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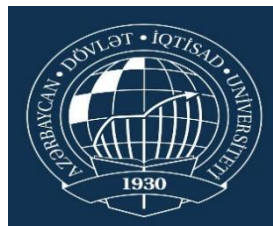
**An investigation on the challenges of  
implementation of IFRS in Azerbaijan**

by

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*In this manner, I declare that all the given information in this dissertation has been prepared due academic regulations and ethical conduct.*

*Nazkhanim Osmanli*

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I am pleased with I learned a lot about the crucial part of an accounting system and its standards and implementation problems, their solutions as well as I improved my general outlook about finance and accounting also cleared essential parts which play important role in my future career. Great thanks to people who stood behind me every time.

## **Abstract**

An investigation on the challenges of implementation of IFRS in Azerbaijan

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The purpose of the thesis is to illustrate to the management of organizations and professionals who implement IAS/IFRS in Azerbaijan faces difficulties during application period. The study`s aims to give broad information why it is essential adoption of IAS/IFRS also multiform accounting policies and procedures applied by organizations and their explanation about implementation of IAS/IFRS. The thesis covers advantages associated with the result of effective implementation of IAS/IFRS and senior management commentaries when problems occur during adoption period.

**Keywords:** International Accounting Standards, International Financial Reporting Standards, Azerbaijan

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## **Chapter 1**

### **1.1 Introduction to the IAS/IFRS**

International Financial Reporting Standards (briefly called IFRS) are sets of international accounting system and issued standards which gives true and fair view to the specific types of transactions and other cases could be introduced in the financial statements. IAS/IFRS are published by the International Accounting Standards Board (IASB) and define more precisely how accountant prepare and report their accounts. IAS/IFRS have many advantages , one of them is IAS/IFRS gives rise to common accounting language and this phenomena is very beneficial for businesses , because they share common accounting techniques , standards , however international companies understand simply each other, statements are readable , so as a result they reach the point what they want.

The main point of IAS/IFRS is to preserve consistency and transparency within the highly developed business world today. They gives sound view to the businesses and individuals to make conspicuous financial consequence, as well as, for achieving targeted profit financial decisions as a result of detailed reported information. On other hand, investors are able to see what has been happening inside of company which they eager to collaboration with this company.

IAS/IFRS are widely spread sets of standards in the world, as well as mainly used by European Union (EU) and more countries in Asia and South America and etc. However, IAS/IFRS don't use in the United States, they generally apply GAAP (Generally Accepted Accounting Principles) in their financial statements. The main reason of it US doesn't want to switch to The Securities and Exchange Commission (SEC) to the IAS/IFRS, but US accepts IAS/IFRS standards in the

case of GAAP needs this supplementation. Representatives claimed that adoption and application IAS/IFRS very profitable for entities in the case of cost savings, individual company investigations also sharing essential information more easily among them.

IAS/IFRS adopted countries are very pleased with adoption of IAS/IFRS because introduced financial statement involved even international investors to the company as a result of transparent presentation of financial statements, cost saving is a precious advantage. IFRS are replaced with IAS (older accounting standards), which most of the time confused. As given chapter before IAS as an older form of accounting standard were issued during 1973 and 2000 years and IASB (International Accounting Standards Board) replaced with the International Accounting Standard Committee (ASC) in 2001.

## **1.2 Context of IAS/IFRS**

IAS/IFRS covers a wide range of financial activities that also call standard IAS/IFRS requirements. There are given below specific IFRS requirements which must showed by entity due IFRS mandatory rules.

- Balance Sheet or Statement of Financial Position
- Income Statements or Statement of Profit or loss (Other comprehensive income)
- Statement of Changes in equity
- Statement cash flow
- Additionally, disclosure notes

IAS/IFRS history and development procedure began from 1960s to 2005 when highly developed companies claimed that they want to prepare their financial statements under financial accepted standards, so in 1966 international study group established three international accounting committee:



- Institute of Chartered Accountants of England and Wales (ICAEW)
- American institute of certified Public Accountants (AICPA)
- Canadian Institute of Chartered Accountants (CCA)(it has changed last Year as a Chartered Professional Accounts of Canada (CPA) )

Issuance of new accounting standard is not straight forward, it contains different sets of preparation procedure which given below:

➤ Step 1:

First of all IASB set up IASB Advisory Committee early preparation procedure of project which specially focuses on establishment of new IFRS standards.

➤ Step 2:

Due legal procedure Committee published Document of Discussion for public commentary.

➤ Step 3:

After acceptance of public comment and review, committee makes Exposure Draft.

➤ Step 4:

At the last level of preparation procedure after all controlling steps issuance of new IFRS standards are being activated.

Introduction of new issued standards of IAS/IFRS governed by Standing Interpretations Committee (SIC),also affirmation of documents agreed by IASB which set up during 1997 and 2001 years in UK.

Adoption and implementation of IFRS/IAS brings to convergence to the worldwide standards which comprising three main financial phenomena:

- ✓ Universally adoption of IFRS/IAS
- ✓ Common accounting standarts
- ✓ Literature collection of accounting and audit subject brings to harmonization to the educational support.

## **Chapter 2**

### **2.1 Presentation and preparation methodology of financial statements due the Azerbaijan law and regulations**

This chapter gives broad information about how financial statements prepare and introduce in Azerbaijan and during preparation procedure what kind of areas specially focused on by prepares. The main point of illustration is to clarify differences between national policy and IAS/IFRS, briefly how managers use the best relevant method for introduction, their professional insights, however moral and educational support to the national accounting policies.

First of all, discussion of national GAAP is very essential, because local financial statements prepare due the consequence and annual business cycle of organization. First accounting Law introduced accepted in 1995 governance and after acceptance in 2004 representation of financial statement based on NAS or IFRS by governance. From this period our national companies IAS/IFRS method didn't widely spread, instead of accounting managers prefer to prepare due the National GAAP.

Composition of financial statements must be give true and fair information about entity's activity period for annual operating cycle without any material misstatement. It could be useful for international investors for controlling purposes annual statement of financial position, income statements, also operating activity level for evaluation of financial condition.

Distinctively from IAS/IFRS local law requires to represent financial statements to the four users:

- Investors (shareholders)
- Tax authority

- National statistic committee
- Governance related bodies such as Ministry of Finance, Central Bank, Sustainable Economic Development Organization and etc.

