>
2.1.1 CHARACTERISTICS OF EMPRICAL RESEARCH OBJECT THE DEVELOPMENT OF TAX SYSTEM IN AZERBAIJAN.....	29
2.1.2 DIFFERENCES BETWEEN IFRS AND TAX SYSTEM OF AZERBAIJAN REPUBLIC.....	32
2.2 TAX AVOIDANCE AND IFRS.....	<b>33</b>
2.3 Research goal, problem and limitations .....	37
2.4 HYPOTESIS .....	<b>38</b>
2.5 The Empirical Research Logic, Stages and Methods .....	42
<b>III. EMPIRICAL RESEARCH RESULTS OF EVALUATION OF IMPACT OF IFRS IMPLEMENTATION ON TAX SYSTEM OF AZERBAIJAN .....</b>	<b>43</b>
3.1 IFRS Adoption Process in Azerbaijan .....	43
3.2 The consequences IFRS implementation on tax system in Azerbaijan .....	52
Conclusion.....	52
List of References:.....	53

# INTRODUCTION

**Relevance :** The developing overall pattern of progressively nearer communication between individual economies requires unification of bookkeeping and financial reporting principles. This was the most urgent factor animating the far reaching utilization of International Financial Reporting Standards (IFRS).

Azerbaijan, which is a piece of the worldwide monetary framework, is impartially bound to utilize IFRS. Hence, the issue of the tax ramifications of the execution of IFRS, and specifically the issue of keeping up Azerbaijan's assessment power, is ending up progressively imperative.

The subject of the tax results of the progress to IFRS couldn't emerge if the bookkeeping parameters were not utilized in the enactment on tax and charges. In the meantime, Azerbaijan isn't extraordinary, and comparative issues are settled somehow by nations that exchange fiscal reports to IFRS, and on along these lines a specific encounter that requires examination is collected.

The starting implementation of International standards is proved in 2003 and from that date to today most organizations both public and private changed their policies of accounting and law standards from national to international. The remained organizations which did not change their policies thought that transition to international standards was useless decision. So implementation of IFRS has both negative and positive effects. That's why first stage of this bachelor thesis will analyze IFRS in commonly, definition and meaning. Then first part includes advantages, shortcomings and importance of implementation of IFRS and their effects on accounting and tax issues. So *research problem* is as following question- what is influence of implementation of IFRS on taxation system of Azerbaijan?

**Research object --** Impact of Implementation of IFRS Standarts on Tax System.

**Research goal --** to analyze influence of implementation of IFRS on taxation system in case of Azerbaijan.

To reach the aim of this research the objectives are raised as following :

1. To examine and blend the past studies of the impact of IFRS implementation.
2. To analyze differences between Azerbaijan legislation and IFRS standards
3. To provide results of this research thesis

**The structure of thesis ;**

This thesis paper is divided into 3 parts.

The first stage of paper is included overall theoretical background of IFRS implementation , quality of accounting information of IFRS, their seriousness ,advantages and disadvantages.So, this stage is based on how IFRS standards work and their effect.

The second stage of paper is devoted to determine differences between Azerbaijan National Standards and International standards. I analyzed that if IFRS implemented how it will effect on taxation system. Does it have positive effect or negative?

The third part of thesis provides conclusion and results obtained.

**Research limitation** – It is seemed from name of IFRS, IFRS is financial and accounting standards.That’s why there are no more imformation about IFRS effects on taxation system. But nevertheless, there are direct and indirect relationship between accounting and taxation. For example, if IFRS has negative effect on profit, profit will be low and also profit tax will be low. So, goverment gains low money.

**Methods and sources :** The qualitative examination and examination of the principle object is actualized by investigating and integrating logical writing and contrasting the outcomes gotten by past looks into in a similar field. The fundamental sources utilized for subjective information gathering are Social Science Research Network (SSRN), Research Gate, Ministry of Tax in Azerbaijan, Committee of Audit, Ministry of Finance, Investopediya, Central Bank of Azerbaijan. The research is fulfilled by using Microsoft Office 2010.

**Keyword :** IFRS, implementation of IFRS, international standards, Azerbaijan taxation system, effects of IFRS

## **I.THEORETICAL BACKGROUND OF IFRS IMPLEMENTATION**



## **1.1 IFRS AND QUALITY OF ACCOUNTING INFORMATION**

At present, the inclination towards institutionalization and unification of accounting standards turns out to be increasingly critical. This pattern mirrors the extension of the field of action of universal organizations, the reinforcing of the global world economy and monetary markets. Worldwide money related announcing benchmarks assume an imperative job in the harmonization and institutionalization of the bookkeeping framework, and the improvement of normal bookkeeping standards for all nations is a condition for the viable working of global undertakings in remote monetary action.

IFRS are generated in the European Union. International Financial Reporting Standards are customarily given the name IFRS. IFRS are standards which provided by the IFRS Foundation and the International Accounting Standards Board (IASB). The IASB is International Accounting Standards Board. These Reporting Standards are issued to provide a common intercontinental language for business matters and indicate how organizations must keep up and report their records , characterizing sorts of exchanges and different occasions with budgetary effect so that company accounts are comprehensible and comparable across multinational limits and the objective of IFRS is to make global comparisons as simple as possible. They are a result of developing universal shareholding and exchange and are especially vital for organizations that have dealings in a few nations. These international standards are increasingly replacing wide range national accounting standards. They are regulations pursued by accountants to keep up books of records. So, that these books of records or accounts are comparable, comprehensible, appropriate and trustworthy according to users inward and outward.

Sometimes, IFRS are confused with International Accounting Standards (IAS). IAS are the older standards that IFRS supplanted. IAS was emerged from 1973 to 2000, and the International Accounting Standards Board (IASB) supplanted the International Accounting Standards Committee (IASC) in 2001.

The improvement of organizations, joined by the developing job of universal reconciliation in the circle of the economy, makes certain conditions for consistency and fathomability of the standards of arrangement and figuring of benefits, charge base, conditions for venture of capital utilized in different nations. To improve the association of bookkeeping in Azerbaijan organizations, it is important to concentrate on the IAS and Financial Reporting. The job of IFRS was to guarantee similarity of announcing by organizations from various nations.

The use of IFRS required new information and abilities of work. The requirement for monetary announcing as per worldwide benchmarks for Azerbaijan undertakings is because of the accompanying variables: - the development of the likelihood of setting up exchange relations with outside clients; - the enthusiasm of vital financial specialists in the making of joint endeavors; - it is relied upon to issue securities to the universal market, and so on. IFRS has some archives (models) that oversee the money related detailing rules required by outer clients to settle on monetary choices as for a venture.

As mentioned previously, the objectives of IFRS are to make global comparisons as simple as possible. But these objectives have not completely been accomplished. Because, several countries use some other standards. Example of US use U.S GAAP (General Accepted Accounting Principles) and U.S GAAP is different from Canadian GAAP. There are also differences between IFRS and GAAP. Some of them are as following:

- ❖ Financial Accounting Standard Board (FASB) issued GAAP , whereas International Accounting Standard Board (IASB) issued IFRS
- ❖ Last in first out (LIFO) method is not permissible by IFRS, but there is not such case in GAAP
- ❖ IFRS depends on principles , but GAAP depends on rules
- ❖ An organization's development expenses can capitalized under IFRS in case of specific criterion is met.It enables a business to use depreciation on fixed resources. Under GAAP, development costs have to capitalize when they occur. So that these costs are not allowed to be capitalized

The principal financial capacity of bookkeeping gauges is to give "understanding about how critical business exchanges are to be executed" (Ball, 2001). Guaranteeing revelation nature of budgetary data is likewise compulsory for lessening data asymmetry and taking care of office issue in corporate segment. Gordon (2008) recorded the advantages from adjustment of IFRS over the world as- (1) Better monetary data for investors (2) Better monetary data for controllers; (3) Enhanced similarity; (4) Improved straightforwardness of results; (5) Expanded capacity to verify cross-fringe posting; (6) Better administration of worldwide tasks; and (7) Decreased cost of capital.

Barth et al. (2006) suggest that accounting quality could be improved with elimination of alternative accounting methods that are less reflective of firms' performance and are used by managers to manage earnings. They compare earnings management for firms that voluntarily switch to IFRS with firms that use domestic accounting standards. They find that after IFRS adoption, firms have higher variance of changes in net income, a higher ratio of variance of changes in net income to variance of changes in cash flows, higher correlation between accruals and cash flows, lower frequency of small positive net income, and higher frequency of large

losses. Barth et al. (2006; 2008) also found that an international sample of firms that voluntarily adopted IFRS up to 2003 exhibits lower levels of earnings management and more timely loss recognition than a matched sample of firms using local GAAP. As an extension of these findings, Daske et al. (2007) focus on the heterogeneity in the consequences of voluntary IFRS adoption and find that on average capital markets respond modestly to voluntary IFRS reporting. Overall the evidence on the association between voluntary IFRS adoption and accounting quality is mixed, although papers applying more recent data generally find relatively better accounting quality among the firms that adopt IFRS. (Christensen et al. 2008). A common feature of these studies is that, much of the previous studies on IFRS compliance relates to voluntary adopters, which by definition suffer from selection bias (Asbaugh 2001). This raises the question as to whether we can attribute the improved quality to the application of IFRS per se.

