Ministry of Education of the Republic of Azerbaijan

EFFECTS OF INTERNATIONAL FINANCIAL REPORTING STANDARD IN DELIVERY OF RELIABLE ACCOUNTING INFORMATION

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ABSTRACT

Due to the lack of research on auditors, one of the most important parties in accounting standards, the study focuses on independent audit firms. The main aim of the study is to identify the factors that affect the applicability of the standards for the independent auditors who are the most important parties of the accountant and to determine whether there is a relationship between these factors and the implementation success. Another aim of the study is to lead the use of the structural equality analysis used in psychology, sociology, education and marketing fields in the field of accounting.

Key words: Financial Reporting, Accounting İnformation, Reporting Standart

CONTENT

1. INTRODUCTION

The "Accounting Implementation Regulation" was published in June 2002 by the Banking Regulation and Supervision Agency (BDDK) in our country. 19 international accounting standards related to the banking sector through these regulations were put into practice in Turkey. Likewise, the Capital Markets Board (CMB) issued Communiqué No: 25, "Communiqué on Accounting Standards in the Capital Market", Series XI, in the Official Gazette dated 15.11.2003 and numbered 25290. Thus, for the companies subject to the CMB, 33 standard applications in compliance with IFRS have been put into practice. Following the related communication, some of the companies subject to the CMB have started to report as "early implementers" in 2003 and 2004, and all companies have been obliged to report them by the Standards since the beginning of 2005 (concurrent with the European Union. Turkey Accounting Standards Board (TASB) translate as standard in our language from the original English and with CMB BRSA in the new notification through to require the use of these standards in Turkey Accounting / Financial Reporting Standards (IFRS) set is the use of implementing our latest form countries.

1.1. Background of the study

For the financial and economic world, the implementation of the Standards, which are described as a revolutionary development, is not only a phenomenon that lives in our country. At almost the same time as our country, Standards have already been implemented in many developed or developing countries, particularly in the EU countries.

It can be said that IFRSs have significant distances to be global accounting standards. In fact, the financial and economic crisis in the world at the moment also brings to the agenda opportunities to test and improve standards.

The transition to standards reporting has primarily changed the content and form of financial reports. However, the Standard set includes some specific standards to assist in the analysis beyond the preparation of the financial reports, their purpose of preparation, the users, the purpose of the users analysis, and the preparation of the reports on the other hand. As a natural consequence of this approach, it can be said that the Standards are not primarily oriented towards accounting records but are standards for direct reporting. These standards, which were recently prepared under the name of "accounting standards", are now being published in the name of "financial reporting standards", which is the most basic indication of emphasis on financial reporting.

Despite the use and analysis of these reports, which are essential to the transition to reporting by standards, there are few studies in the literature about the effects of the Standards on financial statement analysis activities.

1.2. Motivation for the choice of research topic

2005 has been a year of revolution in terms of accounting policies around the world. Thousands of companies, especially in Europe and the Asia-Pacific region, began using International Financial Reporting Standards in 2005 instead of their own national accounting policies. The reasons for the transition to IFRS instead of national accounting policies are the needs of investors, fund managers and lending institutions, which are increasing parallel to the developing markets. As a result of a common financial language, common approach and feasibility for UFRS markets, it will significantly reduce the investment risks caused by regional policy differences. With IFRS, a balanced approach to international accounting systems will allow the development of consistent global practices against accounting problems, thus increasing capital flows. As the changing world order and the globalization phenomenon are everywhere, there has also been an international need for accounting and financial reporting. Even in the face of the level reached by international economic activities, only quality standards and uniform implementation within the country were not sufficient in itself; speaking in the same language as the whole world in financial reporting has become a separate requirement to adopt appropriate standards in internationally accepted Accounting countries.

1.3. Aim of research and research questions

The purpose of the course work is to study and master the methodology of accounting for inventories based on the example of a particular organization.

To achieve this goal, the following tasks have been determined in the work:

- study the modern stage of accounting reform in;
- Define inventories and classify them;
- consider ways to assess inventories;
- to present and analyze the financial activities of the economic subject of the study;
- to study accounting of purchase, expense and other disposal of materials;
- consider the procedure for conducting and recording inventory results;
- to study the accounting of reserves for the reduction of the value of material values.

1.4. Research methodology

1.4.1. Research approach and strategy

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

1.4.2. Research method

In this study, the International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS) (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) explained, compliance with IAS's examined the situation in Turkey, discussed the concept of IFRS for SMEs and information about the developments in this area has been given.

1.5. Challenges and limitations

The benefits of a strong global financial reporting are comparable financial reporting for investors, encouraging international investment, low cost capital, efficient resource allocation, creation of a high-rate economic growth. One of the main causes of the transition to IFRS in Turkey is the process of harmonization with the EU, economic growth, the withdrawal of foreign investment to the country and to obtain funds from the global market are among other important reasons.

1.6. Thesis method and structure

Due to the lack of research on auditors, one of the most important parties in accounting standards, the study focuses on independent audit firms. The main aim of the study is to identify the factors that affect the applicability of the standards for the independent auditors who are the most important parties of the accountant and to determine whether there is a relationship between these factors and the implementation success. Another aim of the study is to lead the use of the structural equality analysis used in psychology, sociology, education and marketing fields in the field of accounting.

2. THEORETICAL FRAMEWORK

2.1. Financial standard analysis

Both international companies and investors are faced with the existence of 2 different accounting systems, namely Global Accepted Accounting Standards (GAAP) and IFRS, along with globalization. International companies are required to prepare financial statements in accordance with accounting standards in the countries in which they operate. The need to prepare different sets of financial statements is costly and inconvenient for companies. As the companies prepare different financial statements in different countries, investors have difficulty comparing the financial statements of companies based on different countries. A single set of accounting rules has the effect of reducing the transaction cost of globalization. Thus, in many countries, compliance with IFRS has begun to increase rapidly. The impact of different accounting standards affects the items of debts and equity in businesses' balances. Hence, the ratio of total debt to equity will cause a change in accounting principles(Clarkson, at all, 2010:5).

IFRS compared with national financial reporting standards; financial assets and liabilities are valued at fair value, the balance sheet is in a similar structure or special purpose vehicles are recorded, the intangible assets are more prominent in the balance sheet, the honorarium is tested for annual value and the profit or loss appears to be real in the financial statements. Thus, measuring the entity's assets at fair value in IFRSs causes the net income and net assets and financial analysis to differ significantly.

Most financial statements are compiled according to the principle laid down by the command-administrative system in the Soviet era. In a market economy, changes in the conduct of financial and business activities require changes in the preparation and maintenance of financial statements. In modern conditions it is impossible to integrate the company into the world economic community if it is not sufficiently clear and transparent for foreign partners. Therefore, gradually, Azerbaijan companies turn to compiling reports in accordance with international financial accountıng standards (IFRS)(Daske, 2008: 3). This transition is not simple. IFRS is not a bureaucratic formality that reflects the financial condition of an enterprise in several figures with a detailed description of the filling algorithm. Basis of IFRS - the principles and requirements, according to which the reporting is prepared taking into account the economic situation. Has the features of the implementation in IFRS disclosure of information, which is necessary for creditors, shareholders of the enterprise. Objects of financial reporting in accordance with IFRS are the financial position of the enterprise, cash flow, performance. The IFRS principles are developed by a special Committee on International Financial Reporting Standards. The established standards are recognized throughout the world as effective tools for building accountability for the activities of the enterprise.

Reporting in accordance with IFRS can be implemented in the enterprise of any form of ownership - both public and private, in any industry, as well as any organizational and legal form. Adopt the IFRS standard can trade, manufacturing enterprises, financial institutions, other commercial companies(Daske and Gefardt, 2006: 4).

IFRS are aimed at disclosing information in the financial statements necessary for the analysis of the enterprise's activities by a wide range of users. If the financial statements are prepared in accordance with IFRS, the information provided in the reports will be clear and transparent for foreign partners. In modern conditions, this is an important time for building international economic relations of the enterprise, increasing the number of joint projects.

One of the main conditions for attracting foreign investment to the our market is corporate transparency. In the improvement of corporate transparency, disclosure of information in the financial statements on the property status of the company, its activities is of great importance.

The problem of standardization of financial statements is typical not only for our country. For example, the EU countries have been solving these problems for 40 years already. The introduction of modern computer technologies, the development of communication opportunities not only provides more opportunities for analyzing financial and economic activities, investing through modern global communication systems, but also raises the problem of a unified interpretation of financial statements, the solution of which is also disclosure of information in accordance with the principles of a single standard(Elbannan, 2011: 207).

These international standards can not be taken as national standards. Each country has its own peculiarities, which are related to the peculiarities of its reporting. For example, according to the analysis made in 1996, US standards have 255 differences with international ones. The disclosure of information in the reports of republic enterprises should take into account international requirements and be adapted to the specifics of conducting business in the country.

2.1.1. The roles of financial reporting and financial standard analysis

International Financial Reporting Standards are documents that disclose the requirements for the content of financial information and the methodology for obtaining critical accounting characteristics based on the harmonization of national standards of economically developed countries, developed and published by the Committee on International Financial Reporting Standards. Credible financial statements are still a stumbling block for investors in Azerbaijan. Credit institutions, financial institutions, business angels, portfolio investors, access to IPOs - there are many options for attracting investments, but all of them are directly related to the need to provide financial statements that meet the requirements of investors. One of the main purposes of accounting in Azerbaijan, which is "... the formation of complete and reliable information on the activities of the organization and its property status, which is necessary for internal users of financial statements - managers, founders, participants and owners of the organization's property, as well as external investors, creditors and other users of financial statements ... (Christensen, Lee and Walker, 2008: 5).