Azerbaijan Republic has unity financial statements preparation methodology, so governance prepares special statements form for organizations, introduce them to the authority, instead of these entities fill the form with relevant information and introduce them to the governance. Due the Accounting Law of Azerbaijan four main types statements require which given below:

- Statement of Financial Position
- Profit and Loss statement
- Additions to the Balance Sheet
- Disclosure notes

The last one - disclosure notes can't be called type of financial statement, because as called its name disclosure notes is given brief explanation to the financial statements such as depreciation method, issuance of financial instruments ( bond, shares) their maturity days, years, principles, percentages, purchase information ,non-current assets and etc. In spite of disclosure notes are not financial statement it is very essential for presentation and preparation for financial statements preserving from material misstatements. For example, if the changes of accounting policy of an any element of financial statement in the next reporting point doesn't covered in disclosure note it will create misunderstand of users of financial statement.

If we compare local accounting standards with IFRS/IAS it can be seen easily local standards not enough harmonization, it keeps its local uniformity and directed strictly by governance. It comes from Soviet Accounting system, it also can be called inheritance of Soviet Accounting system. Accountant manager gathers all financial informations, and fill the blanks which prepared by governance. Majority of local organizations, are not in favor of this highly standardized procedure,

because they think that it affects company's decision-making process, even it reduce decision-making activity. It also called narrow limited approach, because accountant manager doesn't understand significance of preparation of financial statements. He/she can't use his professional it's sight, are approach-experience and problem solving level or activity.

On the other hand, other trouble-making procedure is about auditing of organizations. Auditing of some entities it specifically refers to small-sized entities which not required by governance. The main point of auditing procedure is about entity's material misstatement which gives in financial statements. It must be consequence with penalty which plans that monetary fees apply on the entity.

Amount of the money chargers must be depend on level of material misstatement and other problematic issues doing by entity.

## **2.2 Introduction of financial statements in accordance with Azerbaijan GAAP**

Local Accounting law has specific requirements for preparation of financial statements which differ from international standards. One and most focused area of preparation procedure relate with consequence which plays important role on financial statements. Azerbaijan GAAP requires all the results of transaction of entity must be reflect, also assets, liabilities also shareholders equity must be take into consideration fully. Introduction of financial statements couldn't be out of purpose, free from error and material misstatement and understandable for all users.

The second focused area is about comparison of financial statements which means that external users could be compare two years (at least) results for investment and

other legal purposes. However, equation of statement of financial position elements shouldn't be made artificially, it is also required by law.

Introduction of financial statement sets up on timely bases. Generally, governance regulates the date of presentation of financial statements. At every time due Accounting law of Azerbaijan, introduction date is after 90 days after at the end of reporting period.

Like international financial statements Azerbaijani GAAP also gives information about income, expenses, asset, liability, shareholders equity. Income and expenses show a profit and loss statements, assets, liability, shareholders equity show on the statement of financial position.

### **2.3 Statement of Financial Position**

In Azerbaijani GAAP, as a name of statement of Financial Position it effects activity performance of the entity which regulated by governance certain rules and principles. According to regulation it likes a "T" accounts on side shows assets and other side shows liabilities and shareholders equity as a result statement of financial position consist of two sides: active and passive sides which active side involves assets of the entity, conversely passive side involves liabilities and shareholders equity.

First of all, we will discuss active side of statement of financial positive which comprises assets of the entity. Property, plant and equipment elements called fixed assets, current assets, tangible and intangible assets and cash and market instruments. Current assets generally comprise inventory which includes goods for resale, finished goods, goods work-in-progress, value added tax when being purchase, other current assets such as cash, accounts receivable and etc.

Financial assets and other market instruments include current assets, petty cash book, prepayment cash, cash and cash equivalents such as bonds, cheques,

deposits, short term investments and etc. Due Accounting law of Azerbaijan assets only recognize when it passed its ownership wholly to the entity. Take into the consideration, recognition rules of assets aren't the same with IAS/IFRS, it has local governance requirements. Then liability side of balance sheet happened when an entity purchase assets in front of it increases its liability. Liabilities divide to long-term obligations and short-term obligations. Short-term obligations includes short-term loans (specially bank loans refer linked to short-term loans), trade payables, obligations which arises acceptance of government grants. The third one is shareholders equity of entity which includes shares (ordinary shares, share premium), investments, equity capital, retained earnings and etc. Like a retained earning company set reserves which shows on the balance sheet. Reserves can be refer to doubtful receivables and not received expenses and cash reserves, profit distribution and etc. The current amount of cash reserve depends on payments of receivables when examined there are overdue receivables paid. In the second case reserves depend on solvency ratio of debtor and credibility of collection of doubtful receivables.

As a result due Azerbaijan GAAP recognition criteria of assets, liabilities and shareholders equity which given below:

- Recognition of asset depends on ownership of assets which recognize the wholly ownership transform to the entity
- Recognition of liability arises when obligation amount allocated truly and also amount of obligation must be virtually certain

Recognized assets divide in two category:

1. Current
2. Non-current assets

Current assets comprises under following illustrations

- ✓ Cash and cash equivalents
- ✓ Stocks, bonds

- ✓ Receivables
- ✓ Inventory

Non-current assets distinctions comprises property, plant and equipment division.

### Statement of financial position of 'AVRORA' LLC

at the end of the year 31 December 2017

<b>Active</b>	<b>CODE</b>	<b>Beginning balance</b> ‘000	<b>Ending balance</b> ‘000
Fixed and other non-current assets			
<u>Fixed assets:</u>			
Initial value	010	125842	250000
Accumulated depreciation	011	44144	-
Residual value	012	81698	250000
<u>Intangible assets:</u>			
Initial value	020	100000	150000
Accumulated depreciation	021	-	-
Residual value	022	100000	150000
Acquisition of new machinery for pasta combinat	030	50000	50000
Long-term investments	040	-	-
Shareholders account	060	125466	125466

Other non-current assets			
Inventory	150	365489	7413569
VAT paid on the acquisition of the assets	175	-	123896
Prepaid expenses	140	125620	20
Current assets			
Cash in hand	280	452215	28116
Short-term investments	270	100000	100000
Advanced paid to suppliers	260	235600	300000
<b>Total assets:</b>		<b>1906074</b>	<b>8941067</b>
<b>Passive</b>	<b>CODE</b>	<b>Beginning balance</b>	<b>Ending balance</b>
		‘000	‘000
Shareholders equity			
Share capital	400	365000	376000
Spare fund	402	100000	18000
Profit for the current period	470	-	328000
Distributed gain	471	-	-
Retained earnings	472	25056	46789
Liabilities			
Long-term bank loans	500	35004.5	1694.455
Other long-term liabilities	510	708.009	3388.91
Accounts payable	630	17000	999.905
Tax payable	700	502.25	694.55
<b>Total of shareholders equity and liabilities:</b>		<b>1906074</b>	<b>8941067</b>