That is, does the utilization of IFRS incrementally affect bookkeeping quality, or is the watched quality improvement an aftereffect of different changes executed at the same time by the embracing firms? In an examination, Daske et al. (2007) inspect the capital market impacts of required IFRS selection. They discover proof that is reliable with decreased data asymmetry in relationship with compulsory IFRS appropriation.

They argue that the effect could be driven by network effects rather than accounting quality improvements. In a similar spirit, Lee et al. (2008) argue that if IFRS matters, then firms in countries that had lower disclosure quality and dependence on equity financing prior to mandatory IFRS should experience a greater impact after mandatory adoption. However, using implied cost of equity capital as an indicator, they find no effect among such countries even after two years under the new accounting standards. By eliminating many international differences in

accounting standards, and standardizing reporting formats, IFRS eliminate many of the adjustments that analysts historically have made in order to make companies' financial information more comparable internationally. IFRS adoption therefore could make it less costly for investors to compare firms across markets and countries (e.g., Armstrong et al., 2007; Covrig, Defond, and Hung, 2007). Thus, a common set of accounting standards would reduce information asymmetries among investors and/or lower estimation risk by increasing comparability between lower and higher quality firms. The gain would be greatest for institutions that create large, standardized format financial databases. Similarly, accounting diversity could be an impediment to cross-border investment (Bradshw, Bushee, and Miller, 2004).

In this way, lessening worldwide contrasts in bookkeeping guidelines helps somewhat in encouraging universal mix of capital markets (Covrig, Defond, and Hung, 2007) by evacuating obstructions to cross-outskirt acquisitions also, divestitures, which in principle will compensate speculators with expanded takeover premiums (Bradley, Desai and Kim, 1988). To mean the impact of IFRS on financial specialists' capacity to conjecture income; a few scientists contend that better bookkeeping guidelines make announced profit not so much uproarious but rather more precise, thus more "esteem important." (Ashbaugh and Pincus (2001), Hope (2003)). Different things rise to (for instance, overlooking implementation and usage issues for the occasion) this would make profit simpler to conjecture and would improve normal expert estimate exactness. A few analysts (Ball, Kothari and Robin (2000), and Ball, Robin and Wu (2003)) thought oppositely that supervisors in low-quality revealing routines can "smooth" announced income to meet an assortment of targets, for example, lessening the unpredictability of their own pay, diminishing the instability of payouts to different partners, lessening corporate assessments, and keeping away from acknowledgment of misfortunes.

## **1.2 IMPORTANCE OF IMPLEMENTATION OF IFRS**

Bookkeeping as a "Language of Business" imparts the money related outcomes and wellbeing of an endeavor to different invested individuals by methods for periodical budget summaries. Like some other languages bookkeeping ought to have its sentence structure and these arrangements of standards are Bookkeeping Standards. The target of Accounting Standards is three overlay. Initially, they help to institutionalize the different bookkeeping strategies and wipe out the uniqueness of budget summaries inside a substance and crosswise over elements. They encourage the introduction of high caliber, straightforward and equivalent data in fiscal summaries too. Thirdly, they decrease to bookkeeping choices and in this manner wipe out the component of subjectivity in budget summaries.

The significance of worldwide bookkeeping practice ponders has become over the past barely any years so as to fulfill monetary specialist needs and to encourage universal business rehearses. It is fundamental to comprehend that global bookkeeping combination is a vital subject for capital market controllers, speculators, markets, governments and all other people who manage money related data of open organizations. This draws out the significance of bookkeeping just like a basic financial apparatus for different financial operators. The value of universal bookkeeping union lies in its capacity to limit negative impacts coming about because of assorted variety of bookkeeping rehearses in various nations (Cordeiro et al. 2007). In such a situation, the presentation IFRS for recorded organizations in numerous nations around the world are seen as a standout amongst the most noteworthy administrative changes in bookkeeping history (Daske et al. 2008).

IFRS issued by the IASB is accepted as the head worldwide detailing measures of bookkeeping data over the world. Today, in excess of hundred countries request or grant the utilization of IFRS in their nations. Numerous nations have effectively reported their readiness to embrace IFRS in their nations. This is turning into the most mainstream and regularly acknowledged budgetary announcing model far and wide, for example, European Union, Australia, New Zealand what's more, Russia. The lawful systems as of now grant the utilization of IFRS in their nations. The significance of IFRS developed as they give more noteworthy similarity of budgetary data for financial specialists and furthermore urge them to contribute crosswise over outskirts. Studies demonstrate that, IFRS reception help in bringing down the expense of capital for the organizations and benefits progressively productive portion of capital.

Levitt (1998) in his paper on the significance of fantastic bookkeeping principles underlined the requirement for harmonization of bookkeeping norms to convey valid grounded in straightforward money related revealing. The creator rattles off three key destinations for worldwide gauges to pick up acknowledgment, as under:

1. The norms ought to incorporate a center arrangement of bookkeeping proclamations that comprise a complete, for the most part acknowledged premise of bookkeeping.

2. The models must be of 'fantastic'- they should result is likeness and straightforwardness and accommodate complete honesty. Financial specialists must seriously examine execution crosswise over timespans and among organizations.

3. The benchmarks have to be thoroughly converted and connected. On the off chance that the bookkeeping benchmarks are to fulfill the target of having

comparative exchanges and occasions represented in comparative ways-at whatever point and wherever they are experienced, inspectors and controllers around the globe must demand thorough elucidation what's more, use of those models. Something else, the similarity and straightforwardness that is the target of normal gauges will get disintegrate.

The Securities Exchange Commission (SEC) of United States of America (USA) has permitted use of IFRS without compromise of US.GAAP in the monetary reports recorded by remote private backers, in this manner, giving remote private guarantors a decision among IFRS and US.GAAP. SEC has recommended that the USA guarantors should start announcing under IFRS from 2014 with full transformation to happen by 2016 relying upon size of the element, that this will bring nearly the whole world on one single, uniform bookkeeping stage, which is IFRS.

The advocates of IFRS contend that bookkeeping measures harmonization by means of IFRS upgrades the quality and equivalence of corporate money related divulgences, and bookkeeping revelation characteristics have been the real focal point of financial specialists and furthermore controllers. The main positive and direct technique for decreasing office cost and hazard due to data asymmetry is through better bookkeeping revelation approaches. The bookkeeping quality relates to better data revelation quality. Different bookkeeping norms and 'GAAPs' far and wide set down various arrangement of standards for bookkeeping revelations henceforth the nature of bookkeeping data additionally vary crosswise over countries. The essential component of IFRS is principle based standard instead of being role based one.

Since IFRS is still in its early stages, examines over the globe are intrigued to think about the significance and effect on the financials of the organizations.The



utilization of IFRS upgrades the equivalence of fiscal summaries, improves corporate straightforwardness, nature of money related announcing and along these lines benefits speculators. Daske et al. (2008) in their examination on monetary outcomes because of obligatory IFRS announcing around the globe, contend that, from a financial point of view, there are motivations to be distrustful about the above desires according to the financial outcomes of commanding IFRS announcing are not self-evident. Contending on a similar premise, this examination means to examine the effect on financial exercises of Indian organizations by embracing IFRS. Despite the fact that there are a few likenesses among IGAAP IFRS, still there exist contrasts that can have noteworthy financial effects. The exploration intends to comprehend these effects due to IFRS reception by Indian organizations.

IFRS Standards address this test by giving a high caliber, globally perceived arrangement of bookkeeping guidelines that bring straightforwardness, responsibility and productivity to monetary markets.

IFRS Standards bring **straightforwardness** by upgrading the global likeness and nature of financial data, empowering investors and other market members to settle on educated financial choices or economic decisions.

IFRS Standards reinforce **responsibility** by decreasing the data hole between the suppliers of capital and the general population to whom they have endowed their cash. As a wellspring of comprehensively equivalent data, IFRS Standards are likewise of fundamental significance to controllers around the globe.

What's more, IFRS Standards add to economic efficiency by helping investors to recognize opportunities and dangers over the world, in this way improving capital allotment. For organizations, the utilization of a solitary, believed bookkeeping language brings down the expense of capital and diminishes global announcing costs.

## **1.2.1 ADVANTAGES AND SHORTCOMINGS OF IMPLEMENTATION OF IFRS**

### **Advantages**

Selection of IFRS will prompt more prominent straightforwardness and capacity, lower cost of cash-flow to organizations and higher offer costs (because of more prominent certainty of financial specialists and straightforward data), decreased national standard-setting costs, simplicity of guideline of securities markets, simpler likeness of financial reporting crosswise over outskirts. In addition it will prompt accessory venture openings, expanded validity of residential markets to outside capital suppliers and possibilities remote merger accomplices, furthermore, to potential moneylenders of budget reports from organizations in less-created nations. It will likewise encourage simpler global versatility of expert staffs over national limits. For the worldwide organizations, it will assist them with fulfilling the divulgence prerequisite for stock trades the world over (Armstrong, Barth Jagolizer and Riedl, 2007, Covrig, Defond and Hung 2007, Daske et al 2008). Other benefits include lower weakness to political weights than national gauges, the continuation of nearby usage direction for neighborhood conditions and the propensity for bookkeeping principles to be raised to the most noteworthy conceivable quality dimension all through the world. (Choi, et al, 1999; Alfredson et al 2004). The net market impact of assembly is a component of two impacts. The first is the direct instructive impact - regardless of whether intermingling increments or diminishes bookkeeping quality. The second is the skill obtaining impact or whether speculators become specialists in outside bookkeeping, which relies upon the fact that it is so exorbitant to build up the ability. Thusly, expected net showcase impact of intermingling is questionable.