On this basis, I want to believe that the proper management of accounting will allow users of financial statements to form an adequate opinion on the real financial state of the investment object. But this, unfortunately, is not so. First of all, we see complete disinterest of the state in obtaining reliable accounting statements. For the state, business is primarily a taxpayer. The specificity of Azerbaijann accounting is such that the focus is primarily on tax accounting and the correctness of calculating the amounts paid by the taxpayer. That is why the accounting is predominant in accounting and reporting. The financial statements are based on the closest approximation to the tax accounting to which a competent financial officer seeks and carries the potential risk of distorting the real financial state of the investment object, because by legislative

The restrictions will not reflect many real economic processes. The need to introduce international financial reporting standards in Azerbaijann companies is linked to the globalization of the world economy. Over the past 30 years, the degree of globalization and integration of financial markets has significantly increased. That's why more and more countries are beginning to apply IFRS as a basis for compiling financial statements of organizations, as this helps to increase the transparency of reporting, improve its quality, increase the flow of investment, and reduce the cost of capital. The international system of financial reporting is approved as the leading instrument for reforming the state accounting system. This was determined by the following reasons(Sander, 2009):

1) the development of market relations shifts the emphasis from controlling the availability and movement of property to demonstrate the real financial condition of organizations;

2) the desire of the state to attract investment in the national economy is achieved through the creation of a reliable information environment for investors by using IFRS, acting in the modern world as an international business language;

3) in recent years and in more than 100 countries the international recognition of IFRSs approved as regulatory acts has increased. That is why the application of IFRS is considered as an element of integration of isolated states into the world economy. Recently, a number of changes have taken place in the field of accounting and reporting. The most significant of them are the reduction of the mandatory form of primary accounting documents, the creation and approval of new forms of accounting, the adoption of new standard charts of accounts. The main direction of these changes is the provision of the formation of reliable and useful information on the financial results and financial condition of the enterprise for economic decision-making.

The International Financial Reporting Standard 28 "Accounting for Investments in Associates" is used for the true reflection of investments in the financial statements in associates. In order to ensure a true reflection of the nature of the investment in the group's reporting, it will be necessary to show the group's share in the net assets and the financial result of the organization, which is called the associated one, in the consolidated statements. This approach is called the equity method of accounting. Under IFRS, special treatment should be made for the recognition of assets and liabilities, as well as for the recognition of assets and liabilities at fair value. Investors are not interested in the "paper" value of assets, they are interested in the real market value at the moment, and RAS is not able to satisfy their interest, because they are limited by the Law on Accounting, a number of Regulations on Accounting and the Tax Code. In addition, the precautionary principles embodied in IFRS mean that assets should not be overstated, and liabilities are understated. In turn, Azerbaijann standards do not imply such a revaluation, focusing on the original cost(Sander, 2009).

Finally, IFRS, in contrast to the Azerbaijann Accounting Standards, declares the priority of content over the form, and allows for the recording of undocumented transactions based on expert opinions of users, and a number of other differences, for example, the reflection of financial leases in fixed assets. When the company moves to IFRS reporting, a number of positive aspects are highlighted, including increased transparency, more informative reporting, better comparability of indicators, an increase in the ability to analyze the company's activities and, as a consequence, facilitating access to international capital markets, new doors for investment.

Another plus of the application of International Financial Reporting Standards is the use of information received for management purposes. When considering how management accounting should be organized, it is often decided to build it on the basis of IFRS principles. Financial reporting under International Financial Reporting Standards is necessary for more effective management of the organization. In most leading Azerbaijann banks and companies, the formation of management accounting systems is in accordance with the principles of IFRS. The use of International Financial Reporting Standards as management accounting standards is the most justified solution for most companies. There is no need to re-create the principles and rules for accounting for many business transactions, because the International Financial Reporting Standards and their interpretations simplify the problem of regulation and record keeping(Athianos, VazakidisandNikolaos, 2005).

The main motive for applying IFRS to Azerbaijan credit institutions is access to international exchanges or other capital raising in Western markets. In a deeper investigation, it becomes obvious that the application of International Financial Reporting Standards is a reflection of the transition of the republic economy to a qualitatively new stage of development. The most important values in it gradually become a favorable investment climate, openness of companies, accountability of management to shareholders, high standards of corporate behavior. Along with other measures, the International Financial Reporting Standards are designed to ensure the implementation of these values.

2.1.2. Description of roles of strategy of comprehensive income statement, balance sheet, cash flow

Financial management is a set of concepts, tools, rules, methods and algorithms for developing and making managerial decisions in the financial sphere. These decisions are usually divided into investment and financial decisions. Investment decisions answer the question of where and how much money to invest? When developing investment decisions, financial management deals with real assets. Financial decisions as an independent class arise when additional financial resources are required. In this case, financial management is faced with financial assets.

Profit is a phenomenon or concept that is most often identified with finance, and financial management is usually associated with maximizing it. In other words, the profit is a certain amount in rubles, which the accountant expects at the end of the reporting period (the end of the quarter or year), and all managers tend to increase it. At the same time, on closer examination, it turns out that profit is an accounting value that is fixed at the time of shipment of products and services. In this regard, it is very likely that the profit is declared in accounting documents, and there is no "live" money to pay the obligations of the corporation(Singh and Newberry, 2008: 483).

In financial management, there is another not less common than profit concept. This value: the value of assets, the cost of debt, the cost of shares, the cost of capital, the value of the corporation. True, in the latter case, the validity of the term "value" raises serious objections. Moreover, if the cost principle is based on the definition of value, then it is inapplicable to determining the "price" of a corporation. In a corporation, managers pay more attention not to costs, but to the extent to which their corporation is valued by investors (existing and potential shareholders, lenders, fund brokers, financial analysts and many other stakeholders who are called stakeholders). They realize that their corporations' capital, stocks, assets, loans have a different economic "value" that the stock market assigns to corporations, and this "value" is legitimately interpreted as value.

Undoubtedly, in its management activities it is necessary to strive for profit growth, however, over a period of time and fairly long. However, this is not enough. Any corporation at any time may be insolvent, while remaining profitable at the same time.

In this regard, managers must fully support the payment ability of the corporation, in fact its ability to pay on time in its obligations. And the corporation has a lot of them: obligations to their employees, to the state, to creditors and, finally, to shareholders.

The latter kind of obligation is almost the most difficult, since shareholders, being actually investors, have invested their money in the shares of the corporation, thus forming its own capital. And, in essence, the qualifications, knowledge, experience, professionalism of managers are subject to the main goal of corporate financial management - the growth of the well-being of shareholders-investors, which is determined by the increment of corporate value and the growth of its stock price (Paananen and Lin, 2007)

[11].

On the other hand, there are considerable differences between this main goal and the real goals pursued by financial management.

The initial reason for this discrepancy is the existence of a difference between the expansion of the scale of ownership in which the shareholders are interested and the control over this property that managers in the corporation carry out.

Instead of striving to maximize the well-being of shareholders, managers pursue goals that are closer to their interests. Managers either sacrifice themselves, or direct their activities to maximize their own well-being, which is expressed in the desire to secure their work. And this inevitably entails the desire to minimize or limit the risks, because any adverse result will lead either to the dismissal of managers, or to bankruptcy of the corporation, and more often to both.

Relations between shareholders and managers traditionally belong to the category of agency conflicts, which, unfortunately, are accompanied by agency costs. These costs arise because of the desire of shareholders to reduce the heat of passion and turn managers into their supporters. In the composition of these costs(Leuz, Nandaand Wysocki, 2003: 506):

• Expenses associated with the creation of a motivation system aimed at synchronizing the actions of managers and shareholders (for example, creating a system of equity participation of managers in the distribution of the company's revenues);

• costs associated with monitoring the actions of managers; These include payment of audit of management activities, as well as payment of internal audit of corporate expenses;

• alternative costs associated with loss of profit for a variety of reasons.

If it comes from inter-agency competition, and leaders begin to follow the basic goal of value growth, how does this question arise and how can they achieve that goal? Until today, many people believe that leaders must increase their corporate earnings. Finally, competitors will say that profit maximization is the dominant target of statistical microeconomic models. Unfortunately, the reason for bringing the profits to the top level is the lack of a row that can do more harm than good for the leaders who have passed the test.

However, before discussing these shortcomings, it is necessary to consider the essence of the decisions, which They are microeconomic statistical models focused on growing profits. Microeconomics explains this: in order to increase earnings, we must increase the volume to the level at which the marginal increment (MR) of marginal (additional) costs (MS) of the volume of production, Over this volume, additional spending will exceed additional revenues, and profits will decrease. This fundamental rule, according to which any economic action makes sense as long as marginal costs are equal to marginal revenues, serves as a great help to managers in decision-making. For example, the fundamental model of capital cost analysis is simply the adaptation of this economic rule.

At the same time, despite the obvious benefit of this rule, profit maximization does not play an important role in today's financial management. This situation is more valid reasons for them. The economic model of raising the sacrifice is a statistical situation. The time factor that applies to the financial decision stages is not accounted for. Increasing profits as a set goal does not provide a safe basis for comparing results in the short term and long term. At the same time, many decisions that managers make in relation to finance should have a time dimension.