**Table 1. Example of Statement of financial position**



## 2.4. Income statement

As before given illustration income statement (statement of profit and loss) comprises comprehensive income and income statement separately, but due local GAAP it can be slightly different, also comprehensive income prepares to the statement of profit and loss. Profit and loss statement consists of three particular section which given below:

- Income statement
- Profit distribution
- Remittance to the government budget

Taxable profit each time effects on the face of income statement, consideration of taxable profit means the before deduction of income tax, it also include VAT when we clarify revenue it's understandable there it comes from sales (in this case we consider manufacturing company) .It can be resale of goods, revenue comes from leasing payments sold, rendering of services and etc.

Then we subtracts cost of goods sold for finding profit, cost of goods sold is a significance part of income statement because it make an inventory saleable. These costs include raw material costs (affect majority of budget activity level), transportation costs such as customs expenses, insurance costs relativity), raw material, placement and other these types of costs for bringing inventory current locations.

Gross profit/profit (loss) usually comes from non-sales activities such as interest expenses, dividend expenses, fees, penalties, legal costs, purchase fees from

currency exchanges rates and other economic consequences comes from non-sales activities.

One given information above, within the help of income statement, it quality determinable to evaluate taxable profit or loss during current period. Cost of goods sold isn't given separately as a statement, it is expenses associated with production and sales of goods. The table which given below is a straight forward example for income statement:

Statement of Profit or Loss of 'AVRORA' LLC

	<b>CODE</b>	<b>Profit '000</b>	<b>LOSS</b>
Income	010	2545689	-
VAT	015	(2264)	-
Cost of goods sold	040	(842323)	-
Profit from other operations	050	28000	-
Interest expense	071	(2500)	
<b>Taxable profit:</b>	090	1726602	

**Table 2. Example of Income Statement (expenses excluded for simplicity)**

The section relates with profit distribution which divided three category:

- Payments to budgets of governance
- Payments to local funds (reserves also included)
- Payments to the charities and other these types of payments

Payments to capital reserves play essential role on the performance of the entity because it likes a provision, payment comprises in itself to the capital, spare fund, social fund, unrecoverable expenses such as unpaid receivables and etc. Payments to the charity purposes are a part of capital reserves made from entity to the charity organizations. The last sections refers to payment to the local authority which includes tax payments to the tax authority such as VAT payments, income tax payments, payment from environmental damages (fabrics specially),penalty fees and etc.

Profit Distribution Statement of 'AVRORA' LLC

<b>ITEMS</b>	<b>CODE</b>	<b>AT THE END OF THE PERIOD</b> <b>'000</b>
Income tax	200	25642.28
Reserves fee:	210	
Consumption reserve	220	-
Additional reserve	230	-
Charity fees	240	22000
Additional fees	250	45620

## **2.5 Changes and additions to the statement of Financial**

### **Position required by Azerbaijani GAAP**

According to local GAAP it is essential prepare supplements to the statement of financial position, so supplements generally clarify changes methods, numbers and elements of financial statement on the balance sheet during the current period, however, it means statement of Financial Position understandable to the users.

These parts comprise the following items:

- Changes in equity
- Changes in loans
- Changes in debtor and creditor loans
- Changes in intangible assets
- Changes in non-current assets

#### Changes in investment

Changes in equity and capital statements are a crucial tool for users, because it gives information about company's equity and reserves, their movements, evaluation and usage principles of retained earnings and etc. Payment from retained earnings as a dividend to the shareholders and other parties on the other hand assets which donated by senior management for charities recognized in the retained earning reserve. In the given below table explains simple version of supplements to the statement of Financial Position.

As have seen from earlier illustration changes in loan policies consist of loans from banks and loan from other parties such as creditor loans. However, this debt

directly affects the amount of liabilities and in some cases it is unavoidable increases dramatically debts.

The statement of changes in intangible assets plays an important role on intangible assets, so it shares total amount of intangible assets, their amortization payments and other fees on the statement of financial position. The statement comprises in itself patent costs refers to the intangible assets. When organizational costs explained broadly, managers should include registration costs of the entity, broadly payments relate with intangible assets, other costs generated from establishment of newly recognized intangible asset.

Like an intangible asset non-current assets also an important element of statement of financial position, as well as, it classified owe their type. The statement varies assets due their object such as leased asset, acquisition of fixed asset, their consistence as a part of production, useful years, stock information (It usually refers office equipment), depreciation method and other these types of crucial informations. As a consequence, transactions relate with fixed assets such as disposal, damaged, reorganization also reported information one balance sheet.

As a result investigation of Azerbaijani GAAP, it can be easily seen that local GAAP characterize features of Soviet Accounting system. The financial statement which prepared by Azerbaijani GAAP standardize the some methodology with Soviet Accounting System. The main difference in that local GAAP ensures information about acquisition and economic phenomena such as intangible assets, financial instruments ,financial leases and etc.

The main purpose of preparation of financial statements to give information about financial performance of the entity to the users which comprises in itself tax authority, governance agencies, investors, employer even competitors and etc. This is questionable issue that what purposes they use it-the answers quiet straight forward: decision-making purposes. Nevertheless prepared statements due Azerbaijani GAAP doesn't come IFRS/IAS requirements and it is not

understandable to international users. The most trouble making area relates with disclosure notes, because Azerbaijani GAAP doesn't require preparation of disclosure notes, but according to IFRS/IAS it is quietly focused area. Most group of companies avoid prepare and introduce disclosure notes so it regards to local accounting policies is not constant and uncertain.

Financial statement prepared two main methodology:

- Cash basis
- Accrual basis

On the other hand, due Azerbaijani GAAP preparation of statement of cash flow doesn't required, but it is very essential for entity controlling of cash according, however, it affects statement of profit or loss. Under preparation of cash flow statement create misinformation on the financial statements and all of the given reports lose its validity and understandability.