Armstrong et al (2007) found that financial specialists anticipated that net advantages should IFRS appropriation in Europe related with increments in data quality, diminishes in data asymmetry, progressively thorough implementation of the guidelines, and intermingling. They find (1) a steadily positive response for firms with lower quality pre-appropriation data, which is increasingly articulated in banks, and with higher pre-appropriation data asymmetry, predictable with speculators expecting net data quality profits by IFRS appropriation. A gradually negative response for firms (2) domiciled in code law nations, reliable with speculators' worries over requirement of IFRS in those nations and (3) a positive response to IFRS selection occasions for firms with high quality pre-selection data, predictable with speculators anticipating net intermingling profits by IFRS reception. Gordon (2008) recorded the advantages from adjustment of IFRS over the world to include better money related data for investors and controllers, upgraded likeness, improved straightforwardness of results, expanded capacity to verify cross-fringe posting, better administration of worldwide tasks and diminished expense of capital.

#### Concentrate ON INVESTORS

One of the critical favorable circumstances of IFRS contrasted with GAAP is its attention on financial specialists in the accompanying ways:

1. The primary factor is that IFRS guarantee progressively precise, opportune and complete budget report data that is important to the national norms. However, information given by budget reports arranged under IFRS tends to be increasingly reasonable for speculators, as they can comprehend the money related explanation without the need of different sources, which makes speculators more educated

2. This additionally helps new or little financial specialists by making the revealing measures more straightforward and better quality as it puts little and new

financial specialists similarly situated with other expert financial specialists as it was inconceivable under the past announcing gauges. This additionally lessens the hazard for new or little financial specialists while exchanging as expert financial specialists cannot exploit because of the straightforward to comprehend nature of budget reports.

3. Because of harmonization and institutionalization of announcing benchmarks under IFRS, the speculators do not have to pay for handling and changing the monetary proclamations to have the capacity to get them, hence disposing of the charges of examiners. In this manner, IFRS diminishes the expense for financial specialists.

4. Diminishing universal contrasts in revealing models by applying IFRS, in a sense evacuates a cross outskirts takeovers and acquisitions by speculators.

#### LOSS RECOGNITION TIMELINESS

Perceiving the misfortune promptly is one of the key highlights of IFRS as it is not just the advantage for the speculators, yet additionally for the loan specialist and different partners inside the organization. The expanded straightforwardness and misfortune acknowledgment of IFRS, for the most part builds the proficiency of contracting among organizations and their administration, which moreover improves the corporate administration. With expanded straightforwardness as guaranteed by IFRS, the loan specialists likewise advantage from IFRS as it makes it obligatory for the organizations perceive the misfortune right away. This timelier misfortune acknowledgment of IFRS, triggers the issues as when the organizations face monetary misfortunes, the partners of other potential financial specialists will know it. Timelier misfortune acknowledgment likewise empowers the organization audit its book estimations of advantages and liabilities, profit, value.

## COMPARABILITY

The combination to IFRS has improved the equivalence of budget summaries in the EU. Having similar detailing standards accomplish under a solitary showcase, the EU.

As all organizations, setting up their combined fiscal summaries, have been detailing experienced revealing standard have improved the equivalence not just for speculators, yet in addition, all collaborates who utilize the budget summaries.

Another reason that has added to the general achievement of the IFRS selection has been the change period, as in excess of 8000-recorded organizations in the EU received it around the same time.

There has been a contention about the absence of proficiency and likeness of IFRS. Coming up next is the contentions against the absence of likeness and consistency of IFRS:

Because of the solid national character of IFRS reports, as the fundamental impacts of IFRS has been on how organizations perceive, measure and reveal things. What's more, the organizations have received a methodology, which limited the progressions from past national principles, which diminished the capacity to think about the fiscal reports over an industry.

The broad judgment has been required under IFRS because of the nonattendance of industry related direction that made holes and irregularities in the IFRS announcing models. What's more, this is another explanation behind the absence of likeness and irregularity

What's more, organizations are not certain that the IFRS is sufficient for the reasons for conveying their execution to the monetary markets, as GAAP revealing

benchmarks would in general be progressively point by point which could give increasingly itemized data

Another factor that demonstrates the absence of similarity and irregularity is because the IFRS detailing principles are more confused than the national bookkeeping norms (UK), in this way; it might turn into a procedure of following the overwhelming instrument yet does not really advance the execution of the organizations.

#### **Institutionalization OF ACCOUNTING AND FINANCIAL REPORTING**

The most referenced factor about the upsides of IFRS has been the institutionalization of monetary announcing which in the end improves the equivalence of budgetary articulations in major money related markets. This additionally evacuates the exchange boundary, as this was one of the key factors as why the EU has been attempting to receive single revealing models.

#### **IMPROVED CONSISTENCY AND TRANSPARENCY OF FINANCIAL REPORTING**

This factor can likewise be referenced as one of the urgent favorable circumstances of changing over to IFRS as it makes the EU part nations to be predictable not just on macroeconomic angles, yet in addition on monetary announcing which improves connection between financial specialists what's more, organizations among part nations.

#### **BETTER ACCESS TO FOREIGN CAPITAL MARKETS AND INVESTMENTS**

As a large number of organizations in Europe and other joining nations over the world has as of now made a tremendous base for IFRS appropriation, it likewise

improves the organizations to get to to monetary markets by having the fiscal reports arranged under one announcing norms.

One of the fundamental explanations behind changing over from recently utilized GAAP to new IFRS was for improving likeness in universal monetary markets, in this manner expanding the concentrate on financial specialists. Also, this has been fundamentally accomplished and as yet going to be accomplished as an ever increasing number of nations around the globe have been changing over to IFRS from their national announcing principles as referenced amid the meeting.

#### Improved Comparability of Financial Data with Global Competitors

The similarity of budget reports under IFRS will be improved just,if the reception of IFRS grows including more nations.The equivalence of fiscal reports deteriorate if a similar nation utilizes two distinct arrangements of announcing norms, subsequently IFRS and national announcing guidelines.

Because of the hole between the market and book esteems, the neighborhood financial exchange gets unfavorably influenced when the IFRS is connected in accordance with other national announcing norms.

In addition, there has been no huge accomplishment as far as handiness and improved similarity of fiscal summaries in the momentary which is principally due to the way that the IFRS detailing norms is genuinely new as an announcing standard and the harmonization has not completely been accomplished yet by all EU part nations. What's more, it is trusted that the helpfulness and improved likeness of IFRS might be accomplished in the medium-long haul.

To guarantee the equivalence of budget summaries, all organizations ought to pursue similar guidelines by receiving IFRS. Private and little and medium

estimated, unconsolidated explanations can be set up under IFRS which further improves the similarity and consistency of fiscal summaries. In addition, inevitably, the appropriation of IFRS by all nations around the globe gives considerably progressively expanded handiness and likeness of fiscal summaries.

### Relevance

What's more, the importance of the IFRS is as followings:

1. The new IFRS thinks about monetary substance more than authoritative document. This makes a difference the organizations and different partners to have genuine and reasonable perspective on the organizations' exchanges.

2. A way IFRS reflects to additions and misfortunes in an opportune way places IFRS in a more dependable and trustworthy position than the GAAP as far as detailing models

3. The asset reports arranged under IFRS will in general be progressively helpful because of its design what's more, the consistency, and the dimension of unpredictability contrasted with GAAP that tended to be progressively nitty gritty

4. The control by administrators by making shrouded holds isn't permitted any progressively under new IFRS, so not so much manipulative but rather more investors situated

Additionally, different advantages as referenced amid the meeting are cost sparing with new IFRS particularly for global enterprises. Nonetheless, before organizations can begin getting a charge out of the cost reserve funds, they need to spend significant measure of cash as transitional expenses.

### Disadvantages



1. The most essential drawback of IFRS identify with the costs identified with the application by global organizations which involve changing the interior frameworks to make it good with the new detailing models, preparing costs and and so forth.

2. The issue of controlling IFRS in all nations, as it will not be conceivable because of different reasons past IASB or IASC control, as they cannot implement the utilization of IFRS by all nations of the world.

3. Issues, for example, IFRS does not permit remarkable misfortune/gain.

4. Another real hindrance of changing over to IFRS makes the IASB the monopolist as far as setting the gauges. If US organizations accept IFRS, it will develop. What's more, if there is rivalry, such IFRS versus GAAP, there is increasingly possibility of having dependable and valuable data that may happen amid the course of rivalry.

5. The complete expense of progress costs for the US organizations will be over \$8 billion and one off change costs for little and medium measured organizations will be in normal \$420,000, which is a significant colossal measure of cash to ingest by organizations.