The second restriction is connected with the definition of profit. IFRS allows and definitions of hundreds of earnings from a number of methods used to incorporate costs and costs into the accounting system. Even if it is that in the end a universal method is universally accepted for all, it will nevertheless remain unclear what to maximize: the aggregate profit, the rate of profit, or the profitability of the stock(Lang, Raedy and Yetman, 2003: 364).

The third valid limitation is that raising the gain to a high level as a target does not give financial leaders the opportunity to visibly hold the risks associated with alternative solutions. If there are 2 projects with similar future flows of profits, the situation will differ immediately if we consider the risks associated with their implementation. The Authority may increase the share of cash by raising the share of the credits. Only in this process, the high level of profits earned comes from increasing financial risks. This process will be clearly taken into account.the investor and will have an impact on market valuations.

2.2. Steps of financial standard analysis framework

In countries with a market economy, the principles and methods of this management, even at the turn of the 19th and 20th centuries, took shape in a specialized field of knowledge called "financial management" (the famous American expert in financial management, J. Brigham, connects his birth as an independent scientific discipline in USA, where this term first appeared, with the nineties of the nineteenth century).

I.A. Blank believes that over the past period, financial management has gone through a number of stages, in the course of which the range of problems studied has constantly expanded and the methodological apparatus for their research has been deepened.

At the initial stage of its formation (1890-1930) financial management was aimed at solving the following main problems(Elbannan, 2011: 207):

determination of the sources and forms of attracting capital in the process of creating new firms and companies;

study the possibilities of increasing financial resources in the process of expanding business through external sources such as issuing shares and bonds; formation of the organizational and economic foundations of the issuing activity of companies;

consideration of financial aspects and forms of association of individual companies;

the formation of a system of rating evaluation of bonds and other debt obligations, and later of shares;

the development of a system of basic indicators of the state and dynamics of the financial market situation. The first such index, reflecting the dynamics of the quotation of major stock instruments, was proposed by C. Doe, which laid the foundations for the technical analysis of the stock market situation.

The second stage of the development of financial management (1931-1950) was, first of all, connected with overcoming the negative consequences of the Great Depression of 1930 and the post-war economic recession. For this period, high rates of inflation, massive bankruptcy of enterprises, low investment activity of economic entities, the collapse of all major types of financial markets were characteristic. The most important goals of the financial management of enterprises of this period were the withdrawal of enterprises from the crisis and the prevention of their bankruptcy, on the one hand, and the restoration of their activity as subjects of the financial market, on the other.

Accordingly, scientific efforts in the field of financial management were aimed at solving the following main problems:

the formation of a system of in-depth diagnostic methods and criteria for the integrated assessment of the financial condition of enterprises (with the corresponding improvement of the information base). In these years, an extensive system of financial coefficients and a number of models for the integrated assessment of the financial condition of economic entities were developed; laid the methodological foundations of modern financial analysis; the basic standards of financial reporting of enterprises are unified;

the definition of the main directions for the withdrawal of enterprises from the financial crisis, as well as the forms and methods of regulating the procedures for rehabilitation and bankruptcy. At this stage, the foundation for the anti-crisis financial management of the enterprise was formed;

unification of the main instruments of financial investment, conditions and rules for their issue;

unification of rules and norms of conduct of economic entities in various organized financial markets, as well as bidding procedures;

formation of methods and indicators of real market value assessment

the main financial instruments of investment. With this period, the first development of methodological principles for the evaluation of various financial instruments is associated with the risk factor.

Scientific developments in the field of financial management were reflected in a number of legal acts of that time. In particular, the US Securities Act (1933), the Banking Law (1933), the Stock Exchange Act (1934), the Law on Holding Companies (1935) were adopted on this basis in the United States.), The Law on Bankruptcy (1938) and others, which laid the foundation for modern state regulation of the financial activities of enterprises(Johnson and Leone, 2009).

The third stage of the development of financial management (1951-1980) is the period of the heyday of its conceptual foundations. This stage was characterized by the progressive economic development of most countries, the active integration of individual national economies into the system of the world economic economy, deepening research in the field of general economic theory and management theory, and individualization of management methods for all the main aspects of the financial activities of enterprises.

2.3. Importance of financial standard notes andsupplementary information

Azerbaijan switched to the international standards of accounting and financial reporting. According to them, along with financial reports, special notes are provided, which are their integral part, expand and supplement the information presented in it.

Each type of financial report has its own notes. When filling out the report, references to notes are necessarily indicated, where information about a particular indicator is fully disclosed. When submitting a report in accordance with IFRS, the notes are grouped according to the reporting forms. Each note is assigned a specific code, which is indicated in the article of the report, which the note discloses. Notes should be accessible and understandable.

Notes usually contain narrative information either digitally. To more fully disclose the data specified in the financial statements, all methods of providing information are often used - digital and narrative together. The data contained in the notes must fully disclose the necessary information: provide information on accounting policies, contain certain calculations, disclose approaches to the assessment of the subject matter and necessarily indicate compliance with IFRS(Imkhoff, 2003: 118).

Explanations to financial statements often contain the following information(Elbannan, 2011: 207):

- characteristic of the main activity of the company;
- the number of personnel at the beginning and end of the reporting period;
- location of the company;
- information on various contractual obligations;
- basis of accounting policy;
- analytical information;
- information on equity;

- the amount of dividends.

Notes, or they are also called an accompanying note, are an important tool for disclosing information about the organization (company), its activities, the main factors that affect the financial result. Without them reporting provides a dry number that does not reflect the completeness of information for users.

The disclosure of information (master data) in an explanation to financial statements is an urgent need, both for the enterprise itself (the organization) and for users. Thanks to this, it is possible to thoroughly study the company's work, assess risks and form the right opinion for decision-making.

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

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

An approach to the formation of accounting information for use in the tax system is new. The task of accountants is to prepare information about the activities of the organization so that it is only possible to obtain from the reasons for taxation.

The credibility of the theoretical apparatus that has been passed on has played an important role in the development of domestic financial reporting standards. - A new theory, for example, that reveals the assets, profits and debts of the institution, which arise from the available international standards. The same theory should be taken into account in recognizing the profit and cost definition and financial results of the institution recognized in international field practice(Hung and Subramanyan, 2007: 624).

In this regard, it seems necessary to pay special attention to the internationally accepted financial reporting standards for an in-depth understanding of the processes of reforming the national accounting system in Azerbaijan.

The collapse of 1929 in the industrialized world and the world stock market leading to a long-term economic crisis in these countries revealed that the accounting and financial reporting system used was weak. The theoretical indicators of regulating the financial statements of different institutions in different countries, and even in a particular country, are significantly different from each other. The reporting of different companies is not regularly understood by the users at all times. It turned out to be inappropriate, inappropriate, for serious business analysis and led to flawed and ambiguous results about the performance and financial situation of the companies that the companies reported.

At the beginning of 1930. It has begun to develop generally accepted accounting and reporting standards that are willing to be allegedly violated by big companies listed in the stock market in the United States. In the meantime, the US GAAP system has emerged over time and continues to this day.

In Europe, according to the model developed by the well-known Austrian accountant E. Schmallenbach, firms continued their mandatory application of indigenous accounting plans. After World War II, this created a domestic system of accounts that would account for gross domestic product and other indigenous economic statistical indicators (Daske and Gefardt, 2006: 4).

The nationally recognized accounting standards (GAAP), originated in the US, Canada, Great Britain, Mexico, Italy, and so on. Each of the states mentioned has specific characteristics of GAAP, but everywhere there is a certain unity and stability approach to the preparation of financial statements; comparability with the reporting of other domestic companies; increased credibility of reporting information; Trust from different users has increased. The European Commission has established the Fourth and Seventh Directives, which combine the financial statements of the European Union countries.

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

The last years of XX and XXI centuries. The international accounting union has recorded increasing interest for the issue. The development of the business world has certain demands on the integrity and transparency of formation principles, as well as the growing role of international integration in the economy and procedure for calculating profits, the taxable base, investment conditions and capitalization of earned funds, etc., used in different countries.

3. INVENTORY VALUATION METHOD

3.1. Financial reporting mechanics. Classification of business activities for financial reporting

Concept and purpose of reporting. Accounting reporting - a unified system of data on the property and financial position of the organization at a certain date and the financial results of its business activities for the reporting period, presented on the basis of accounting data in accordance with established forms.

The purpose of the financial statements is to summarize the accounting data for a certain time and present them in a visual form to interested users.

Accounting reporting is the final stage of the accounting process. An organic relationship between accounting and reporting is established when the resulting totals are included in the relevant reporting forms in the form of synthesized indicators(Elbannan, 2011: 207).

The conceptual basis of the accounting reporting of organizations in the market is the formation of reporting indicators for both internal and external users. Reporting is necessary for the management of economic activities and serves as a basis for making managerial decisions and subsequent planning of the economic life of the enterprise. In addition, it serves as an important prerequisite for effective business ties between all participants in market relations (investors, creditors, banks, fiscal bodies, etc.) in order to attract additional capital inflows as one of the sources of expansion of the organization's activities.

According to the financial statements, users can: assess the risks of business, the possibility of issuing loans and loans, the financial situation of potential customers, suppliers, customers, competitors or partners; accrue taxes; calculate dividends; decide on the appropriateness and conditions of doing business with one or another partner.