## **Chapter 3**

### **The importance and challenges of implementation of IAS/IFRS in Azerbaijan**

#### **3.1 Advantages of implementation of IFRS/IAS**

The third chapter discusses the significances and challenges of implementation of IAS/IFRS in Azerbaijani as given previous investigation firstly adoption of IAS/IFRS in very problematic issue, because managers are unwilling to accept it, even if its implementation. However, majority of the companies could be understand that adoption and implementation of IAS/IFRS is very beneficial for the entities which given below:

➤ Supporting the clearness of financial statements. The Implementation of IFRS on the statements ensures transparency of them, nevertheless this procedure is very beneficial over from local Azerbaijani GAAP. The structured standardized system most of the time complicated transparency issue and not for understandable external business world, as a result it reduces comparison and development. The reason relate with cash flow statement as an clearly furn previous chapters it drastically reduce transparency. Conversely, it is not one and only reason of shortages of local accounting system, but cash flow statement is the most impressive area among them.

➤ Quality based financial statements. IFRS/IAS has an unavoidable impression on the financial statements for external users .IFRS provide more certain information such as accounting policies, unstandardized methodology, variety of policy. On the other hand, IFRS/IAS based in market qualitative local means that



outside investors gives priority this financial statements and easily compare organization for business purposes. Thus implementation of these kinds of financial statements shows comparatives and qualitative based features of entity.

➤ The action or process of making decisions. These facilities clarify statements and provide misinformation regards to true and fair view. Again this version is a valuable tool for involving international investors to the company, because external sources rely on IAS/IFRS based financial statements. During decision-making procedure these benefits considered: 1)IFRS/IAS based financial statements provide more reliable, more certain information to the users; 2)comparability point wholly ensured by IAS/IFRS based financial statements which more impressive for external users; 3)As a result of second quote arises the next one regard to investors. An investor enthusiastic for new business opportunities.

of this accords to statements of the entity. For decision making purposes investor choose more reliable on which also effect comparability in itself. As well as investor could be understand IFRS/AIS based financial statements than other one. This investigation procedure specially focused on cost reduction, IFRS/IAS is main purpose eliminate much type of sunk costs; 4)IFRS based system in beneficial for struggling with risks which no more need additional research procedure regards to risks.

Taking into the consideration, entity intersection for attracting international investor based on implementation of IFRS/IAS impression means than the previous chapters international investor “or” external investors words mostly impressed part which means that who an entity wants to involve external shareholders to her/his company it sales its shares in foreign stock markets. For this purposes IAS’IFRS based requirement carrying, and special area. Organization provides more accurate information users, avoided misinterpretation and gives true and fair view about entity’s financial performance. Financial performance of entity

give potential availability of current period transaction, how beneficial investing to this entity, what benefits comes to investor after investing money to this organization and etc.

IFRS/IAS prevents standardization and appropriate level of the entity's financial condition. Accounting standards are not rule based in IFRS, it usually lies in the practice and gives opportunities to the senior management choose to most relevant accounting policy and apply it on their business environment. For example, depreciation approach of non-current assets depend on usage of them for applying straight-line depreciation method or reducing balance depreciation method. Secondly, revaluation of non-current recognition method (historical cost or current cost), impairment of non-current assets and these types of issues. Implementation of IFRS also makes financial statements internationally competitive ,however comparing two or more international company at the same time, use less option for realize investing activity .Comparing identify two object in itself an internal and external comparison ,nevertheless in two cases IFRS/IAS ensures the most relevant are for users. It refers to specially holding which has many subsidiaries and comparativeness. These subsidiaries directly important for senior management for evaluation transaction and consequences of financial operations for evaluation transaction consequences of financial operations. Different accounting policies can be implement but results for never changes drastically.

In the second step comparing results of IFRS and GAAP is very essential and interesting for financers, because organization those two standard option IFRS/IAS and GAAP. For that reason senior management wants to choose the best relevant inversion.

First focused are like local GAAP impressing investors with different versions:

✓ First version GAAP is more strict and rule-based system in spite of GAAP standards also accurate, nevertheless IFRS/IAS based standards is principle-based , application of them quite understandable and easy for users.

- ✓ Second version is about small-sized entries which preparation and introduction of financial statements via IFRS due its advantages given previous illustrations, the main reason is that this principle reduces costs associated with financial statements and decrease workforce of management for preparing different based financial statements both external and internal parties.
- ✓ Third questionable are is about harmonization of IFRS/IAS.As a subject of matter IFRS/IAS can be imply more effectively and efficient rather than GAAP consisting principle-based application.
- ✓ Forth version ensures long-distance varieties, especially for small-sized entities decrease differences among international companies.

As a result of given explanation above, we conclude that high cost directly higher risk for entities and IFRS/IAS application reduce lost and achieve planned target within the help of IFRS/IAS. However, senior management wrong decision-making procedure is also beneficial part of IFRS/IAS and as a result following steps give higher marks to the IFRS/IAS.

Then second focused area is about recognition criteria of financial statements which recognition criteria smoother than GAAP, however accelerates transaction shows on financial statements.

The third and last differentiation is about comparability. The ACCA is widely spread among European Union (EU) countries which implements all the financial statement. As a reason of harmonization having another standard reduce comparability. In spite of GAAP and IAS/IFRS all about accounting policies but accounting base is drastically different. GAAP is a ruled-based methodology ,conversely IFRS/IAS is a principle based methodology .For preventing application issues European Union countries adopt IFRS/IAS rather than GAAP. On the other hand, another differentiated reason is about application of IFRS/IAS contributed by ACCA for EU countries, however, reporting dates and times can be different according to these two principles.

### **3.2 Arising challenges during the execution of IAS/IFRS**

Adoption of newly issued accounting system not easy enough, because all of the process changed by management. So, facing difficulties is unavoidable and these problems area of easily solvable, because they are results of convert issues which plays a uncial role on the future performance of the entity as given preceding illustration. Azerbaijan's local GAAP doesn't some with IFRS/IAS even comparison of local standards with international accounting policies can be meaningless ad impracticable, because in IAS/IFRS some standards is absent in local GAAP and doesn't have any equivalent (discussion of it is very complex issue, so that in this, illustration only simple version defined). Thereby, changing, adoption and implementation new accounting standards the causing convergences, which these misunderstandings, completely and their explanation steps given below:

-The process of a period of changing local policy to the international standard is cost-based. The included that relates with changes clarified following line:

- Software costs –application of new ERP system must be required;
- Professional staff with knowledge of IFRS – it is the most important substance among the given explanations, first of all training of the staff highly cost based, on the other hand shortage of both resources trainers and staff are extremely vital for feature performance of entity. Nevertheless, senior management should be plan budget for training staff is a side of professional sceptism.
- Other costs associated office equipment, announcement of new applicants to the staff, shareholders and other parties and others.