6. And despite the fact that the organizations and nations are bringing about enormous transitional expenses, the advantages of IFRS can't be seen until later indicate due the way that it takes a few a long time for the harmonization and to have adequate long stretches of budget summaries to be set up under IFRS to improve consistency.

7. The key issue in change to IFRS that has worried with high significance is the utilization of reasonable incentive as the essential premise of advantage and

obligation estimations. Also, questioners feel that this standard will bring expanded instability as the advantages are accounted for.

8. Another damage of IFRS is that IFRS is very mind boggling and expensive, and if the appropriation of IFRS required by little and medium measured organizations, it will be a major detriment for SMEs as they will be hit by the vast change costs what's more, the dimension of multifaceted nature of IFRS may not be consumed by SMEs.

9. In addition, one of the points of European Union from applying and institutionalizing the detailing principles was to build the worldwide similarity of money related articulations; in any case, just more than 7000-recorded companies embraced IFRS from 2005, there were still more than 7000,000 SMEs in EU, which favored their national rendition of announcing guidelines. This repudiates the point of the EU and mostly of IFRS in actualizing single worldwide detailing principles.

10. It is not all over accepted

Truly, the US has not yet embraced the IFRS, so as different nations that keep holding out also. This implies bookkeeping by outside organizations working in these nations are confronting troubles since they need to get ready financial statements utilizing such a lot of guidelines and another arrangement of rules that happen in these nations.

## **1.3 Differences between IFRS and Azerbaijan GAAP**

Accounting strategy for inventory

Representing inventory as per Azerbaijan bookkeeping arrangements has some likenesses with and contrasts from IAS. These similitudes are in the

determination of the inventory costs, valuations techniques connected; contrasts are in the consequent valuation, and the utilization of LIFO strategy. These bookkeeping strategies that are utilized by most of the substances were set toward the start of the progress to the market economy. The absence of some market instruments, for example, the inaccessibility of the assurance of reasonable qualities and net feasible qualities did not permit to receive certain global bookkeeping arrangements. These arrangements additionally have a few qualities of the Soviet Accounting System. This is clear particularly in the assignment of expenses to the estimation of completed products and work-in procedure stock. Point by point data about bookkeeping strategies for inventories as indicated by Azerbaijan GAAP is given in the accompanying sections.

Table 1: Accounting strategy for inventory

IAS 2	Azerbaijan GAAP
<b>Recognition</b>	
When legal title passes to the buyer, it must recognize the inventory on the financial statements.	Azerbaijan accounting policies require recognize inventory according to contractual agreements where all conditions regarding the legal title of inventory, ownership and shipment rules are established.
<b>Inventory costs</b>	
All costs that are incurred in order to put the inventory to its present location and present condition must be considered the cost of inventory.	The cost of inventory is determined considering purchase price, import duties and taxes, transportation and insurance costs, and any costs that are necessary in order to put inventory into usable condition.
<b>Valuation of Inventories</b>	
IAS 2 considers specific identification, Weighted average cost and FIFO methods.	Specific identification, weighted average cost, FIFO and LIFO method are applied.
<b>Subsequent measurement</b>	
Inventories are subsequently measured at lower of cost or market.	Inventories are subsequently measured at realizable value, which is based on the possible selling prices.
<b>Disclosure requirements</b>	

Information about the accounting policies adopted in measuring inventories, the carrying amount of inventories, and the amount of inventories recognized as an expense, the carrying amount of inventories pledged as security for liabilities is disclosed in the financial statements.	There is not disclosure requirement.
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Source: Compiled by author based on Barry J. Epstein, Eva K. Jermakowicz. 2008

### Accounting strategy for equipment, property and plant

Bookkeeping strategies for property, equipment and plant additionally convey the qualities of the Soviet and global bookkeeping frameworks. Those strategies are increasingly like the Soviet Accounting System instead of to the IAS. Bookkeeping approaches for devaluation, ensuing valuation, and consequent expenses acquired are embraced from the Soviet Accounting System.

As indicated by Azerbaijan GAAP, plant, property and equipment are named Fixed Assets to be determined Balance Sheet and characterized as tangible resources that are held for use in the creation or supply of products or administrations, for regulatory purposes for an utilization of over a year, or for use in the ordinary course of working cycle of over a year (Sebzeliyev 2005, 179). One of the significant contrasts between the two guidelines is the cost furthest reaches that is built up by the Azerbaijan bookkeeping guidelines. As indicated by this point of confinement a thing of an tangible resource that costs over 100 manats (1 manat=\$ 0.8), and that exchanges its esteem step by step to the completed products can be perceived as Fixed Assets in the fiscal summaries (Sebzeliyev 2005, 179).

Table 2. Accounting strategy for equipment, property and plant

<b>Noncurrent assets</b>	
<b>IAS 16</b>	<b>Azerbaijan GAAP</b>
<b>Definition</b>	
Property, plant and equipment are	Tangible assets that are held for use in

tangible assets that are held for use in the production or supply of goods or services, for rental purposes, or for administrative considerations and these assets are expected to be used during More than one period. Investment Property is not included here.	the production or supply of goods or services, for administrative purposes for a use of more than 12 months, or for use in the normal course of operating cycle Of more than 12 months. Investment property is included, i.e. it is not classified separately
<b>Subsequent measurement.</b>	
Property, plant and equipment is measured by applying either the cost or revaluation model	According to the Accounting Law, fixed assets are to be recognized in the balance sheet at historical cost. Revaluation method is not considered as an alternative method of valuation, but rather is required to be applied if there are some economic indications.
<b>Depreciation.</b>	
According to IAS 16, the value of property, plant and equipment is allocated on a systematic way over the useful life of the asset. An entity considers residual value while determining annual depreciation expense.	According to Azerbaijan Accounting rules and Tax Code, depreciation of fixed assets is determined by the application of annual depreciation percentages to the book values of fixed assets. The government determines residual value and useful life.
<b>Impairment.</b>	
International Financial Reporting requires entities to recognize impairment losses while reporting property, plant and equipment	Impairment is not permitted
<b>Disclosure requirements</b>	
Information about the depreciation methods used, the useful lives, impairment losses recognized, and Acquisitions is to be presented in the notes.	Not provided

Source: Compiled by author based on Barry J. Epstein, Eva K. Jermakowicz. 2008

### Accounting strategy duet to intangible asset

Bookkeeping strategies for intangible resources were chiefly received from the global bookkeeping rehearses. "Intagbile resources" is new term in Azerbaijan

bookkeeping rehearses. This term was incorporated into the Azerbaijan GAAP while progress to the Market Economy. The comparable definition and acknowledgment standards for bookkeeping of intangible resources were embraced from worldwide bookkeeping frameworks. In any case, Azerbaijan GAAP does not give the best possible recognizable proof and control criteria set up by IAS 38. There are no particular guidelines and systems identifying with the acknowledgment of inside created intangible resources. The costs acquired while creating intangible resources inside are completely expensed, which varies from universal monetary guidelines. Generosity is likewise perceived as a piece of intangible resources. Bookkeeping arrangements for resulting valuation, treatment of along these lines caused expenses, and amortization for uncertain helpful life intangibles contrast from IAS. The accompanying sections give point by point data identifying with the bookkeeping arrangements for intangible resources.

As per the Accounting Law (Chapter 18, passage 11) and the Tax Code (part 118.1), intangible resources are at first estimated at cost when gained. The cost comprises of price tag and any straightforwardly inferable expenses (Sebzeliyev 2005, 224). In the event that intangible resources are obtained because of business mixes, they are esteemed at reasonable esteem. Intangible resources obtained by trade are estimated at the book estimation of the benefit got. The book estimation of the elusive resource procured through trade is resolved dependent on the going with archives.

Table 3. Accounting strategy duet to intangible asset

<b>Noncurrent assets</b>	
<b>IAS 38</b>	<b>Azerbaijan GAAP</b>
<b>Definition</b>	
Identifiability, control over a resource and existence of future economic Benefits.	Non-tangible assets held for more than one year.

<b>Recognition</b>	
IAS 38 states that an intangible asset is recognized if it is probable that the asset will generate future economic benefits flowing to the entity and the cost of the asset can be measured reliably.	Intangible assets are recognized when there is right to use those assets.
<b>Initial Measurement</b>	
Intangible assets are initially measured at cost. The cost will consist of purchase price and directly attributable costs that are required to be incurred in order to prepare the asset to its intended use.	Intangible assets are initially measured at cost when acquired. If intangible assets are acquired as a result of business Combinations they are valued at fair value.
<b>Amortization</b>	
Intangible assets with the finite useful life are to be amortized on a systematic basis over the useful life	Azerbaijan GAAP applies straight-line amortization method for intangible assets that have finite economic useful life. For intangible assets with indefinite useful lives the annual amortization Amount equals to the 10% of its initial cost.