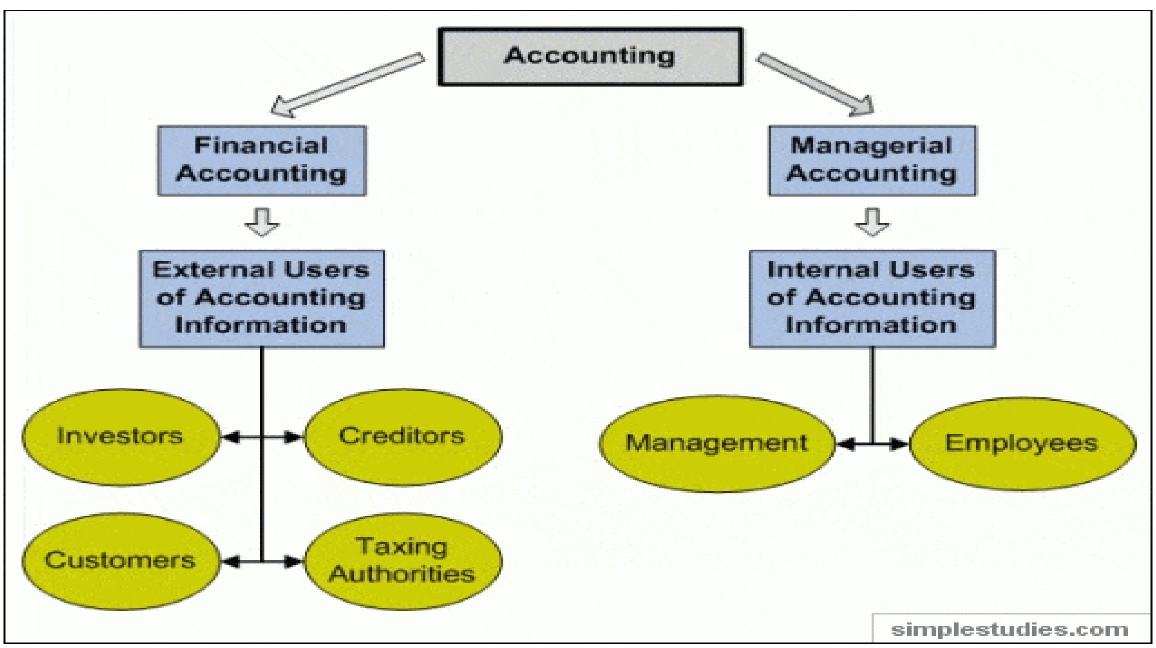
The value of accounting reporting is that, using accounting information, users can make decisions to perform important current and strategic tasks of the organization. Reporting data are presented in the form of systematic groups that facilitate their understanding and use. Accounting reporting is a source of information for financial analysis, determining the financial stability, solvency and profitability of the organization, as well as identifying trends in its further development.

According to the financial statements, the performance indicators of planned tasks are analyzed, deviations of actual indicators from planned targets and norms are established, an assessment of possible consequences is made and ways of their elimination are outlined(Imkhoff, 2003: 118).

Classification of users of financial statements. Users of financial statements are interested in information about the activities of an organization or individuals or legal entities. Each group of users presents its own reporting requirements, because different decisions are made on the basis of the accounting information with respect to the organization.

Classify users of information organizations on various grounds: the relationship to the business entity, country ownership, the frequency of access to reporting, the existence of financial interest, the dependence on the type of organization and the relationship of its goals and objectives of users (Figure 1).

Fig. 1. Classification of users of financial statements



In relation to an economic entity, external and internal users are distinguished. The characteristics of users are presented in Table. 1.

Table 1. Characteristics of users of financial statements

Phase	Sources of information	Output
1. Define the purpose and context of the analysis	• Nature of analyst's function, e.g. issuing a credit rating • Communication with client or supervisor • Institutional guidelines for developing a specific product	• Statement of purpose or objective of analysis • A list of specific questions to be answered by analysis • Nature and content of report • Timetable and budget
2. Collect data	• Financial statements, other financial data, questionnaires, industry and other economic data • Discussions with management, suppliers, customers and competitors • Company site visits	• Organized financial statements • Financial data tables • Completed questionnaires
3. Process data	• Collected input data is subject to analysis tools (giving processed data)	• Adjusted financial statements • Common-size statements • Ratios and graphs • Forecasts
4. Analyze/interpret the processed data	• Input data as well as processed data	• Analytical results
5. Develop and communicate conclusions and recommendations	• Analytical results and previous reports • Institutional guidelines for published reports	• Analytical report answering questions posed in Phase 1 • Recommendations regarding the purpose of the analysis
6. Follow-up where ongoing analysis required	• Information gathered by periodically repeating above steps	• Updated reports and recommendations

According to the criterion of country ownership, users are divided into domestic and foreign. Foreign users focused on financial reporting rules used in their countries, or on international financial reporting standards (IFRS), do not perceive Azerbaijann accounting as reliable.

Depending on the financial interest, users with direct financial interest (founders, investors, etc.), with indirect financial interest (tax authorities, banks, insurance companies, suppliers and buyers, etc.) and without financial interest (public, bodies statistics, the media, etc.).

Depending on the type of organization, you can identify users who have interests in international markets; Large and medium-sized organizations aiming to increase their investment attractiveness; small organizations, as well as large and medium-sized organizations that are not interested in disclosing reliable information about themselves.

Depending on the ratio of the goals of users and the goals of the organization should identify the primary and other users. So, for the Anglo-American accounting system, the main users are investors, for the continental system - creditors, for the eastern countries, including Azerbaijan, - state control bodies. The peculiarity of preferential users is that they have the strongest impact factors on the reporting organization: financial interest; direct control provided by the sanctions system; public opinion(Elbannan, 2011: 208).

3.2.Classification of financial reporting elements

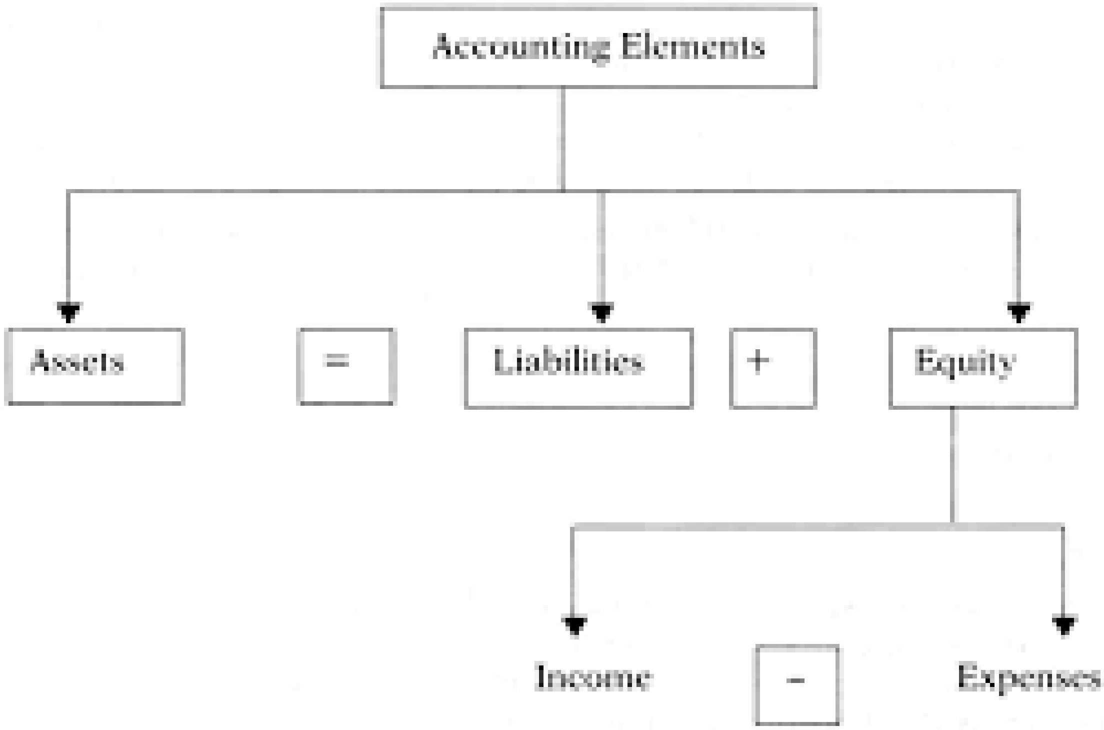
Elements of financial statements are reporting items that characterize the financial position and financial performance of the company. Formation of financial statements in the final analysis is reduced to identifying and reflecting in it the relevant elements.

Elements of financial statements are assets, liabilities, capital, income and expenses (figure 2).

