



BASICS OF PREPARATION OF FINANCIAL STATEMENTS ACCORDING TO IFRS

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Accounting is an information system that determines, processes and delivers financial information about a specific business entity to users interested in its financial status in the form of financial statements. The goal of accounting is to satisfy the needs of various users for information with the lowest costs for obtaining this information.

1. Users and their information requirements

Accounting is concerned with the volume and description of financial information used by users.

Information users can be divided into two groups: internal users, that is, enterprise managers; external users, that is, those in the enterprise.

In turn, these groups of users of accounting information can be divided into the following categories of users:

- managers of the enterprise;
- those who are outside the entity and have a direct financial interest in it;
- those who have an indirect financial interest in the activity of the entity.
- Those who are outside the entity and have a direct financial interest in it

include:

- Existing and future investors;
- Existing and future creditors;
- Buyers.
- Those who have an indirect financial interest in the activity of the entity

include:

- Tax authorities;
- Regulatory bodies;
- Statistical bodies;
- Other groups (auditors, consultants, consumer groups, etc.)

The Committee on International Accounting Standards (IAS) was established in order to make the accounting principles used for the preparation of financial statements uniform on an international scale. International Financial Reporting Standards (IFRS) are developed and published by this Committee and recommended for implementation and compliance everywhere.





In order to achieve the main objective of IAS, such as presentation of financial statements, the following should be defined

- financial information required to solve tasks;
- principles of creating an information system;
- elements of financial reporting.

The purpose of financial reporting is to provide information about financial position, results of operations and changes in financial position. This information is necessary for a wide range of users to make decisions.

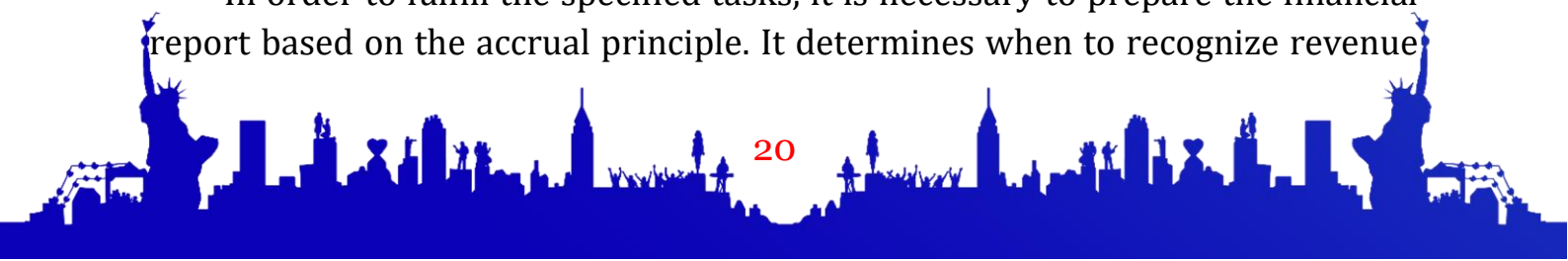
Financial reporting requires an assessment of the economic decisions made by users, the creation and increase of the enterprise's cash and cash equivalents, as well as the stability and timeliness of this process. Users should have information focused on the financial condition, results of operations and changes in the financial condition of the enterprise in order to assess the ability of the enterprise to generate cash and cash equivalents.

Information about the financial situation is mainly given in the accounting balance (balance sheet). Information about the results of the enterprise's activities is mainly presented in the profit and loss report. Changes in financial position are shown in the financial statements through a separate statement (changes in equity).

The components of the financial report are inextricably linked to each other, as they reflect different aspects of the same operations and events. Although each form of report provides different information than the others, none of them can stand alone and provide all the information that users need to reflect their specific needs. For example, the profit and loss statement, if used without the information of the balance sheet and the statement of changes in financial position, cannot provide complete information about the financial results of the enterprise.

The financial report also includes appendices (explanatory letter), additional materials and other information. For example, it can display additional information about balance, profit and loss items, meeting the needs of users. It can highlight risks and uncertainties affecting the entity, as well as any resources and liabilities (such as mineral reserves) that are not reflected in the balance sheet. Information about geographic and industry segments, and the impact of price changes on the enterprise may also be provided as additional information.

In order to fulfill the specified tasks, it is necessary to prepare the financial report based on the accrual principle. It determines when to recognize revenue





and when to report it in accordance with accounting criteria. According to the principle of calculation, the income from the sale of goods is taken into account when the buyer becomes the owner of these goods, that is, when all the risks and rewards associated with the right of ownership are transferred to him. Until the seller fulfills his obligations, the income should not be taken into account.

Financial statements are usually prepared based on the assumption that the enterprise is in operation and will continue to operate in the foreseeable future. Thus, it is assumed that the enterprise has neither the intention nor the need to liquidate or to significantly reduce or terminate the scope of its activities. If such an intention or necessity arises, the financial statements should be prepared on a different basis and the basis used should be disclosed.

The main quality of information presented in financial statements is that it is understandable by users. In this case, it is assumed that the users should have sufficient knowledge in the field of business and economic activity, in the field of accounting, as well as the desire to act diligently as required. However, information related to complex questions, relevant to users making economic decisions, cannot be excluded simply because of the difficulty of understanding by certain users.

To be useful, information must be relevant to decision-making users. Information that influences users' economic decisions, helps them to evaluate past, present and future events, or that confirms them or allows them to correct previous assessments is considered relevant.

The relevance of information is strongly influenced by its description and importance. In some cases, the description of the information alone will not be sufficient to determine its suitability. For example, information about a new segment may affect the assessment of risks and opportunities regardless of the significance of the results achieved by this new segment during the reporting period.

To be useful, information must also be reliable. Information is reliable if it is free of material errors or knowing misrepresentations so that users can rely on the fact that the information is presented truthfully.

In order to be useful, the information should create a true and unbiased picture of the financial condition of the economic entity, the results of operations, and the movement of funds. Thus, for example, the balance sheet should reflect the transactions and other events and the results of their implementation, the assets, liabilities and capital of the company that meet the recognition criteria.





If the information in accounting documents and financial statements reliably reflects the content of transactions and events, such information should be considered and presented in accordance with its essence and validity, not only with its legal form. The content of operations and other events does not always correspond to their legal or established form.

In order to be reliable, the information provided in the financial report should be independent of assumptions. A financial report cannot be considered neutral if it influences decision making or opinion formation in order to reach a predetermined result or conclusion by the selection and presentation of information.

Adherence to the principle of prudence in decision-making is necessary for making valuations under uncertainty in order to avoid overestimation of assets and income, and underestimation of liabilities or expenses.

In order to ensure the reliability of financial statements, information should be presented in a sufficiently complete volume.

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