Source: Compiled by author based on Barry J. Epstein, Eva K. Jermakowicz. 2008

## **II. EMPIRICAL RESEARCH METHODOLOGY ON THE IMPACT OF IFRS IMPLEMENTATION IN TAX SYSTEM OF AZERBAIJAN**

### **2.1 IMPORTANCE OF TAX SYSTEM**

The tax is an implemented expense that is charged on people and associations by government or its office on an item, salary, or administration. Regardless of numerous individuals grumbling of making charge commitments to government, these commitments are imperative for the economy of a nation. This is on the grounds that these money related commitments are utilized by government for the

usage of different financial advancement undertakings, for example, the development of streets and extensions, schools, wellbeing offices and arrangement of social administrations like national security, arrangement of pay rates for government employees including the police, the military, judges, specialists, medical caretakers and educators. Notwithstanding, to plainly comprehend the method of reasoning behind government charging of assessments terms, for example, tax assessment, value in connection to tax collection, immediate and backhanded duty and wellsprings of pay, should be obviously comprehended.

Tax assessment for the most part alludes to the real demonstration in which government or its burdening specialist really gathers charge from people and associations. Tax collection is guided by a few rules that are for the most part featured in the Taxation Act and Amendments. The tax assessment standards accentuate that charges gathered ought to be sufficiently only to produce income required for arrangement of basic open administrations, and that charges must be spread over as wide as conceivable area of the populace, or parts of economy. Moreover, charges are upheld in a way that encourages deliberate consistence from people and associations to the most extreme degree conceivable, yet additionally assesses should similarly load all people or elements in comparative monetary conditions. Adding to this, charges do not support any one gathering or division over another.

Value in connection to tax collection is another critical component that should be clear comprehended the extent that tax assessment is concerned. The word value focuses on the decency and justness of gathering charges by government. Value in connection to tax assessment infers giving as much favorable position and thought to one individual or association as it is given to another in comparative monetary conditions. This is a rule that assessments ought to be reasonable and ought to be founded on various individuals' capacity to pay, and is typically identified with their



salary. Essentially, it is normal that a person that procures more salary needs to pay in excess of an individual winning a comparable lower pay.

Taxation are isolated into two primary gatherings of direct charges and aberrant expenses. On one hand, the direct expenses can be said to be those paid legitimately to the legislature by the people or associations on whom it is being forced. Instances of direct duties charged by the Malawi Revenue Authority incorporate pay charges, such Pay as You Earn (PAYE), and as the name suggests, is a duty on Income. Salary, as indicated by MRA incorporates the aggregate sum in real money or kind gotten by or accumulated to an individual from sources inside Malawi, or considered to be inside Malawi. Another type of direct expense is charge dependent on riches and this depends on the abundance of a person at the date of death and is at times called Estate Duty. Then again, Indirect assessment, likewise alluded to as merchandise and ventures charge, is an expense gathered by a middle person, for example, a retail location from an individual who bears a definitive financial weight of the duty, (for example, the client). Aberrant expenses are registered in the expense of merchandise or administrations an individual or association buys. In Malawi, a case of backhanded assessment is deals charge, which is an obligation paid dependent on the estimation of products or administrations that have been acquired. Deals charge in Malawi is known as Value Added Tax (VAT). Traditions obligation is another type of backhanded obligations and is charge demanded on the estimation of products that have been brought into the nation. Extract obligation is additionally a type of circuitous assessment and these are forced on chosen privately fabricated products to debilitate the utilization of such merchandise.

There are a different number of salary sources that are assessable from pay an individual or association gains, which is commonly total compensation from work,

business and rentals. There are numerous wellsprings of pay, however the most well known are compensation and wages, which is the sort of salary that most of individuals need to manage when recording their assessments and is the thing that people gain from an occupation. Another source is independent work salary, which is any cash that an individual makes outside an ordinary occupation from administrations rendered. For instance, if an individual works a locally established business, cash from this undertaking would be considered independent work pay. Another sort of pay that one may get is premium salary, and is the pay one gets from placing cash into an investment account.

### **2.1.1 CHARACTERISTICS OF EMPIRICAL RESEARCH OBJECT THE DEVELOPMENT OF TAX SYSTEM IN AZERBAIJAN**

The Constitution of Azerbaijan Republic, the Tax Code and legitimate models that are received herewith, includes the tax enactment of Azerbaijan. The assessments imposed in Azerbaijan can be largely staled into three principle sorts: state charges, duties of independence republic and nearby (metropolitan) charges. State charges incorporate the accompanying: individual salary charge, corporate duty, esteem included assessment, extract charge, property charge, land charge, street charge, mineral eminence charge and streamlined expense. Assessments of self-sufficiency republic are equivalent to state charges however collected in Nakhchivan Autonomous Republic.

The Tax Code of Republic of Azerbaijan endorsed on 11 July 2000 and comprises of two sections. The General Part demonstrates the rights and duties of citizens, charge operators and duty specialists, methodology of assessment enrollment, charge control and review. The second part, likewise alluded to as

Special Section, characterizes explicit duties and their bases, rates, installment plans and procedures. There exist separate tax collection techniques for Production Sharing Agreements.

From 2010, the administration incomes from assessments began to rise. In this manner, in 2014, charge incomes as rate from GDP totaled 14.213%. Most astounding offers of assessment incomes originated from esteem included duty and corporate benefit charges in 2014. In 2015, charge incomes as level of GDP were equivalent to 15.6%

The focal official body, which gives the execution and control of expense approaches in the nation, accumulation and exchange of duty installments into the administration-spending plan, is Ministry of Taxes of Azerbaijan Republic.

In Azerbaijan, on January 1, 2001, another duty code became effective. Individual pay rates continued as before, at rates running from 12– 35%, as did the corporate duty rate, at 27%. Nevertheless, starting at 2005, the corporate rate was set at 24%. The modified deterioration plan for corporate resources favors interests in innovative hardware and oil and gas investigation. Deterioration rates are 10% per year for structures, 25% every year for gear and PCs, 25% for land and exploratory expenses, and 20% per year for every other resource. Nevertheless, quickened deterioration is took into account capital spending dispensed for generation purposes at double the standard rates. Incorporated into this are consumptions on the structure of those offices that are to be utilized in the real production of merchandise. The esteem-included expense (VAT) decreased from 20% to 18%, while the property charge rose from .5% to 1% of evaluated esteem. A .05% Road Fund Tax on turnover was annulled, yet there is a parkway charge forced on remote enrolled vehicles gathered by traditions experts. There are finance charges paid by the business adding up to 32%, 30% setting off to the Social Protection Fund, and 2% heading off to the

Employment Fund. There are extract charges, however extract paid for merchandise utilized underway can be off set against extract charged for the completed item. In 2001, absolute government income went to an expected 21.4% of GDP, while complete uses, including net loaning, added up to just 20% of GDP, delivering a positive monetary parity equivalent to 1.4% of GDP.

Right now, Azerbaijan has three particular duty routines. These are the accompanying: statutory duty routine, charge routine that identifies with organizations working under Production Sharing Agreements and expense routine that identifies with organizations working under Host Government Agreements.

- The statutory assessment routine is relevant to all organizations working in Azerbaijan, aside from those, who are included into oil and gas industry.
- The routine identified with Production Sharing Agreements covers the principles for in excess of twenty existing PSAs. Milli Majlis has endorsed these PSAs.
- Host Government Agreements charge routine secures the principles identified with Baku-Tbilisi-Ceyhan oil fare and South Caucasus pipelines. The assessment year in Azerbaijan begins in January 1 and finishes in December 31. Undertakings must fill in and present the assessment announcement no later than 31 March following the timetable year and clients of improved expense ought to present the revelation no later than 20 April. Normal people who have remained in Azerbaijan 182 days in a schedule year are accounted as inhabitants and are in charge of making good on the government obligations. Inhabitants of Azerbaijan are assessable on their worldwide salary, while non-occupants are assessable on the Azerbaijani source pay as it were. Assessments can be retain from individuals who are identified with work

exercises, just as non-enterprising exercises, for example, intrigue salary, profits, capital additions and sovereignties. Farming pay, endowments and legacy from relatives, capital additions, salary from specialties creation, lottery prizes, alimonies and remuneration receipts are excluded from tax assessment. Standard derivations are relevant for war legends, their families and military authorities.

## **2.1.2 DIFFERENCES BETWEEN IFRS AND TAX SYSTEM OF AZERBAIJAN REPUBLIC**

The vital distinction is that Azerbaijan bookkeeping does not utilize standard investigation of advantages for their hindrance, while IAS 36 "Impedance of benefits" applies to countless perceived in a critical position sheet (elusive resources, fixed resources, ventures). The principle goal of this standard is to give a genuine appraisal of advantages in the fiscal summaries by perceiving the weakness shortfall (hindrance of significant worth, esteem) when the net book esteem surpasses the recoverable sum. A debilitation misfortune is perceived in the salary explanation for the period, and if the advantage was beforehand revalued, it is incorporated into the revaluation save decrease. IAS 36 accommodates various conceivable indications of hindrance, which the organization must confirm at each revealing date utilizing a scope of outside and inner wellsprings of data. On the off chance that something as one of them is recognized, it is important to assess the recoverable measure of the resource for decide the debilitation misfortune. The Azerbaijan rules do not accommodate acknowledgment of such a misfortune. In PBU 6/01, there is a markdown of fixed resources dependent on the after effects of revaluation, with the increase sum being charged to the record of held profit (revealed misfortune) or to

the decrease of the extra capital of the association shaped from the revaluation measures of this office directed in past announcing periods. Nevertheless, Azerbaijan principles do not go for a standard investigation of advantages for their impedance and acknowledgment of misfortunes in the revealing year (Ball, by any stretch of the imagination, 2000: 2000).