Fig. 2. Classification of the elements of financial statements and the manner in which they are reported[3]

FIGURE 2.1

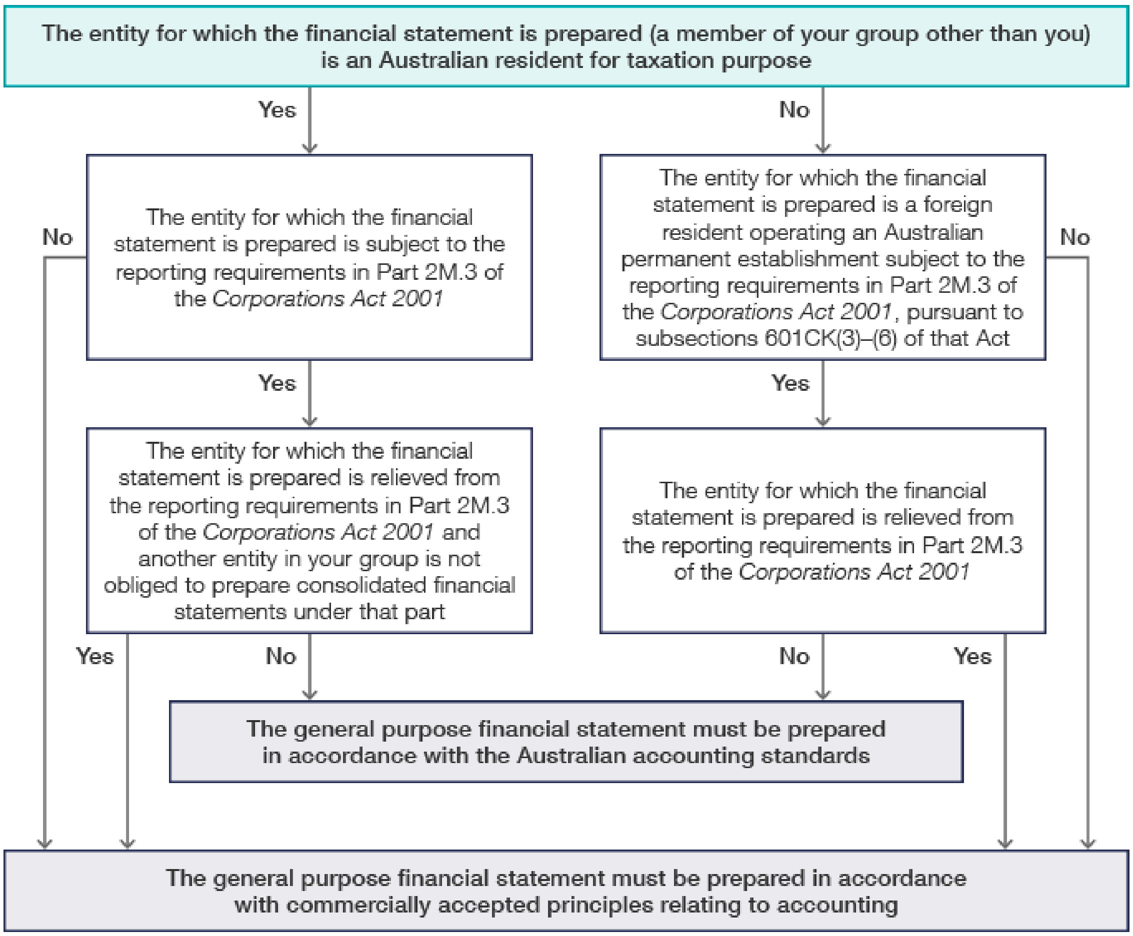
ACCOUNTING ELEMENTS



In the Principles of Preparation and Preparation of Financial Statements, an approach is adopted in which the definition of assets and liabilities is a priority in determining income and expenses. Sometimes such an approach is called a balance approach to assess the significance of certain forms of financial reporting, in which priority is given to the balance sheet, rather than to the profit and loss account.

The sequence of formation of the financial statements of the company can be presented in the form of three stages (Figure 3).

Fig. 3. Consistency of financial reporting



Steps 1-2. Identify the element of financial statements and check it for compliance with the criteria for recognition.

Elements of financial statements that characterize the company's financial position. It follows from Fig. 3, such are the assets, liabilities and capital of the company.

Assets in IFRS mean resources and property of the company that satisfy three conditions. They must
(Hung and Subramanyan, 2007: 624):

1) be controlled by the company;

2) to belong to the company as a result of past events;

3) to provide the company with economic benefits in the future (At the same time, future economic benefits are understood as the receipt of cash or cash equivalents or the ability to replace (save) cash and cash equivalents).

Identifying resources as an asset, IFRS is based on the concept of control, in contrast to domestic accounting principles based on the concept of ownership. The question of crediting certain objects to the company's assets or, conversely, of their write-off is decided not in accordance with their formal legal affiliation in the present, but according to the intentions of the parties regarding the future of these objects. So, fixed assets are taken to the balance not because the company is their owner, but because it uses them in its activities and at its discretion. The funds in the operating lease are not shown on the balance sheet, and the leased assets are included in the lessee's balance sheet. The assets sold are subject to write-off from the balance only if the control over them is irretrievably lost.

The future economic benefit, concluded in the asset, can be realized in different ways. For example, an asset can be used alone or in combination with other assets in the production of goods and services sold by enterprises, or exchanged for other assets, used to repay the obligation or distributed among the owners of the enterprise. Ultimately, the future economic benefit is the potential flow of cash or cash equivalents. Cash itself and its equivalents are also assets(Sander, 2009).

IFRS emphasizes that assets such as accounts receivable and property relate to legal rights, including ownership, but the latter is not paramount when an asset is recognized in the financial statements.

If the use of property does not provide the company with future economic benefits, it is reported as losses or expenses of the period.

So, the resource can be recognized as an asset of the company when it meets its three conditions, given above. However, compliance does not entail its automatic recognition in reporting, since it is also necessary to ensure that recognition criteria are met while respecting the principle of priority of content over the form.

IFRS distinguishes two criteria for classifying an accounting object as part of the financial statements(Athianos, VazakidisandNikolaos, 2005):

there is a probability that any future economic benefit associated with the object will be received or lost by the company;

the object can be reliably estimated.

The physical state and the material-material form are not an attribute of the asset. Assets may be recognized as patents, copyrights, knowledge obtained as a result of research, and similar intangible resources provided that they are controlled by the company. Assets go to the company in various ways: as a result of past purchase and sale transactions, through their own production. In addition, it may be voluntary contributions or explored deposits, which in the future should bring to it economic benefits.

Obligations in the concept of IFRS represent the company's current debt arising from past events, the settlement of which will lead to an outflow from the company of resources containing economic benefits.

An obligation is a duty or obligation for a company to act in a certain way. Debt or duty can arise under the law, as a result of which there are legal obligations (obligations to pay for received goods and services consumed, arrears of payments to the budget, bank loans, etc.).

The distinctive features of legal obligations are that the obligation(Paananen and Lin, 2007):

entails, as a rule, the future transfer of the asset;

it is necessary to execute even in case of loss of profit;

is due to past events.

As a result of usual business practices, the desire to support the image of the company appears non-legal obligations. (For example, the dividends expected to be paid, the company's voluntary commitment to extend the warranty period for the sold equipment beyond the period stipulated in the contract, etc.)

Settlement of obligations can be carried out in various ways: by paying out money, by transferring other assets, by providing services, by replacing one obligation with another, by transferring the obligation into equity, by refusing the creditor from their rights or for losing them for various reasons.

Liabilities are presented in the balance sheet as accounts payable in the event that their settlement results in an outflow of the company's future economic benefits. These are legal obligations.

Sometimes obligations can be measured only very approximately. Some enterprises, within the limits of the amounts of such obligations, form reserves of forthcoming expenses, for example, to secure payments under existing guarantee obligations, to cover pension liabilities, etc. If the amount of future obligations is not obvious (as, for example, in the case of warranty repair of equipment) and the company does not have full confidence that the need to fulfill the obligation will come in the future, this type of debt in the balance is recognized, but not as liabilities, but as reserves company.

3.3. Relationship away the financial statements

The financial results report is included in the accounting (financial) statements and is compulsorily compiled by all commercial organizations.

About what this report is and in what order it is being filled, we will tell in this article(Elbannan, 2011: 207).

By virtue of Article 13 of the Federal Law No. 402-FZ of December 6, 2011 "On Accounting" (hereinafter - Law No. 402-FZ), accounting (financial) statements should provide a reliable picture of the financial position of the organization at the reporting date, the financial result of its activity and cash flow for the reporting period, which users of this reporting need to make economic decisions.

As a general rule, the accounting (financial) statements are formed by the organization for the reporting year, that is for the period from January 1 to December 31 of the reporting year inclusive(Imkhoff, 2003: 118).

In accordance with paragraph 1 of Article 14 of Law No. 402-FZ, the accounting (financial) reporting of a commercial company includes the balance sheet, a statement of financial results and attachments thereto.

Note that on the basis of subparagraph 6 of paragraph 3 of Article 21 of Law No. 402-FZ, the composition, content and procedure for the formation of information disclosed in the accounting (financial) statements, including sample forms of accounting (financial) statements and the composition of the annexes to the balance sheet and report on financial results, are established by the relevant federal accounting standard (hereinafter referred to as "the FSB")(Johnson and Leone, 2009).

But since such a standard has not yet been approved for commercial organizations, on the basis of Article 30 of Law N 402-FZ, commercial companies form their accounts in accordance with the forms approved by Order of the Ministry of Finance of Azerbaijan dated 02.07.2010 N 66n "On the Forms of Financial Reporting of Organizations" (further - Order N 66n), and the main normative documents used in its formation are:

• Regulations on accounting and accounting in the Azerbaijann Federation, approved by Order of the Ministry of Finance of Azerbaijan dated 29.07.1998 N 34n (hereinafter - Regulation No. 34n);

According to Order No. 66n, as an appendix to the balance sheet and the financial results report, the following information is included in the annual accounts of commercial firms: a statement of changes in equity, a cash flow statement and other annexes to the balance sheet and a statement of financial results (hereinafter - explanations).

Based on the foregoing, it can be concluded that the financial results report (hereinafter - FIS) is one of the main accounting documents and is formed by all commercial organizations without exception.