First and furthermore, for IFRS/IAS implementation staff trained professionally which effects both moral motivation and knowledge base. As we know ACCA consist of 14 papers and staff must be continuously improving, also get ready for faced problems during implementation and training process. Another important issue associated with IT construction, for organization resourceful IT staff and system is very significant, when transactions processed to ERP system arising challenges must be controlled step by step IT staff. Any simple mistake in ERP system causes material misinformation and it is a reason of gap in collection of financial information which alerts future reporting problems.

- The application of IAS/IFRS should be comprise changes of profit or loss statement, statement of financial position and etc. Reported statement is prepared by value based, for instance, historical value principle applied in IFRS/IAS, nevertheless this procedure causes missconnection between elements of financial statements.

- Another example relates with recognition criteria of substances on the financial statements which changes causing reduction/growth in shareholders equity. It is a reason for changing in amounts of assets, liabilities and other items of balance sheet. However, unpredictability of evidence create complex the for users of financial statements who are not involve IFRS/IAS knowledge.

-Misunderstandings of financial statements prepared due IFRS/IAS. Its relate with nature of IAS/IFRS, also people who are not IFRS knowledge can't be clarify appropriate.

In the previous paragraph has already been clarified complication of IAS/IFRS as regards to its nature.

Complexity, of variable accounting policy and procedure sometimes misunderstandings adoption of IAS/IFRS can be arise. International Financial Accounting Standards comprises in itself great assesment of accounting standard such as treatment to the revenue recognition, non-current assets due their depreciation and amortization structure and other kind in issues. On the other hand,

organization suffer from each of practice as an innovative adoption focused on significance acknowledgements. Otherwise, organization in itself can easily adopt to the new accounting principles, for instance, implementation of IFRS for the first time can be costly to the entity and entity can't bear cost of new application as a consequence of such expense and lower income, but this is legislative for entity, also as a side of users of its financial information. For that reason adaptation problems taken long time in spite of mistakes unavoidable during practice and adaptation process, it must be comply with legislation judgements. However, execution of IFRS/IAS affects decision-making of senior management, because system demand innovation approach which based on not merely rules, but also certain principles.

Below illustration approach of senior management changes nearly wholly structure of accounting statements and their implementation, so it has influence on accounting and assurance staff. Nevertheless, IFRS/IAS gain new practice to the employees, effects on positive thinking ? Alternative approach to the different situations, method of approaching problem solving procedure which based deep analyzing the whole accounting system for an accountant. Deep analysis describes that accountant introduce and provide information which clear for users.

Taking into the consideration, implementation of IFRS/IAS doesn't mean that previous accounting system completely not useful. Both of the accounting system run parallel until completely pass to the complete IFRS, each procedure transition must be apply step by step due certain legislative acts, otherwise material misstatement is unacceptable. During coincidence trials management prepares two different financial statements to the parties, specifically it is essential for tax authorities.

Reporting to the tax authorities while applying dual methods, giving information is an advantage for the entity.

Furthermore, this is not useful method for entity. Because preparing to accounting system for the entity, increase reporting cost of staff for future period.

Changing formats of statements of entity particularly important for shareholders of organization whom examine carefully all changes and want to explanation about financial statements.

The completely distinctive challenges relates with uniformity of IFRS/IAS , as knowing IFRS/IAS reduces cross to order comparability , but it doesn't entire that IAS/IFRS system beneficial and useful for applied country. Organizations in different countries invite different approach sometimes mentioned that adoption of IFRS/IAS not understandable for them. This is the most difficult problems of IFRS which faced very much and it feels extensively sometimes which in a competency with monopolistic system. Because financial statement gives a huge place for assets and them ,so it is converse for the principle of monopolistic companies .In the case of compact adoption of IFRS/IAS should be consequence without any result, because there are some types of countries are suffering from each of IFRS professional, so they need external employees , particularly ,from European Union countries. This is very cost-based for entities, which increase wages expenses, high tax rates for employee for example. Entity applies 32% personal income tax for foreign employers at the same incomes.

Another problems arises, when entities apply IAS/IFRS rather than GAAP which the most discussed areas among countries why not GAAP in spite of IFRS. It can be result loss of investors from America. Organizations has an obligation (like an obligation) to give broad information about just why IAS/IFRS.

By the side if company disadvantages relate with staff costs, so the considering needs of professional staff entity allocates a high amount of money for staff training costs.

Another problem arises at the time of Securities and Exchange Commission (SEC), avoid giving pursuance on the financial statement relates with implementation IAS/IFRS, as a given commentaries financial statements don't comply with SEC rules. This problem mostly faced in Bangladesh.

In summary, in any entity or organizations should be face complexities during execution of IFRS/IAS implementation. These problems relates with high

transition costs, staff costs, problem with financial statements, reporting difficulties, impacts on decision-making procedure of senior management , legislative difficulties and etc.

## **Chapter 4**

### **Suggestions and consequences**

The acquaintance of IAS/IFRS is very significant for organizations particularly small – size entities in Azerbaijan. However, it is not quite straightforward issue the acceptance and implementation of it on the local accounting system, on the other hand it advantageous for external operation purposes. In most cases implementation problems of IAS/IFRS more focus area than its benefits. As a consequence of survey which gathered from worldwide administrations of countries which accepts IAS/IFRS commented that highly costs of adoption and implementation take attention more than its advantages.