## **2.2 TAX AVOIDANCE AND IFRS**

Tax avoidance is the utilization of lawful strategies to adjust a person's budgetary circumstance to bring down the measure of pay charge owed. This is commonly cultivated by asserting the allowable reasonings and credits. This training contrasts from tax evasion, which utilizes illicit techniques, for example, underreporting salary to abstain from covering government expenses.

As per the IFRS Foundation Constitution (2013), the point of the IASB is to create, by considering the open intrigue, a solitary arrangement of high caliber, intelligible, executable, and all-inclusive acknowledged bookkeeping gauges dependent on plainly explained standards. These benchmarks ought to require high caliber, straightforward, and similar data to support financial specialists, capital market members around the globe, and bookkeeping data clients to take monetary choices. In watching the point of the IASB, the focal point of IFRS is to empower fiscal reports to be explained such that they give valuable data to the monetary basic leadership of clients when all is said in done, and that IFRS are not expected to serve the particular needs of assessment experts.

At first, embracing another bookkeeping standard would not prompt tax assessment results; nevertheless, IFRS selection may have influenced organizations' assessable pay. In receiving IFRS, nations with an abnormal state of book-charge

congruity expected to characterize between: (1) likewise utilizing IFRS as a reason for ascertaining assessable pay, consequently keeping up dimensions of similarity high. (ii) Utilizing IFRS to get ready and present universally useful fiscal summaries and keeping up neighborhood GAAP as the reason for figuring assessable pay, in this manner decreasing the dimension of congruity, and (iii) making gauges for expense purposes free of the GAAP utilized, therefore diminishing the dimension of congruity. In receiving IFRS, nations with a low dimension of congruity would: (1) use IFRS to plan and present broadly useful fiscal summaries and keep up the effectively existing enactment for expense purposes, subsequently keeping up a low dimension of similarity. (ii) likewise begin utilizing IFRS as the reason for computing assessable salary, along these lines expanding the dimension of congruity.

It is thusly confirmed that relying upon the dimension of book-charge similarity and the nation's choice to keep up or alter this dimension of congruity in the wake of receiving IFRS, organizations' assessable salary could be influenced. As indicated by Deloitte (2010), numerous purviews that embraced IFRS with the point of getting ready and showing fiscal summaries kept on requiring the neighborhood GAAP to be kept as the reason for ascertaining charge. Subsequently, the investigations from Chan et al. (2010, 2013), Chen and Gavius (2015), and Karampinis and Hevas (2013) notice that after IFRS appropriation, there was some removing between the budget reports for general purposes and those for expense purposes. One of the components that could clarify the choice of nations to keep the old nearby guidelines for figuring charge is the way that IFRS gives chiefs more noteworthy circumspection in picking the bookkeeping techniques that best mirror organizations' monetary and budgetary reality (Chan et al., 2010). To accomplish the objective of owning money related expressions progressively valuable for outer clients. The caution given to directors to pick the techniques to be utilized in getting

ready of universally useful budget summaries is addressed and for the most part not acknowledged by duty experts for ascertaining assessable salary. The decrease in the dimension of book-charge congruity experienced by different nations when IFRS was embraced may have affected the exercises that expansion dimensions of expense evasion. There is exact proof that a low dimension of similarity can prompt an expansion in the dimension of duty shirking (Atwood et al., 2012; Chan et al., 2010, 2013; Desai, 2005; Tang, 2015).

At the point when there is an abnormal state of book-charge congruity, an expansion in budgetary profit largely infers an increment in assessable pay, in this way bringing about a larger amount of duty liabilities for organizations, which they would apparently want to keep away from (Hanlon et al., 2005). In this manner, a decrease in assessable salary for the most part infers a decrease in the bookkeeping gaining announced in the capital markets (Hanlon and Shevlin, 2005). On the off chance that organizations pick exchanges that create book-charge contrasts so as to accomplish the best of the two universes (high announced profit and low assessable pay), it could raise doubts that one or perhaps the two proportions of income have been artfully revealed (Hanlon et al., 2005). Conversely, when the dimension of book-charge congruity is low, administrators do not confront the book-charge exchange off and there is consequently no more noteworthy limitation to report profit in the most advantageous route for them. In this setting, organizations all the more effectively abstain from making good on regulatory expense by utilizing procedures that make book-charge contrasts, which are less exorbitant techniques. Accordingly, organizations situated in nations with a low dimension of book-charge congruity will in general connect more in expense evasion (Atwood et al., 2012).

Another indirect connection between IFRS selection and dimensions of expense shirking can be built up by means of increments in optional and non-optional



gatherings. More noteworthy forcefulness of accumulations was recognized after the reception of IFRS (Ahmed et al., 2013; Lin et al., 2012). This expansion in the forcefulness of gatherings might be because of the more noteworthy adaptability given to chiefs after IFRS selection, since this arrangement of bookkeeping measures depends on standards and does not have any definite aides for usage. Given that supervisors have motivators to misuse bookkeeping watchfulness to support them, expanded attentiveness after IFRS reception will most likely lead to more income the executives, *ceteris paribus* (Ahmed et al., 2013).

Another backhanded connection between IFRS selection and dimensions of duty evasion can be set up through increments in optional and non-optional collections. More noteworthy forcefulness of collections was distinguished after the reception of IFRS (Ahmed et al., 2013; Lin et al., 2012). This expansion in the forcefulness of accumulations might be because of the more noteworthy adaptability given to directors after IFRS appropriation, since this arrangement of bookkeeping models depends on standards and does not have any itemized aides for usage. Given that supervisors have motivations to abuse bookkeeping circumspection to support them, expanded watchfulness after IFRS selection will most likely lead to more income the executives, *ceteris paribus* (Ahmed et al., 2013).

Atwood et al. (2012) propose that duty shirking and profit the board resemble opposite sides of a similar coin, given that chiefs have impetuses for both: expanding announced income and diminishing assessable pay. Candid et al. (2009) in this way demonstrate a solid positive connection between assessment evasion and forcefulness in the planning and introduction of universally useful budget reports. The creators found that if an organization has the likelihood of dealing with its revealed profit upwards and its assessable salary downwards in a similar period, it will take part in this conduct. Given that IFRS appropriation is identified with an

expansion in the forcefulness of collections and that a more elevated amount of forcefulness of gatherings is decidedly connected with a larger amount of tax avoidance, IFRS selection may have added to an expansion in expense shirking.

## **2.3 Research goal, problem and limitations**

**Research goal --** to analyze influence of implementation of IFRS on taxation system in case of Azerbaijan.

To reach the aim of this research the objectives are raised as following :

- To examine and blend the past studies of the impact of IFRS implementation.
- To analyze differences between Azerbaijan legislation and IFRS standards
- To provide results of this research thesis

My main purpose in writing this bachelor thesis is to analyse IFRS implementation and its effect on tax system in case of Azerbaijan. For this goal, I analysed data published by companies which are Limited Liability Companies and differences between AR tax and accounting legislation and IFRS standards. Then I put out results of research, is there are positive or negative effect of adoption of IFRS standards.

There are some problems in IFRS implementation. Most companies have not knowledgeable employees for work with these standards and it is so costly to train staff. That's why most companies do not apply and implement IFRS standards. By this problem, limitations are created. There is no more information about

implementation of IFRS in Azerbaijan and I had a lot of difficulties in finding information about this thesis.

Although, there is no direct relationship between IFRS and taxation system. But finance and accounting are related with tax system. For example: accountant calculates net profit of organization and tax is calculated based on net profit. If transition of IFRS has effect on Profit and Loss Statement, it means, IFRS has indirect effect on taxation.

Additionally, goal of writing first part of thesis is to give theoretical information to users about IFRS, advantages and disadvantages, differences between IFRS and Azerbaijan GAAP.

Second part is aimed to provide information about effects of transition to IFRS. How will it effect on taxation system of Azerbaijan? Does it have positive or negative effect?

Finally, third part shows result of research thesis.

## **2.4 HYPOTESIS**

Hypothesis 1: As the result of IFRS implementation, inventory valuation (lower cost or net realizable value) may have positive effect on taxation system of Azerbaijan.