4. FINANCIAL REPORTING STANDARDS

4.1. Objective of financial standards and its importance in security analysis and information

The globalization of economic activity and financial markets leads to an increase in the number of links between economic actors and the complication of these links. The variety and complexity of financial transactions in the real economy and in the capital market is increasing. These circumstances lead to an increase in the costs of financial transactions, which is due not so much to language barriers as to national differences and traditions in carrying out transactions of the same economic content, as well as established practices within certain segments of the market. The increase in the complexity and costs of financial transactions adversely affects the sustainability of economic operators and financial markets in general, so the issue of standardization is becoming increasingly important.

The subject of standardization is most often the various kinds of information processes that accompany this or that financial operation. This can be, for example, the processes of preparing information on securities traded in goods, information processes for preparing and holding trading sessions, making settlements based on the results of bidding, etc(Paananen and Lin, 2007).

For each financial transaction, the rules and forms for presenting the information necessary to conduct it are naturally formed. The degree of formalization of the description of such rules and forms is substantially increased due to the transition to the exchange of information in the form of electronic messages, as a result of which there are currently many different operating local standards for each financial operation. Examples of such standards are the rules for the exchange of electronic messages between the participants of a particular payment system and the message formats that implement them (Fed wire, TARGET2, etc.). However, the presence of many local standards for the same financial transaction is a deterrent to the globalization of economic activity, accompanying it with the "economies of scale" and creates the need to minimize the costs of information interaction between economic entities of different segments of the financial market or the same market segments in different countries. The resolution of this conflict is possible when implementing agreed approaches to regulating activities in the financial markets and standardizing financial transactions.

The processes of standardization and regulation in financial markets are closely interrelated. The ultimate goal of these and other processes is to ensure the efficiency, reliability and transparency of financial transactions, as well as to ensure that consumers of financial services guarantee that these services will be provided in a timely manner, with the appropriate quality and at a reasonable cost. However, these two types of processes have different motivations and are implemented by different actors(Singh and Newberry, 2008: 485).

Motivating motives for standardization processes in any spheres of activity, including in the field of financial operations, are the requirements of the market, or more precisely - of market interactions. Often, these processes are not only initiated, but also implemented by the subjects of economic activity, without the participation of public authorities. For example, the standards for retail payments within the single payment space for euro settlements (SEPA) have been developed by the European Payment Council (EPC) formed by representatives of financial market participants.

At the same time, for the subjects of economic activity, the incentives for standardization are derived from the main objective of their activity - profit-making, i.e. in the final analysis, standardization is aimed at increasing the efficiency of economic activity through the dissemination of the most progressive technologies and their unification.

The purpose of government bodies responsible for regulating financial transactions (such as central banks, financial market authorities, consumer protection agencies, etc.) is also the establishment of certain requirements and general rules ordering the execution of financial transactions. However, state and market (through standardization) regulation, apart from differences in the mandatory nature and voluntary application of the requirements, have other significant differences.

First of all, this concerns the speediness of making changes and the degree of detail of the requirements for conducting financial transactions. The requirements established in legislative and normative acts, as a rule, are fundamental, regulating the general rules of the "game", and therefore can not, and probably should not be subject to frequent changes. State regulation is inherently conservative. On the other hand, detailed regulation of the behavior of economic agents reduces the entrepreneurial activity and narrows the field of competition, which contradicts the provisions of the modern theory of state regulation(Daske and Gefardt, 2006: 4).

Since the processes of standardization are significantly influenced by the subjects of activity in the relevant fields of the economy, these processes are more dynamic than state regulation, and within these processes it is not only possible but also expedient to establish requirements with the necessary degree of detail and accuracy.

In this context, the participation of regulators in standardization processes will create new conditions and a new level of interaction between participants and regulators of financial markets.

It should be noted that regulators also apply elements of standardization in their activities. This, for example, can be traced in the principles of organizing the monitoring of payment systems and payment instruments.

A number of documents of international financial organizations are positioned as standards for minimum requirements for the functioning of payment systems, securities settlement systems, central counterparties and the use of payment instruments. At the same time, these documents contain not only requirements for the conduct of relevant financial transactions (standards), but also recommendations for regulators to verify the degree of compliance with these standards. Thus, regulation and standardization, having certain differences, closely intertwine in practical activities and exert mutual influence on each other.

The standardization of financial transactions in Azerbaijan acquires particular relevance in connection with the implementation of the program for the establishment of the International Financial Center (MFC). One of the necessary conditions for the establishment of the MFC is to ensure that the composition, order and conditions of financial transactions are consistent with international standards and market practices of the largest foreign and international financial centers and institutions. In addition to the need to provide foreign partners with the usual conditions for conducting financial transactions and to provide Azerbaijan financial, including credit, organizations with opportunities to work effectively in foreign markets, there is also a need for standardization of domestic financial transactions.

Regulatory processes, defining and regulating the procedures for the execution of operations, form the legislative and regulatory framework, the legal framework within which standardization should be conducted. One of the basic principles of standardization is compliance with the legislation norms and regulations established by standards.

The Bank of Azerbaijan initiated the creation of the Technical Committee for Standardization "Standards of Financial Operations", which was formed by the order of the Federal Agency for Technical Regulation and Metrology of December 30, 2010. No. 5527. The management of this committee and the active participation of Bank of Azerbaijan specialists in its activities, the inclusion of representatives of other state bodies, leading organizations of the banking sector and financial markets in the committee will allow it not only to realize the idea of an open, constantly operating forum of the financial community and regulators, but also to get practical results in the form of standards built on the basis of ISO 20022 methodology and corresponding to the best world samples(Christensen, Lee and Walker, 2008: 5).

The optimal balance of interests of the market and its regulators, reflected in national standards, is one of the important factors in the effectiveness of the application of these standards. Therefore, one of the tasks of the Technical Committee "Standards of Financial Operations" is to increase the activity of participants in financial markets in the field of standardization.

The Bank of Azerbaijan plans to act as a catalyst for these processes, ultimately aimed at optimizing the use of resources and time for all participants in financial transactions, increasing the attractiveness and reliability of Azerbaijan financial markets.

4.2. Roles and attributes of financial reporting standard setting bodies and regulatory authorities

Objectives with regard to the Audit Quality Concept of the Council on International Standards on Auditing and Assurance (IAASB)

The objectives of the Audit Quality Concept include(Singh and Newberry, 2008: 485):

- Raising awareness of the main elements of audit quality;

- Stimulation of the main stakeholders to find ways to improve the quality of the audit;

- development of a dialogue between the main stakeholders on this issue.

IAASB hopes that the Concept will facilitate relevant discussions and will result in taking measures aimed at further improving the quality of the audit.

Auditors are required to comply with all applicable auditing and quality control standards adopted by their organizations, as well as ethical and other regulatory requirements. The concept is not intended to replace these standards, nor to establish additional standards or requirements for the performance of audit tasks.

The term "audit quality"(Johnson and Leone, 2009)includes a number of key elements that provide the conditions for achieving the maximum likelihood of a quality audit on an ongoing basis.

The purpose of the audit of the financial statements is the formation by the auditor of an opinion on the financial statements based on the obtained sufficient appropriate audit evidence regarding the existence of material misstatement in the financial statements and the provision of an opinion in accordance with the results obtained. Thus, a qualitative audit is most likely to be provided by an audit team that(Sanders, 2009):

- adheres to the appropriate values, ethical norms and approaches;
- sufficiently qualified, experienced and has enough time to perform the audit work;
- applies strict audit and quality control procedures that comply with the requirements of legislation, regulations and applicable standards;
- provides timely and useful reports;
- Properly interacts with stakeholders.

Responsibility for conducting a qualitative audit of financial statements rests with the auditor. However, the quality of the audit will be incomparably higher if the auditor is supported and proper interaction between all participants in the financial reporting process will be established.

The concept is aimed at raising awareness of the key elements of audit quality, it encourages auditors, audit organizations and other interested parties to critically analyze their activities in order to determine what additional measures can be taken to improve the quality of audit in their specific environment.

The concept is used in conducting an audit of any organizations, regardless of their size, nature and complexity of their activities. It also applies to all audit organizations, regardless of size, including audit organizations that are members of the network or association. However, the attributes of audit quality described in this Concept differ in importance and have different effects on the quality of the task(Sanders, 2009).

Auditors are required to comply with all applicable auditing and quality control standards applicable to audit organizations, as well as ethical and other regulatory requirements. In particular, the MSCC 1 describes the responsibilities of the organization with respect to the quality control system of its audit. The concept does not replace these standards, nor does it establish additional standards or procedural requirements for the performance of audit tasks.

MSCC 1 requires audit organizations to establish and maintain a quality control system in order to obtain reasonable assurance that both the organization as a whole and its staff comply with professional standards and applicable legislative and regulatory requirements and that the conclusions prepared by the organization or task managers are appropriate in the circumstances.

Despite the fact that the initial parameters, as well as process parameters, results and various types of interaction described in this Concept, will affect the quality of a specific audit task, the quality of the audit concept itself is not sufficient for the purpose of assessing the quality of a particular task. The reason for this is the need for detailed consideration of such issues as the nature, timing, as well as the amount of audit evidence collected in response to the risks of material misstatement in a particular organization, the proper nature of the audit judgments used and the observance of relevant standards.

4.3. IASB conceptual framework

In different countries, the preparation of financial statements is either regulated by detailed and specific legal rules (as in Russia and Ukraine), or the law provides a legal framework for regulation, and specific issues are defined by standards (as in the UK), or mainly standards, and the role of legislation is small (USA)(Elbannan, 2011: 207).