First and furthermore entity adopt and implement IAS/IFRS within the assistance of international auditing companies, such as Big Four companies in our country KPMG, Ernst & Young, Deloitte, PWC, McKinsey, Grant Thornton other most popular auditing forms which operated grate organizations transition process. Due their international reputation cost of transition process quite expensive than small-



sized auditing consulting firms. As given before previous illustrations, the most important matter relates with the personal who has IAS/IFRS knowledge. Organizations in involve training personnel groups for staff for IFRS knowledge purposes. Nevertheless if hardware and software plays and impressive role on the adoption IAS/IFRS, it also demands involving IT personnel group for developing IAS/IFRS bases software systems which out of system error and control efficiently operational process of transactions. And this training personnel provides with the relevant accounting and information system, expertise for operations, their auditing and other relating issue. This transition procedure is not simplistic, however, depends on firstly from staff, there efforts and demands more time for changings all the transactions and other process to the IAS/IFRS based. Most countries among the worldwide apply this method on the transition procedure. Staff of international auditing firms are the compulsory of this procedure. For that reason employment of these firms carrying proper manner. As the consequence of questionnaire entities reported that more companies involve international audit experienced staff for transitioning local accounting system to the IFRS/IAS based accounting system they must be compliance with legislative norm also this should not be considered entities which still operates they accounting transition process with their former accounting system. Introduction of the financial statements must be regulate with governance, broadly explain systematic and strategic manners and changes on the financial statements.

Representation of IAS/IFRS based financial information are very complex issue, it takes a long time to prepare financial information out of bias, without misinformation and particularly for users – it mustn't be misunderstandable for investing and governance purposes. Suggestion to this issue involves more time for whole adoptions and prepare all of financial information the management of international auditing training personnel.

Changing of accounting policy wholly increase complexity of issue, because accounting information reflects on the financial statement of the entity which

impressive toll for involving investors. On the other hand these changes bring completely different procedure and demand professional approach to the newly issued procedure. One main aim of transition procedure reduces costs, also decreases other operational expenditure relating with transition to the IAS/IFRS. Senior management carry out transition procedure, implement new approach among the staff whom ensure efficiently and effectively operates accounting system. Financial statement's importance affects organization's future operating performance and entity's independence from investors. For that reason, internal management administrates these issues and enhances examination process.

IAS/IFRS is also useful tool for internal management purposes, because during training process internal corporate transition highly influenced by international accounting firm employees.

Taking into the consideration one main issue:

Preparation and introduction of IAS/IFRS based financial statements not only for internal purposes, but also "mainly" external purposes. External users need to get information about more than internal users, because they don't have any information about total current condition of the entity, its income in front of usage of sized assets usage, earnings per share for investing purposes, solvency ratios such as ROE and ROA both for solvency and taking bank loans for operating future period.

Previous illustrations explained only cost based disadvantageous of \*\*\*\*\* of IAS/IFRS, as well as, adoption of IFRS has many benefits which force to follow IAS/IFRS. In fact that, acceptance of IAS/IFRS not wholly depends on the entity, but also depends on the accounting system in the country. It is not objective, also perspective approach for transition process. Many researchers included for investigating adoption procedure, so researchers prepared survey for results and procedure for changing IAS/IFRS. As a consequence, researchers reported that there are special areas which require close attention changing particularly

transactions to the IAS/IFRS. Problem based on the one key issue – during transition process problems arise not from technical side. Major problems arise experienced cases, because of introduction of financial statements to the users accountants are suffering from, interpretation problems, they can't represent financial information with a understandable ways depend on their self - challenges. Even after introduction, accountants and audits get confused statements practical adoption challenges. Because technical process prepare based on constant rules, but implementation issue highly depends on experience and employee's professional approach. However, these include adaptation to the new accounting software system (IT), new principles and standards, different accounting methodology, training of employees, tax planning and the last and the most complex are modifications on the IT system as a result of transition process.

Another group of researchers reports that after collection of primary information from reliable sources in some entities following difficulties will face for successful convergence with IAS/IFRS. As a consequence of survey and coordinating interviews with ACCA members/ accounting professional investigators have covered all of the complexities with given below categories which further illustrations provided detailed explanations:

- Mandatory environment of Azerbaijan;
- Fair valorization (price fixing) requirements;
- Fair valuer's as a subject matter;
- High compliance with cost;
- Trainee groups;
- Level of IFRS preparedness;
- Acknowledgements to investors, creditor and other user of financial statements;
- Accounting hardware and software based complexities;

**Mandatory environment of Azerbaijan** – mandatory requirements of governance highly affects accounting principles which result rule based prevail most of the

rule-based than principle based accounting system. As known from international diligence IAS/IFRS is not particular standards, it is a widely spread international standard which used by many international companies. Main reason per company can't be referred its privileges on the implementations. However, it comprises in itself many challenges implementation procedure for our companies. So, this is a most focused challenge for corporate to pursuing IFRS/IAS as it is and these are brings the feature of harmonization.

**High valorization requirements** - IAS/IFRS system based on fair value of assets and financial instruments (short - term assets) for bringing various clearness to the book value and fair value complexities particularly period which entity calculate fair and book value of fixed assets. Because of it is very difficult for manager fair value of fixed assets when they already included in financial instruments.

**High compliance with costs** – primary expenses are very costly when the implementation of IAS/IFRS for the first time. Because training, personnel, software expenses are very high and parallelly it demands for accounting professional with IAS/IFRS based knowledge. IFRS implements on the throughout the whole organization that's way experience plays an essential role on this task and for transparency purposes.

**Trainee groups** – transparency on financial statements need so many trainee professional for bringing convergence to the country's nearly whole organizations. Nevertheless, this procedure takes long time than expectations that's way changing financial policies to the IAS/IFRS are very slow. Lack of effort and shortages of professionals creates border for implementation of accounting policies. As a result of investigation it is a big challenge. Some companies need professionals on a board scales but trainee professional couldn't be ensures on time. However, it demands great group of professionals for training purposes.

**Level of IFRS preparedness** - next one relates with level of preparedness. Position consequence of implementation IAS/IFRS depends on adoption

procedure. Thought as a result of investigation arised that corporations aren't prepare wholly result of new implementation rules and procedures.

**Acknowledgements to investors, creditor and other user of financial statements** – if we introduce all of the accounts like per IAS/IFRS, the users of financial statement need to explanation, so for that reason acknowledgement of both internal and external users are very important issue.

**Accounting hardware and software based complexities** – implementation of IAS/IFRS completely change software system of company. The reason of it changes in old accounting system therefore replaced with newly issued accounting principles. That's why for preventing shortages and effective implementation companies should be change IT system wholly. The consequence chases potential problems and affects company's operation procedure.

Another case relates with government and its mandatory rules regards to IAS/IFRS. Majority of the implementation of IAS/IFRS depends on government, so governance should set up legislative rules for successfully implementation of IAS/IFRS. Because of shortages in investment funds particularly application and acceptance of small – sized entities. Nevertheless, governance should provide grants with companies during implementation process of IAS/IFRS or at least ensures borrowing funds or giving credits for particularly small - sized entities. Another alternative method should be implementation of IAS/IFRS process governance could be professional trainers for improving staff facilities.