The effect of transition to IFRS and correction of errors made to the IFRS opening statement of financial position as at January 1, 2018 is as follows:

Statement of financial position	Notes	Previous GAAP	Effect of	IFRS
		(as presented)	transition to IFRS/ errors	(as adjusted)
		January 1, 2018	January 1, 2018	January 1, 2018
Cash and cash equivalents	a	2,976,884	(102)	2,976,782
Trade and other receivables	b	544,725	1,679,295	2,224,020
Inventories	c	37,270,174	(323,486)	36,946,688
Prepayments	d, e	(508,392)	3,279,031	2,770,639
Tax assets	e	1,707,443	(380,843)	1,326,600
Other current assets	f	596,130	29,344	625,474
Property, plant and equipment	g	12,242,117	6,757,148	18,999,265
Advances paid for property, plant and equipment	d	-	747,531	747,531
Trade and other payables	d, h	1,256,396	2,825,377	4,081,773
Short-term interest bearing loans and borrowings	i	12,178,212	1,698,508	13,876,720
Advances received	b	-	1,977,368	1,977,368
Divident payable	j	1,426,078	(1,426,078)	-
Other current liabilities	f	89,517	20,500	110,017
Deferred income tax liability	k	-	1,210,537	1,210,537
Long-term interest bearing loans and borrowings	i	19,392,166	(786,518)	18,605,648
Retained earnings	a, c, d, f, g, h, i, j, k	8,453,364	6,268,224	14,721,588

Table 4: Effects of IFRS adoption

Source: Based on Metak MMC 2017 annual audit report

Net realizable value is an induction of the assessed selling cost of products, less a few derivations. The inference is utilized in the assurance of the lower of expense or market for close by stock things. The findings from the evaluated selling cost are any sensibly unsurprising expenses:

1. Completing the inventory
2. Transporting the inventory
3. Disposing of the inventory

AR legislation uses only net realizable value for valuation of inventory, but IFRS offers lower cost and net realizable value. Simply net realizable value means selling price minus selling cost. Company must be use one of two method. If net

realizable value is lower than cost of inventory, cost is calculated as net realizable value. Commonly, which one is less, it is accepted. So, if net realizable value is lower than historical cost, it will not have any differences between AR Legislation and IFRS, because of both of them use this method. At contrast, historical cost is lower than net realizable value, IFRS will accept historical cost, but AR Legislation will accept net realizable value. It means inventory value will be more as well as COGS.

As seen above table, inventory is overstated according to AZ GAAP. There is 323,486 AZN differences between IFRS and AZ GAAP and this difference effects to Retained Earnings.

Hypothesis 2: Because of IFRS application, LIFO method is not allowed. So it has both positive and negative effect on tax system of Azerbaijan.

LIFO is a technique used to represent stock, where the most as of late delivered things are recorded as sold first. Under LIFO, the expense of the latest items obtained (or delivered) are the first to be expensed as expense of merchandise sold (COGS) – which implies the lower cost of more established items will be accounted for as stock. Two elective techniques stock costing are first in, first out (FIFO), where the most established stock things are recorded as sold first, and the normal cost strategy, which takes the weighted normal of all units accessible available to be purchased amid the bookkeeping time frame and after that utilizes that normal expense to decide COGS and completion stock.

LIFO is just utilized in the United States where every one of the three stock costing techniques can be utilized under proper accounting rules (GAAP) since IFRS restricts the utilization of the LIFO strategy. The organizations that utilization LIFO stock valuations are regularly those with generally substantial inventories, for

example, retailers or car businesses, that can exploit lower charges — when costs are rising — and higher money streams. Numerous U.S. organizations like to utilize FIFO however, supposing that a firm uses LIFO valuation when it records charges, it should likewise utilize LIFO when it reports money related outcomes to investors, which brings down overall gain and, at last, income per share.

At the point when there is zero expansion, each of the three stock costing strategies produce a similar outcome. If expansion is high; the decision of bookkeeping technique can drastically influence valuation proportions:

FIFO gives a superior sign of the benefit of completion stock (on the asset report), yet it additionally expands net gain since stock that may be quite a long while old is utilized to esteem COGS. Expanding total compensation sounds great, yet it can build the assessments that an organization must pay.

LIFO is certifiably not a decent pointer of completion stock esteem, since it might downplay the estimation of stock. LIFO results in lower total compensation (and duties) since COGS is higher. In any case, there are less stock compose downs under LIFO amid swelling.

Normal cost produces results that fall somewhere close to FIFO and LIFO.

(Note: on the off chance that costs are diminishing, at that point the direct inverse of the above is valid.)

Table 5: Sample of purchasing period for analyzing LIFO method

<b>Purchased date</b>	<b>Quantity</b>	<b>COGS</b>	<b>Sales price</b>
<b>January</b>	100	15	30
<b>February</b>	100	17.5	30

<b>March</b>	100	18	30
<b>April</b>	100	21	30
<b>May</b>	100	24.6	30

Source: Compiled by author

LIFO is not used under IFRS. This will affect Azerbaijan's taxation system and budget. Therefore, if a company uses LIFO method, it means the company sells first the last in products. Suppose that, ABC Company uses LIFO method for inventory valuation. If IFRS is adopted, the company cannot use LIFO method. It may use FIFO method for valuation. So, first produced goods are sold first. In that case, according to low COGS, the company will earn more profit. That is why the company must pay more profit tax because of high profit previously. Therefore, the government will gain more money for budget. In that case, implementation of IFRS has a positive effect for the government. However, there is an opposite case, which has a negative effect on taxation gain.

## 2.5 The Empirical Research Logic, Stages and Methods

The research process is based on analyzing of 2 hypotheses. The first hypothesis is devoted to differences between national and international standards. I chose one of these differences, which has influence on the taxation system.

The second hypothesis is based on inventory valuation methods (FIFO, LIFO, etc.). Azerbaijan standards accept LIFO method, but IFRS is not. I analyzed how this difference influences the taxation system of Azerbaijan.

Table 6: Stages and methodology

Source: Compiled by author

Stage	Content of stage	Hypothesis tested	Method used
1	As the result of IFRS implementation, impairment loss has negative effect on taxation system of Azerbaijan.	H1	Dynamic analysis,Table
2	Because of IFRS application, LIFO method is not allowed.So it has both positive and negative effect on tax system of Azerbaijan.	H2	Dynamic analysis,Table

### **III. EMPIRICAL RESEARCH RESULTS OF EVALUATION OF IMPACT OF IFRS IMPLEMENTATION ON TAX SYSTEM OF AZERBAIJAN**

#### **3.1 IFRS Adoption Process in Azerbaijan**

To make worldwide correlations is simple by IFRS, however this is troublesome on the grounds that, to a vast degree, every nation has its very own arrangement of principles. For instance, US GAAP is not quite the same as Azerbaijan GAAP. Organizing bookkeeping measures over the globe is a progressing procedure in the worldwide network. Along these lines, our motivation of composing this paper is to give data about IFRS reception on the planet and for the most part in Azerbaijan. The Republic of Azerbaijan Accounting Law from 2004 states that IFRS are received in their total for use by credit associations, insurance agencies, venture reserves, non-state (private) social assets, substances with securities exchanged on the stock trade, furthermore, business associations surpassing explicit dimensions concerning income, number what's more, complete asset report. What's more, any business association (other than a very little one) that



has at least one backups must plan united fiscal summaries as per IFRS. The Accounting law likewise expresses that any changes to these gauges must be made by the IASB and that such changes are powerful when they are authoritatively received by the IASB. Presenting the universal bookkeeping guidelines is one of the necessities of Azerbaijan's combination into the worldwide network. We should talk with the global network in a similar language of accounting.

International Standards define the rules for international recognition of financial transactions and economic facts in accounting and reporting. Here is a summary of the widely used explicit reports by various external users to get useful and relevant information about organizations that compile and publish that report. In fact, International Standards should be understood as a summary of accounting policies. Accounting and reporting based on International Standards are also crucial to its management. We reiterate that its primary purpose is to use external users.

The new board of the IASB has decided to rename the standards in 2001. Earlier, the standards were called IAS and were issued in Azerbaijan as IFRS. The newly adopted standards are issued under the name International-Financial Reporting Standards. More specifically, the standards adopted in the economic literature until 2000 are called the English IAU, and the subsequent standards are called IFRS.

After restructuring the IFRS, some of the standards and interpretations have been subject to change, some have been completed, some have been canceled and new standards have been developed.

The work that has become a necessity for improving accounting and reporting in Azerbaijan and adapting to international standards has begun since 2003. On June 29, 2004 the Decree of the President of the Republic of Azerbaijan adopted the Law

on Accounting. Based on this Law, the Cabinet of Ministers of the Republic of Azerbaijan approved the National Accounting Standards (NAS) Implementation Program in 2005-2008. In connection with the implementation of the program, 37 organizations for commercial organizations under the organizational and methodological guidance of the Ministry of Finance - 34, and for non-governmental organizations - 1 NAS.

At the same time, in 2002 the normative document "Rules of conducting simplified registration in small business entities" was approved by the Cabinet of Ministers and is now applied in accounting practice.

Starting January 1, 2008, 20 publicly-funded accounting and reporting entities compile and compile the IFRS. All of these are very important steps to improve accounting in Azerbaijan.

In recent years, especially since 2008, the interest in applying International Standards, particularly the NAS, has increased significantly in Azerbaijan.

One of the reasons, perhaps the first one, is directly related to the flow of foreign investment to Azerbaijan. Thus, international organizations that do not have accurate information about the real financial situation and financial results of socially significant organizations are hesitant and sometimes have difficulty investing in the country. Today, access to giant stock exchanges for Azerbaijani companies is only possible with the compliance of their accounting and reporting systems with International Standards. Formation of reports in conformity with IFRS may give rise to the possibility of entering into international capital markets of the Republic's enterprises.

Another reason is the preparation and formulation of financial statements in accordance with International Standards. In fact, we must say that at present, the

financial statements generated in the vast majority of enterprises are left out of the modern requirements in terms of their transparency, effectiveness for users, especially for foreign investors. International Standards refers to concrete users since its inception and comes from the criteria for the effectiveness of financial information that is essential to the user's economic decision-making.