International Financial Reporting Standards (International Financial Reporting Standards, formerly known as International Accounting Standards) are issued by the Committee, and since 2001 by the International Accounting Standards Board (IASB). The IASB is a non-governmental body and does not bear responsibility to governmental organizations. It establishes standards for general purpose financial reporting for companies belonging to the non-state sector of the economy. The purpose of the Committee on International Financial Reporting Standards is to harmonize the rules, accounting standards and procedures related to the preparation and presentation of financial statements. Further harmonization can be achieved by focusing on the financial reporting compiled to provide the information needed in the decision-making process.

International Financial Reporting Standards (IAS - International Accounting Standards) are of an advisory nature, i.e. are not mandatory for adoption. On their basis, national standards can be developed in national accounting systems with more detailed regulation of accounting for certain objects.

IFRS are internationally recognized. The recognition of the usefulness of IFRS reporting is the fact that already today most of the stock exchanges allow foreign issuers to represent it for quoting securities. The International Organization of Securities Commissions has agreed to recommend, in 1998, that IAS be recognized for listing purposes in all international markets (including the New York and Tokyo Stock Exchanges)(Hung and Subramanyan, 2007: 624).

The International Accounting Standards Board, or, the International Accounting Standards Committee, was established by professional accounting organizations in a number of countries as an independent body of the private sector in 1973. Since 1981, the IASB has been fully autonomous in the implementation of international financial reporting standards and in the discussion of documents related to international accounting.

1989 Establishment of the International Organization of Securities Commissions (IOSCO)

1993 IOSCO project on promotion of IFRS on world stock exchanges was launched with the goal of providing companies with the opportunity to raise capital on many exchanges simultaneously.

1997 The Standing Committee on Interpretations of IFRS was created.

1998 Work is completed on the basic standards

2000 The Securities and Exchange Commission (SEC) reviews the core standards and publishes the survey in February 2000

This analysis initiated the convergence process with the US Generally Accepted Accounting Principles (US GAAP) with International Financial Reporting Standards.

IASB approves new charter

The International Organization of Securities Commissions completes the analysis of standards

At the end of 2000, the IASB included all professional accounting organizations (over 140) that are members of the International Federation of Accountants (IFAC)(Imkhoff, 2003: 118).

2001 The beginning of corporate crashes in the USA

There was an active discussion of the prospects for the "convergence" of US GAAP and IFRS. The IFRS meeting was held at the headquarters of the US Accounting Standards Board

2001 IASB becomes IASB

The International Accounting Standards Board (IASB) was created in April 2001 to replace the International Accounting Standards Board (IASB).

2002 The European Commission accepts the Directive of the European Union that all companies whose shares are quoted on the European exchanges (total about 6,700) are required to prepare consolidated IFRS financial statements starting from 2005.

4.4. IFRS

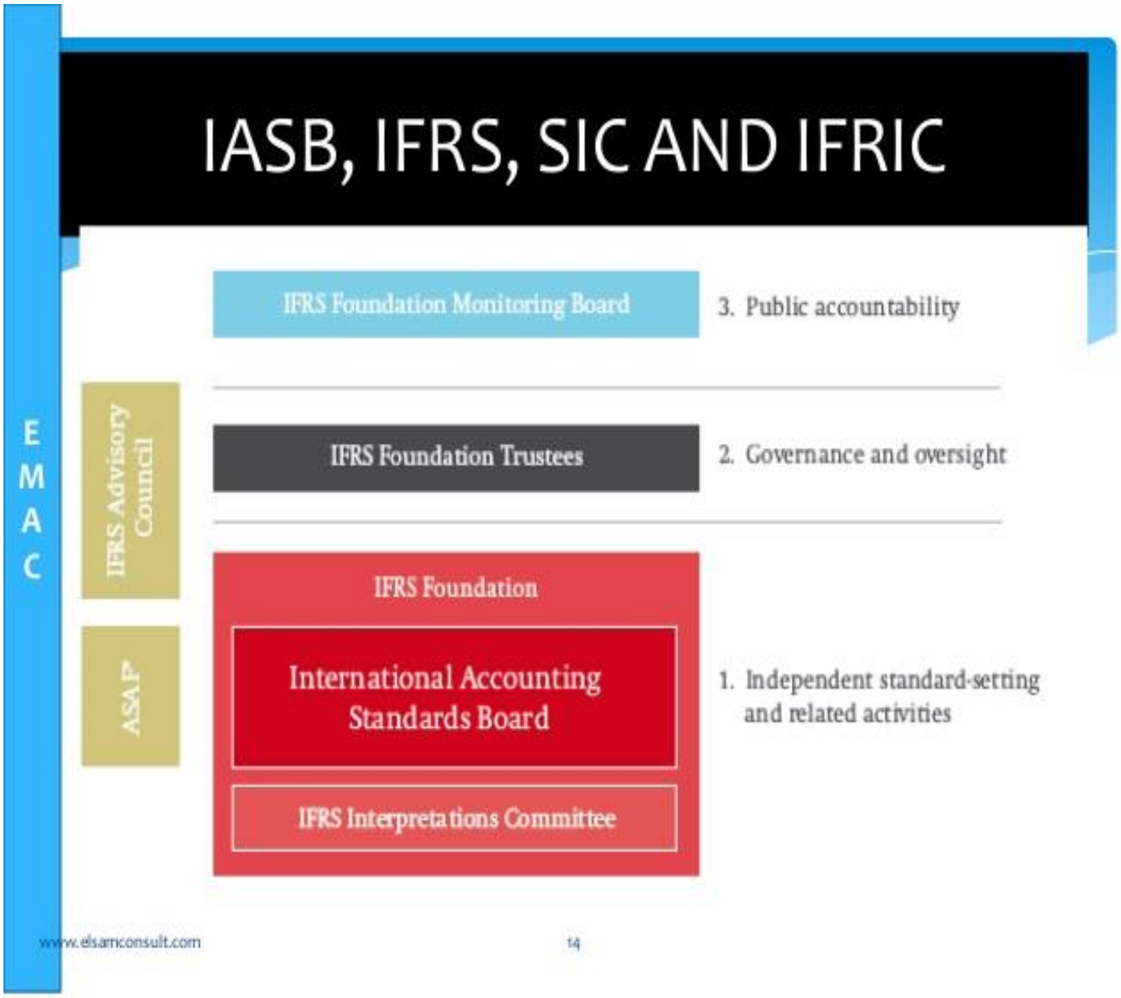
In accordance with the statement of the IFRS Mission, three main objectives have been set before the SIFF:

Formulate and publish in the public interest a single set of high-quality, understandable and practically implemented global financial reporting standards that must be complied with when providing financial statements

Promote the adoption and observance of standards around the world

Collaborate with national authorities responsible for developing and implementing financial reporting standards to maximize convergence of financial reporting standards around the world.

Scheme 2. Structure of IFRS[9]



Source: Lang M., Raedy J and Yetman M (2003) "What kind of representative are the firms that cross-listed in the United States? Analysis of the quality of accounting. Journal of Accounting Research 41: 363-386

The governing body of the IASB is the institution of the IFRS trustees.

Trustees (or trustees) appoint members of the IASB, the Standing Interpretations Committee (IFRIC) and the Standards Advisory Council (SAC). Trustees also monitor the effectiveness of the IASB, seek funding, approve the budget of the IASB and amend the charter.

The Council on International Financial Reporting Standards is the main body within the structure of IFRS, which is responsible for the adoption of international standards. The Board consists of persons who prepare and use financial statements, auditors and researchers, a total of 14 members, 12 of whom work on an ongoing basis. Members of the IASB are appointed by the trustees for a term of 3 to 5 years. Several members of the Board are directly responsible for coordinating work with bodies setting national financial reporting standards. The daily work of the Council is carried out with the participation of a variety of technical and administrative personnel. The IASB prepares and publishes IFRS, prepares and publishes Standards Projects, establishes the procedure for reviewing comments received on the published Standards for discussion, publication of the basis for drawing conclusions.

The Standards Advisory Council is a forum for organizations and individuals wishing to participate in the discussion of methodological and other issues related to the application and formulation of standards, as well as in developing recommendations to the Council and Trustees on the agenda and priorities.

The Standards Advisory Council consists of 45 members appointed by the Trustees for 3 years, representing different geographic regions and areas of activity. The Advisory Board holds at least 3 open meetings with the IASB per year,(Lang, Raedy and Yetman, 2003: 366)

The International Financial Report Interpretations Committee was established in April 1997 to provide conceptually verified and practicable interpretations of IFRSs on emerging issues in financial statements that are not specifically addressed in IFRS, and where there are or may be unsatisfactory or conflicting interpretations in the absence of official explanations, as well as to interpret disputed issues related to the formation of financial statements.

The objective of the IFRIC (prior to the 2001 reorganization - the Standing Interpretations Committee (SIC)) is to ensure the application of standards and to improve the comparability of financial statements prepared under IFRS by clarifying difficult accounting and reporting issues. The structure of the IFRIC includes auditors, persons who prepare and use financial statements. KIMFO can issue draft interpretations for discussion. However, the final interpretations are approved by the IASB, after which the interpretations become part of the IFRS regulatory framework and have the same effect as IFRS.

IFRIC applies the approach described in IFRS 1 Presentation of Financial Statements, namely, it makes analogies with the requirements and guidance of IFRSs affecting similar or related problems, uses criteria for determining, recognizing and assessing assets, liabilities, revenues and expenses as set forth in the Principles for the Preparation and the preparation of financial statements, takes into account the decisions of other bodies setting the standards, and the industry practice adopted in the world.