Another case which depends on governance regards to mergers and acquisition which imply on international level and it only implement within the international reporting matter. Postponing mergers and acquisition period will wasted international level and consequenced with losing of international investors. Not only losing of future client, but also affect reputation of the entity as a side of mergers and acquisition for the period.

Government also participate in auditing of organization which has been implemented IAS/IFRS and main duty of governance controls the operation and other procedure under IAS/IFRS with a way of effective and efficient. Any shortages and complexities should be cleared with the helping of governance, governance should be brings to consequence and transparency on other organization. This procedure is a significant part of governments, because if the difficulties and \*\*\*\*\* didn't solved, future problems arising, between legislation and other authorities are unavoidable. Making amendment will be meaningful after acceptance of certain legislative acts. It called changes after reporting period, however giving the materially misstated information to the users of financial statement replaced with negative reputation of both entity and staff for further period for collaborating and investing period. Considering all of these causes, before making regulations, company must be control its operation and legislative activity on its own or within the helping off governance, I would be more accurate gather information whole the given information under a "single roof".

The whole given illustrations it could be clear that acceptance of IAS/IFRS on National Accounting Standards is guard for elements working in Azerbaijan. Now both governance and individuals are working for satisfaction issues of IAS/IFRS, also governance eagers to ensure certain government grant/compensation to individuals and companies. As a consequence of acceptance and implementation of IAS/IFRS in various group of countries reveal that key point relates with repaying of the expenses which embrace IAS/IFRS about aid of the expenses.

Taking into consideration, main goal of implementation of IAS/IFRS objectively changes the accounting policies which must be convergence accuracy movement, nevertheless main matter is analyzing and evaluating financial performance of the entity worldwide analyzing. Also known over, another important issue defines with the utilization of IAS/IFRS is planning, decision-making procedure of staff, also provide organization with the relevant data structure implementation procedure gathered different type of countries experience in one category, brings

before implemented positive experience to the company. From the side of staff acceptance improves staff for establishing of important date without any material misstatement. Majority of people satisfy application of new standard rather than old accounting principles which based on rule-based approach. IAS/IFRS is an examinable tool for administrate cash and non-cash transactions enlist with the effective ways, nevertheless setting up money related inaccuracies or moved them specific the kind of transactions which prevent error in the system and cause for money fraud and etc. Articulation examining is a significant procedure which affects bookkeeping level of the organization included books of prime entry and related bookkeeping transactions. The matter measures ability of learning speed of Azerbaijan local entities IAS/IFRS implementation methodology proficient, however its effect to the budget/treasure system of certain organizations.

Main responsibility consists of any illegal money-based transactions. The basic example is that, cash in hand and cash in bank operation. Most of the cases entities avoid operate transactions with the bank. The reason relates with high tax rates and they use cash in hand transaction, as a consequence this is an illegal procedure which results with high amount of penalties by governance.

Another significant issue ensures the change in the connection to bookkeeping. Bookkeeping procedure should be measure the monetary relation between supplier and customer and bookkeeped financial data transaction must be accurate in spite of its basic element, it causes for great difficulties in the ending period. Even in the case of error result of bookkeeping, accountant manager should be examine the whole part of transaction, guide mistakes and do accurate to them. Manager accountant must be accepted significance financial data or bookkeeping, all of procedures beginning bookkeep and it is carrying off the burden of all financial statements. It is also legislative action, nevertheless the senior management for their decision-making procedure. It is a singificiant work and gathered all professional approach in itself. Person who is directly handle with bookkeeping expand gathering of his/her belief system for free from error approach.

Concluding all the information can consequence different group of opportunities which arises implementation of IAS/IFRS given below categories explained broadly:

- Particularly small-sized entities included as a part of unique accounting treatments;
- Examining transactions within the administration of governance avoiding articulation process;
- A codification exercise;
- The IASB could increase the worldwide capacity of entity with investing purposes which reputation of the entity brings great variety of benefits for future activity level;
- Organization provide itself highly motivated and well-prepared staff where has worldwide competency;
- Gaining power measurable with European countries and their methodology.



## **Chapter 5**

### **Discussion and conclusion**

#### **5.1. Discussion**

As noted before different approach and judgements used illustration of their for explanation of IAS/IFRS. In Azerbaijan procedure particularly refers to SME which implementation problems arise shortages of resources. These include shortages of fund, investments, governance support, training personnel solutions to this application difficulties are given below:

- Involving external investor – in Azerbaijan majority of small-sized entities don't use overseas relation for this reason improvement potential consequences negative results. Investments from external shareholders have different facilities:
  - Improve cash transactions in different currencies such as, EUR, USD, RUB and etc;
  - Increase cash turnover;
  - More “colorful” financial statements (“colorful” here mean different currencies);

- Individual reputation;
- Competitive in world ranking.
- Government aids or grants – within the helping of governance entities accelerate the implementation procedure of IAS/IFRS.

Particularly entities are suffering from lack of funds, so it affects involving procedure such as trainee staff demands more money gaining IFRS acknowledgements, on the other hand new accounting software also demands huge amount of fund. For that reason majority of small-sized entities avoid acceptance and implementation of IFRS and loses its future potential. Because entity doesn't compare itself international level, can't involve foreign investors. This is a big future complexity when organization wants to operate overseas, nevertheless misunderstandings relates with financial statements create unwillingness for investing such middle companies, in spite of further investigations about entities say that it has great future performance.

As a given previous result it is significant acceptance and implementation of IAS/IFRS for an organization both side of entity and economy wholly. For improving local entity's financial capability also financial needs for more qualitative and transparent document for fair evaluation especially decision-making procedure.

Implementation of IAS/IFRS is different from other countries, in a word each country has different policies for acceptance of IFRS, also complexities varies from country by country. As a scale of Azerbaijan discussion with Post-Soviet countries are more relevant. These countries include Russia, Ukraine, Kazakhstan, Uzbekistan and other countries which Azerbaijan operates both import and export transactions. As a result of investigation nearly all of the Post-Soviet countries have the same implementation problems of IFRS. It is very complicated to conclude implementation of IFRS give huge benefits to these countries, as well as it must be take in to the consideration that implementation works still in progress and it demands highly performance adoption. Nevertheless, aim of organization

due implementation of IFRS first and furthermore getting benefit like other countries. Analysis consequence of financiers Russia, Ukraine, Kazakhstan have been increased they Foreign Direct Investment(FDI) value since acceptance and application of IFRS.

