



Peculiarities of the Accounting of Liabilities According to International Financial Reporting Standards

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Abstract

This article is devoted to the consideration of the concepts of debt obligations and existing theoretical views related to their calculation. In addition, the article reveals the role and significance of International Financial Reporting Standards (IFRS) in the organization of accounting in economic entities and specific aspects of the emergence of debt obligations according to IFRS. The research papers of economists have been investigated and relevant conclusions and proposals have been developed within this topic

Keywords: obligation; IFRS; debt; current liabilities; long-term liabilities; contingent liabilities.

1 Introduction

To overprocess raw materials and produce finished products that meet international standards, to fill the domestic and foreign markets with high-quality products, the demand for introducing innovations in the production process and at the expense of management in companies is gradually increasing in the Republic of Uzbekistan day by day. The President Sh. Mirziyoev in the Action Strategy on the five priority areas of the development of the Republic of Uzbekistan in 2017-2021 determined such crucially important tasks as “deepening structural changes, raising competitiveness of the national economy at the expense of modernization and diversification of the leading sectors” [1]. It should be noted that comprehensive analysis of the activities of companies is of great importance in the implementation of these tasks.

Article 7 of the Law of the Republic of Uzbekistan “On Accounting” specifies obligations among the objects of accounting. Obligations represent an element related to determining the financial results of the economic entity, indicated in the “Balance Sheet” of the economic entity according to National Accounting Standards or in the “Statement of Financial Position” according to the International Financial Reporting Standards. Therefore, it is very essential to use International Financial Reporting Standards to handle the management of the current system in a favorable manner. In addition, accurate accounting of debt obligations in accounting and reporting, as well as efficient use of advanced foreign experiences in the development of the national economy and their widespread introduction into the national accounting system are currently considered of the most urgent tasks.

2 Literature Review

In the national standard “Conceptual framework for preparation and presentation of financial statements” approved by the Ministry of Finance of the Republic of Uzbekistan, the obligation is defined as follows:

“Obligations are the liability of a person (debtor) to perform a certain action in favor of another person (lender), for example, to transfer property, perform work, pay money, etc., or to refrain from a certain action, and the lender has the right to demand that the debtor fulfill his obligations”[2].

In the opinion of the economist A. Toychiev, “obligation is a legal relationship that arises as a result of one business entity’s transfer of property to another entity, performance of work, rendering of services, payment of money, and other actions and is the basis for subsequent mutual settlements” [3].

From the point of view of another scholar-economist S. Makhmudov “The obligation shows the indebtedness of one enterprise to another, and their redemption is the result of previous economic transactions that reduce the assets of the debtor’s entity” [4].

According to J. Zimareva, one of the Russian scholars, “Obligations of companies to counterparties should be considered as items of the company’s revenue and obligations of counterparties to the company should be considered as items of its expenses” [5].

In our opinion, “An obligation is a responsibility that arose as a result of previous processes and economic processes performed by an economic entity during its activities, and as a result of the loss of responsibilities implies that the economic resources of an economic entity that can bring profit are transferred to other entity”.

3 Research Methodology

Such research methods such as expert assessment, comparative analysis, content and inventory analysis, systematic and factor analysis have been widely used in this research in reliance upon accounting methods.

4 Analysis And Results

It is known that obligations as liabilities are reflected in the passive part of the balance sheet and are divided into two groups: current liabilities and long-term liabilities.

Current liabilities are those liabilities that should be redeemed within the period no less than one year during the reporting period. Current liabilities mainly include wages, inventories, accounts with suppliers and contractors, taxes and compulsory payments, the current part of long-term bank loans and bonds, as well as and other payables. In the research papers of most scholars and other foreign literature, current liabilities are referred to as short-term obligations. We need to accept that these two terms are basically the same.

Long-term liabilities are liabilities that are to be redeemed over a period of more than one year. These mainly include long-term loans, bonds, deferred tax liabilities, rent payments that are more than one year old, as well as other payables.

The national standard №21 “Plan of accounting accounts of financial and economic activities of economic entities and guidelines for its application” approved by the Ministry of Finance of the Republic of Uzbekistan specifies guidelines for reflecting economic processes related to liabilities and debts of economic entities. This national standard was developed based on the Law of the Republic of Uzbekistan “On Accounting” and is considered a normative document regulating accounting and its implementation by economic entities regardless of the form of ownership and is determined as mandatory.