Another crucial factor is the use of IFRS to provide a substantial reduction in the time and resources required to prepare new national regulations for accounting. In Azerbaijan, it is directly preferred and has been adapted to the newly developed NAS in accordance with International Standards.

It should be noted with regret that after the preparation of the new Accounting Standards, these important documents have not been substantially modified by professionals. (We'll talk about it in detail in one of our next articles). Despite some shortcomings, the preparation of the NAS in accordance with IFRS is a crucial step towards solving the problem of creating an efficient accounting system that meets the market economy requirements in the Republic.

One of the main reasons for the application of IFRS and NAS in the Republic of Azerbaijan is directly related to the expansion of the powers and responsibilities of the Azerbaijani accountants and the increase in their knowledge and skills. Finally, this will lead to the enhancement of the soundness and importance of financial records, as well as the stability of the country's economy as a whole.

IFRS is regarded as the most effective outcome of major efforts to improve and harmonize financial reporting globally.

The main provisions of the standards are the basis of national accounting and reporting systems in Azerbaijan, as in many countries. They are the international norms for countries that prepare their own records and reporting requirements.

The notion of IFRS includes the following set of documents: Introduction to IFRSs, Combining Financial Reporting and Presentation Principles, Standards and Interpretation. All the documents we have mentioned are interconnected and create a single system and can not be applied separately. At the same time, each document has its own purpose, being the element of the system.

At the time of the adoption of IFRS, the purpose and rules of the IFRS Committee's operations are described, as well as the rules for applying the International Standards. The importance of this document is often determined in the manner in which each standard starts.

Preparation and presentation of financial statements The principles clarify the basics of preparation and presentation of financial statements for external users. The purpose of this document is to consider the objectives of the financial statements, the quality characteristics that determine the effectiveness of the reporting information, the procedure for recognizing and measuring the elements of the financial statements, capital adequacy and capital protection. Generally, the principles are not standard and do not substitute for any particular standard. This document is actually intended to affect the following:

- IFRS Committee for the preparation of new standards and renewal of existing ones;
- To the national standards body, which is responsible for the national standards development;
- Those who prepare financial statements in the application of IFRS and others.

If any of the principles conflicts with the relevant standard then the priority is to the requirements of the latter is given.

The IFRS provide guidance on the preparation and presentation of financial statements in a manner that meets public interest. Neither the IFRS Committee nor the professional accountants organization has the authority to comply with the requirements of IFRS. Those standards apply to the recognition of the need for harmonization of financial reporting arrangements by various regulatory authorities.

In recent years, the IFRS Committee has issued the following new, namely: "Mining Industries", "Insurance", "Discounting"; The assets of the Pension Plan work on the development of standards.

The IFRS system is intended to include any trade, production and other commercial organizations (including banks, insurance companies and other financial institutions). In this case, the types of activities, branch affiliates and the organizational-legal form of enterprises do not play any role. International and National Standards are useful both for private and public sector.

For furnish arrangement producers with the data they requirement for executing new bookkeeping arrangements and corporate money related revealing in Azerbaijan, high caliber and straightforward money related data or IFRS is imperative for Azerbaijan.

There are a few stages of significance of IFRS. These benchmarks:

- reflect financial reality;
- are connected reliably;
- are finished and upheld by broad understanding learning;
- accommodate total revelations;
- bolster solid corporate administration;

- are globally comprehended by all partners.

So high caliber money related revealing will fortify the nation's budgetary design and decrease the danger of monetary emergencies and outrages, the outcomes of which have an unsafe effect as confirm the world over. High caliber monetary revealing improves money related straightforwardness and responsibility as well as plays a critical job in guaranteeing great administration and supporting the development of a market economy. In the meantime, IFRS is the proper system for open intrigue elements. The selection of IFRS in Azerbaijan is useful to monetary improvement and money related framework dependability with positive financial consequences for budgetary weight, cost of capital and accessibility of local and remote reserve funds.

There are likewise difficulties of actualizing IFRS:

- Thus, IFRS are fundamentally intended for open intrigue substances (PIEs) and other huge organizations and for the most part not adapted to little and medium-sized elements (SMEs);
- Adoption of IFRS speaks to a social change (already, fiscal summaries were accomplished for assessment purposes, presently they are truly taken a gander at by speculators and different partners);
- Adoption of IFRS is a noteworthy interest in time, assets and specialized aptitude;
- Adoption of IFRS has noteworthy effect on tax collection whenever utilized as duty premise;
- Embedding IFRS isn't simply a specialized exercise, it includes the reordering of data and reworking of the fiscal reports;

- The appropriation of IFRS isn't just about the utilization of bookkeeping strategies. IFRS requires the appropriation of a completely extraordinary arrangement of execution estimation and correspondence with outside partners, that is the reason there is additionally a few down to earth difficulties: staff mastery and information – requirement for IFRS qualified neighborhood bookkeepers;
- Analysis of bookkeeping approaches – IFRS outline of records for huge state ventures;
- IFRS change issues for the majority of the state-possessed ventures (united fiscal summary, intercompany exchanges, related gathering exposures, and so on.);
- Impact on bookkeeping and announcing frameworks, including upgrade of IT frameworks;
- Data accumulation to deliver a lot of IFRS consistent monetary data

All substances enrolled in Azerbaijan are required to keep up their books and records on the domain of Azerbaijan in nearby money and as per the as of late presented NAS, which have been set up on the premise of IFRS. Enlisted business organizations were required to begin setting up their budget reports as per the National Accounting Standards for Commercial Associations or IFRS. One remarkable contrast among NAS and IFRS is the utilization of a required graph of records. The as of late presented Accounting Law additionally stipulates that every noteworthy element, including credit foundations, insurance agencies, speculation assets and business associations, which meet certain criteria, will be subject to IFRS. Others should pursue NAS or IFRS. Little private organizations enrolled as rearranged citizens are not obliged to keep itemized accounts and are consequently not required to pursue NAS or IFRS.

In correcting its Accounting Law, Azerbaijan has perceived the significance of high quality and straightforward money related detailing for the advancement of financial development. Anyway genuine execution of the new Accounting Law remains a test for what it's worth in all nations executing new money related announcing framework and especially IFRS.

The Republic of Azerbaijan Accounting Law from 2004 requires IFRS for the accompanying kinds of substances: credit associations; insurance agencies; venture reserves; non-state (private) social assets; elements with securities exchanged on the stock trade; what's more, business associations that on the date, to which the budget reports are arranged, surpass two of the limits (for yearly income, normal number of workers amid the money related year and complete asset report) in a sum controlled by the important official specialist. What's more, any business association (other than a little one) that has at least one backups must plan united money related proclamations as per IFRS.

Previously, budget summaries were the duty of the main bookkeeper (even in Europe). Presently this is turned into an essential focal point of review council and Board. Budgetary announcing is a key bit of a bigger riddle. Parallel changes and especially establishing execution enactment are required to help the usage of IFRS, counting: The lawful condition ought to be changed in accordance with increment obligation of the officials for the money related announcing; Audit necessities ought to be balanced in like manner and raised to a global benchmark level; Stock trade controllers should discharge principles and guidelines for starting posting and reasonable exchange; Adoption of IFRS for PIEs and the underwriting procedure of new/changed guidelines ought to be installed into the legitimate framework; Translating and progressing refreshing IFRS into Azerbaijani is basic.



Budgetary announcing is of essential significance and yet this isn't an end in itself. The goal is to strengthen nation's money related framework and to build up the nearby economy.

### **3.2 The consequences IFRS implementation on tax system in Azerbaijan**

#### **Conclusion**

My main purpose in writing this bachelor thesis is to analyse IFRS implementation and its effect on tax system in case of Azerbaijan. For this goal, I analysed data published by companies which are Limited Liability Companies and differences between AR tax and accounting legislation and IFRS standards. Then I put out results of research, is there are positive or negative effect of adoption of IFRS standards.

Goal of writing first part of thesis is to give theoretical information to users about IFRS, advantages and disadvantages, differences between IFRS and Azerbaijan GAAP.

Second part is aimed to provide information about effects of transition to IFRS. How will it effect on taxation system of Azerbaijan? Does it have positive or negative effect?

Finally, third part shows result of research thesis. Conclusion shows result of analysis of transition to IFRS on tax system. Is it good for taxation to implement IFRS standards or not?

There are no more knowledgeable and experienced employees who can work with new standards. That's why if company wants to change its policy of accounting standards to IFRS, it ought to train its employees. Therefore, this can be more costly.

There are differences between national standards and international standards (IFRS). If tax audit has less knowledge about IFRS, company may deceive he/she and avoid from taxation. It has negative effect for tax system.

The Most foreign companies which want to invest to Azerbaijan, they require statements prepared with international standards. If it is not, they may avoid to invest. So, implementation of IFRS can attract new foreign investor to country. More companies mean more tax earned. Government can gain more tax by implementation of IFRS.

Impairment loss is not recognized in Azerbaijan standards. If IFRS is implemented, impairment loss will have negative effect on taxation system.

There are lower cost and net realizable value understandings in inventory. IFRS accepts both of them, but Azerbaijan NAS just net realizable value. If historical cost is lower than net realizable value, inventory value comparing IFRS with Azerbaijan GAAP will be less and as well as COGS.

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