Mainly Russia, Ukraine and Kazakhstan implemented IFRS since 1999 and introduced published financial statement regard to IAS/IFRS principle since 2003 and 2004 respectively. The statics show that Russian FDI increased during 2005 and 2007 years nearly from \$13073 million to \$27795 million respectively. FDI amount on Ukraine also increased nearly from 1999 to 2008. It examined steady increase the amount of FDI from \$1715 million to \$7800 million during 2004 and 2005 years. It will expect of rises amount of FDI after 2020 during sustainable development program. As a result, it is complicated to the changes in the FDI due the introduction of more qualitative financial data. Other consequence is also involve the amount FDI and affects of financial information to the investment inflow must be examined.

## **5.2 Conclusion**

The main purpose of thesis was to give broad information about performance management of entities and professionals of who are in favor of acceptance of IAS/IFRS in Azerbaijan particularly in small-sized entities for the reason of significance. In the given illustrations distinctions between IAS/IFRS and Azerbaijani local GAAP explained detailed and clearly and analyzed all the major difference for getting positive outcome.

In the first chapter information refers to improvement of accounting system in Azerbaijan, also comparison with National GAAP against to IAS/IFRS. The result gives certain alerts to the managers about how effectively and efficiently develop alternative resources for acceleration process of adoption of IAS/IFRS.

Second chapter illustrates accounting policies in Azerbaijan, however, introduction of financial statements in accordance with Azerbaijan GAAP. Governance regulations, their affects to the financial statements. Presentation of statement of Financial Position, Income statement are also significance of second chapter.

The third chapter was give to information about importance and challenges of implementation of IAS/IFRS in Azerbaijan. As well as advantages of implementation of IFRS, arising challenges during the execution of IAS/IFRS. Adoption difficulties of IAS/IFRS in the small-sized entities.

As a result of investigation on thesis should consider accounting as a major tool of the decision-making procedure. Implementation of IAS/IFRS in Azerbaijan is important for gaining future foreign investors. Nevertheless, the acceptance of IAS/IFRS ensure certain benefits to organizations. As consequence it is directly for developing country's economy fully.

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## **APPENDICES**

### **Survey**

**(Brief answers which also ensured in the thesis)**

**1. Appropriate to the Azerbaijan. Is it relevant to apply IFRS in Azerbaijan, does it affect economy and demands need to IAS/IFRS, or brings transparency to the traditional accounting rules and experience (Azerbaijan GAAP) enough? What are advantages and disadvantages of IFRS implementation to local economy?**

It's the most relevant methodology of application of IAS/IFRS in Azerbaijan. Local Azerbaijan GAAP is not relevant for involving external investors beyond border of Azerbaijan

Advantage of application IAS/IFRS:

- Investors overseas will be able to clarification with economic condition, financial performance of local entities
- Azeri companies will be united with the world's significant capital market

Disadvantage of application of IAS/IFRS:

- acceptance and adoption of IFRS for our local companies is a cost-based procedure. Some accounting procedures and standards might not be easily adopted due to the local varieties between foreign economies.

## **2. Advantages and benefits of application of IAS/IFRS for the Azerbaijan small –sized entities. What are advantages of implementing IFRS for the organization?**

**Advantages:**

- Comparability – Local economic situation ( means local organizations in comparison with the similar business) will easily be compared with each others (economic growth, GDP, inflation, production, demand.) ;
- Implementation of IAS/IFRS will praise excessively quality of financial performance of the majority local entities;
- Public acknowledgement, intellectual property of the nation will rise.

## **3. Disadvantages implementation of IAS/IFRS for the local entities. What are disadvantages of implementing IASIFRS for the company?**

- Expensive training costs;
- Takes a long time for adoption;
- Extensive procedure;
- Computer hardware and software complexities;
- Some accounting difficulties and usage of the most relevant standards.

## **4. What are the costs disadvantages of IAS/ IFRS implementation for the local entities?**

- Excensive training costs;
- Finding and outsourcing IAS/IFRS professionals or foreign tutors;
- Translation of materials by ACCA specialist;
- IT system



-Measurement of the company's assets and liabilities according to IFRS by independent valuer or specialist etc

**5. Is it beneficial to apply IFRS for Azerbaijan local entities? If “Yes”, explanation of the implementing IAS/IFRS for the Azerbaijan entity? Do preference rather than disadvantages and costs of IFRS application?**

Profit from application of IAS/IFRS for an entity:

- The entity could, in its understandable (for external investors) IAS/IFRS balance sheet, apply measuring evaluations on an international accounting base which regards to IAS/IFRS.

However, assets and liabilities of the entity might be more sensible and measurable regard to IFRS, rather than local accounting enactments.

- Company will attract more external investors after applying IFRS and gain more Profit

**6. Do Azerbaijan companies prepare financial statements according to IFRS? Is it beneficial for those organizations to prepare and introduce financial statements regard to IAS/IFRS self?**

Great number of local entities do not prepare financial statements on their own. Minority of companies which has foreign investors, interesting parties prepare and introduce statements and accept to independent auditors for using their professional approach.

Companies those do not independently preparing statements use the services of auditing firms. It is beneficial for them from the side of cost-based principles.

**7. Advantages and benefits after application of IAS/IFRS for the Azerbaijan entity. What are benefits of applying IFRS for the company?**

After acceptance and application of IAS/IFRS in Azerbaijan necessarily, we will speak the same language as most of the countries in the World do. This will

probably consequence in an development in foreign investment in Azerbaijan economy.

#### **8. What are the benefits implementation of IAS/IFRS for trainee staff ?**

As a known facts implementation of IAS/IFRS is also beneficial for trainee staff for the side of international competency. Staff as a ACCA student/affiliate can bring various advantages to the entity about involving investor, the delegate of organization at overseas conferences. Nevertheless, it is improve competitive capacity of both organization and employee performing beyond country`s border.

#### **9. How essential government support for organizations those accept IAS/IFRS in Azerbaijan?**

Governance support plays a significiant role on the application of IAS/IFRS on local entities, because the main reason of avoiding adoption of IFRS relates with lack of resources. It particularly arises on small-sized entities. However governance support as important as motivational support for the entity.

Respondent : Senior Audit Manager