IFRIC interpretations are identified as IFRIC-1, IFRIC-2, etc. (and until 2001 - SIC-1, SIC-2, etc. Interpretations take effect immediately immediately after approval and publication, unless otherwise specified.(Leuz, Nanda and Wysocki, 2003: 508).

Staff of the IASB. In implementing the project, the Council often forms an ad hoc advisory group to formulate recommendations for the project. The IASB staff also prepare the proposed new document.

Standards are issued after passing strictly enforced procedures. Until the final version of the standard is received, documents for discussion - Discussion Documents (DD) and preliminary drafts (PPs) are issued in order to receive comments and suggestions. The standards issued by the IASB are based on conceptual principles.

Standards are issued after detailed discussion and consultation. The process of the appearance of the standard can be represented as follows.

The need for a project is usually identified after detailed consultations with the persons preparing the financial statements, auditors and users of financial statements.

Consultations are held with the Standards Advisory Council on the inclusion of this topic in the agenda of the IASB. Preliminary research is carried out by the staff of the IASB. The staff prepares the justification for the project. This document is submitted to the Council for approval of the decision to accept the project for development.

Formation of the Advisory Committee (advisory group) to provide advisory support to the IASB.

Staff The IASB develops a discussion paper - Discussion Paper (DD) (Discussion Document, DD)

DD is designed to describe the issue, the scope of the project, as well as to discuss research results, provide alternative solutions to the issues discussed, the arguments and the consequences of each of the alternatives.

Approval of the DD is carried out by a simple majority of votes present at the meeting of the Council, if their number is not less than 60% of the total number of members of the IASB.

Publication of a Discussion Paper for public discussion.

Consideration of comments. The comment period is usually 120 days.

After analyzing the comments received regarding the DD, the IASB staff prepares a preliminary draft standard - the Exposure Draft (ED), which must be approved by a simple majority of the members of the Council.

The PP assumes a statement of the proposed standard and transitional provisions to it. Also, the PP contains the basis for the IASB's conclusions, which summarize the position of the board in a concise manner.

The draft standard is being discussed. If found necessary, public hearings and testing are conducted in a real setting. The final version of IFRS is being formed(Daske, 2008: 3)

Approval of the standard. To issue as a standard, a simple majority of the members of the Council

Using IFRS in the world

IFRS represent an important international system of generally recognized accounting principles (GAAP). They are widely used and accepted as the basis for preparing financial statements in many countries. IFRS are internationally recognized and. Recognition of the usefulness of IFRS reporting is the fact that already today the majority of stock exchanges (for example, the London Stock Exchange) allow its presentation by foreign issuers for the quotation of securities. The International Organization of Securities Commissions has agreed to recommend since 2000 that IFRSs are recognized for listing purposes in all international markets (including the New York and Tokyo Stock Exchanges).

Europe is committed to centralization and unification. The EU accounting directives are documents developed within the framework of the European Community to unify financial disclosure rules in accounting (financial) statements. The most known: The Fourth Directive, devoted to the issues of annual reporting of companies of certain legal forms; The Seventh Directive, related to the consolidated (consolidated) reporting of the group of companies, and the Eighth Directive, which regulates the rules of auditing. Currently, work is under way to clarify the directives, because the individual standards they provide do not meet the requirements of IFRS. According to the EU decision in 2005, all listed companies of the European Union will be required to report under IFRS.

4.5. How different financial analysis work with different financial reporting systems

An analysis of a company's financial statements is a process of evaluating a company's financial statements (for example, a balance sheet or a profit and loss account). Financial statements record financial data that is usually valued using various financial ratios and methods. Evaluation and analysis of financial statements allow you to assess the liquidity, profitability, efficiency of the whole company and cash flow processes. The purpose of the analysis of the company's financial statements is to identify both positive and negative trends in these areas.

Usually the financial statements contain data for several years. Analysis and audit of financial statements are valuation methods for determining the company's past, current and projected performance. Financial analysis based on the financial statements can be supplemented by an analysis of management reporting.

When analyzing the financial statements of companies, there are usually several methods used, including(Leuz, Nanda and Wysocki, 2003: 510):

A horizontal analysis that compares financial data for two years or more, both in absolute terms and in percentages;

Vertical analysis displays each category of accounts in the balance as a percentage of the total invoice amount;

Coefficient analysis - analysis of financial statements.

Usually, the analysis of financial statements begins with a horizontal analysis. Horizontal analysis of financial statements assumes that the company operates for several periods, and this analysis focuses on trends and changes in financial statements over time. Along with the amounts presented in the financial statements, horizontal analysis can help the financial statement user to see the relative changes over time and identify positive or possibly disturbing trends.

Consider the analysis of the financial statements of the enterprise by example. An analysis of various forms of financial reporting is possible. We will use the income statement (shown below) to explain how we can prepare a three-year horizontal analysis.

From this express analysis of financial statements, one can draw conclusions about some interesting trends. The amounts and interest in dollars for each article of the financial report increased every year, but the trends for each item were different. For example, in 2016, when revenue was 120% of the base year, the cost of goods sold was less - only 115% of the base year. Perhaps the company raised selling prices and / or lowered the cost of stocks.

Please note that the net profit for 2016 was 187% of the base year; although operating expenses increased to 123% of the amount of the base year, which was more than offset by favorable trends in revenues and the cost of goods sold(Sander, 2009).

In addition to comparisons to the base year, the total and percentage changes from one year to the next can be analyzed. For example, revenue for 2015 increased by $ 8,000 or 8% compared to the previous year, while revenue for 2016 increased by $ 12,000, or 11.1% over the previous year.

How to choose a base year? In fact, the choice of the base year depends on the specific user of the financial statements. For example, when an investor tries to decide whether to buy or sell a company's stock at a time when the company has undergone significant changes, for example, the arrival of a new management or the development of a new product line. In this situation, perhaps the last year before the changes will be adopted for the base year.

Are these proportional increases, which we calculated for the above example, are positive? It is possible that competitors in the same industry show even greater growth. In order to interpret proportional changes, the user will need additional information - industry-specific averages and / or indicators of another company, which the financial statement user also considers for investment purposes.

Vertical analysis of financial statements is conducted to determine the overall financial situation, since all amounts for a given year are converted into percentages of the main component of the financial statements. The vertical or the size analysis allows you to see the composition of each financial report and determine whether there have been significant changes.

Once the total assets of each year is set at 100% (or total liabilities plus equity, since the amounts must be balanced), the amounts of the various accounts are calculated as a percentage of the total assets.

When the settlement is completed, the amount of interest of all asset accounts must be equal to 100%. The percentage in all accounts of liabilities and equity is also equal to 100%(Athianos, Vazakidis and Nikolaos, 2005).

The liquidity of the company is the ability to meet short-term financial obligations. Liquidity analysis is conducted by comparing the company's most liquid assets, which can be easily converted into cash, with its short-term liabilities.

In general, the higher the coverage level of liquid assets of short-term liabilities, the better. If the company has a low level of coverage, then this may be a sign that it will be difficult for it to meet its short-term financial obligations, and thus conduct current operations.

In crisis times for a business or an economy, a company with insufficient liquidity may be forced to take tough measures to fulfill its obligations. These measures may include the liquidation of production assets, the sale of stocks or even the sale of a business unit, which in turn can damage both the short-term viability of the company and long-term financial health.

Calculation of liquidity ratios is based on the indicators of the company's current assets and current liabilities taken from the firm's balance sheet(Imkhoff, 2003: 118).

- Examples of liquidity ratios:
- Coefficient of current liquidity;
- Quick liquidity ratio;
- Coefficient of money.

The current liquidity ratio is the ability of a company to cover its current liabilities with current assets.

5. CONCLUSION

In the course of the course work, the following tasks were accomplished:

1. considered the classification and types of accounting errors;

2. The regulatory and legal regulation of the procedure for identifying and correcting accounting errors has been explored;

3. Accounting for the correction of accounting errors and in the financial statements;

Despite the many methods and methods that are used in organizations to control the primary documentation and the correctness of accounting, from time to time it happens that in the accounting and financial reporting data are reflected inaccurate or erroneous.

An error is an incorrect reflection (non-reflection) of the facts of the economic activity of the organization in its accounting and (or) accounting.

The admitted errors distort the information on the real financial state of the organization, thereby misleading the interested users of the accounting (financial) statements. In this regard, it is important not only to identify errors in time, but also to classify them correctly, to distinguish them from fraud, and to determine the materiality of the error and to disclose information in the accounting reporting of errors.

When conducting bookkeeping for financial and business operations and preparing the company's financial statements, the knowledge of the rules for correcting errors in accounting and reporting is of great importance. It is almost impossible to completely protect the organization from mistakes in accounting, which means that it is necessary to take measures to timely identify and eliminate the consequences of errors in accounting and reporting. The ability to correctly read and process the primary documentation, as well as knowledge of laws and standards will help to avoid errors.

The accounting system should reflect the specifics of the enterprise's activities and be adapted to its specific information needs. In the process of the enterprise's activity management should monitor the work of the accounting department and timely adjust the tasks, the solution of which is aimed at ensuring the economic security of the business and its effective development. Effective organization of accounting allows in many ways to reduce threats to the economic security of the enterprise.

Both within the framework of a separate economic entity and at the state level, impacts aimed at reducing uncertainty and risks are needed, which will contribute to the formation of reliable, reliable and transparent reporting.

Thus, accounting and financial accounting are the basis for monitoring the activities of any organization.

On the correctness of their composition depends on the financial condition of the firm.

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