In our opinion, liabilities can be defined by the following two main features:

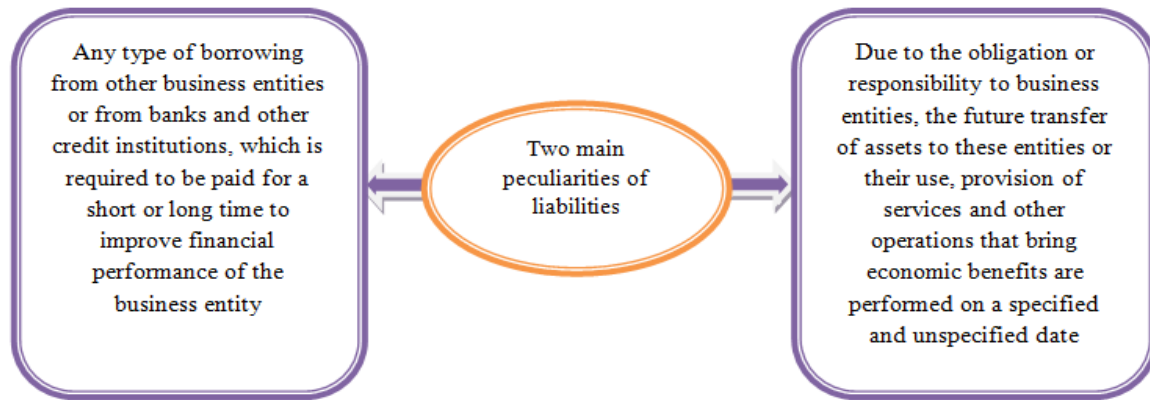


Figure 1: Main peculiarities of the liabilities according to the IFRS

According to the considerations of the economists specified above, and our opinions, the repayment of the liability relates to the outflow of economic resources of the company. The decrease or outflow of economic resources is necessarily related to the cost of the enterprise. Expenses are transactions related to the costs (fund outflows) incurred by the company to obtain income. However, costs and liabilities should not be confused. Liabilities are shown on the company's balance sheet, and expenses are shown on the company's income statement. Expenses are the costs of the company's performance, while liabilities are the debts of the company. An economic resource, i.e. cash, can be paid at the time of expenses or the payment can be deferred. Delay in payment results in liability. So, we can come to another point of view: the reduction of obligations causes occurrence of costs.

In reliance upon the International Financial Reporting Standards, it differs from the national standards of accounting by the specific aspects of occurrence of debt obligations in the preparation of financial reports and accounting. According to the International Financial Reporting Standards, liabilities can be divided into the following types:

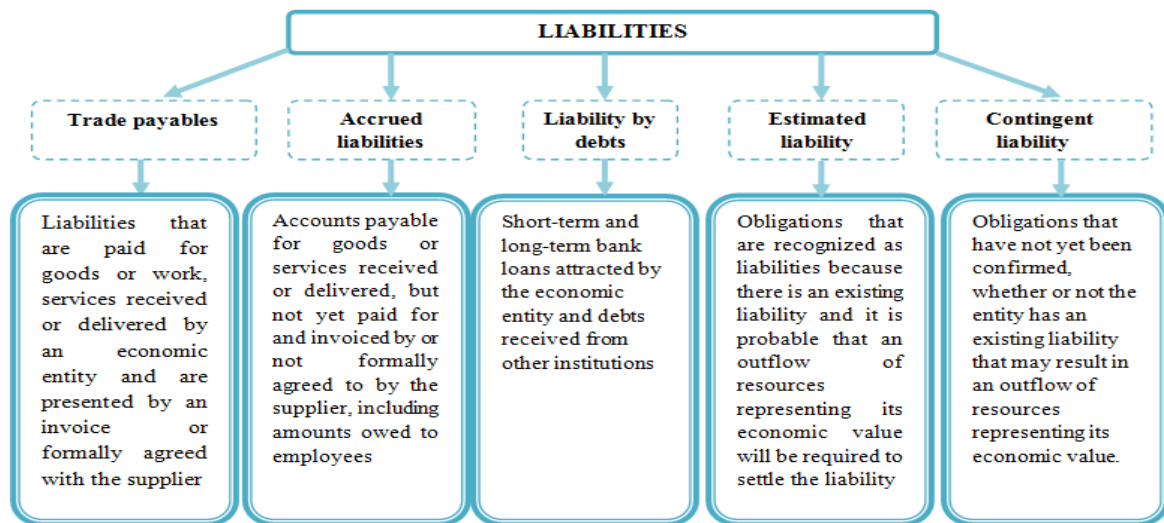


Figure 2: Grouping of liabilities by types.

In our opinion, it is appropriate to divide obligations into 4 groups when the financial and management activities of economic entities are organized according to the International Financial Reporting Standards:

1. Obligations to shareholders and founders.
2. Obligations to state tax authorities and targeted funds.
3. Obligations to individuals (physical persons).
4. Obligations to legal entities.

Obligations referred to these 4 groups can be divided into 3 basic classifications in reliance upon the International Financial Reporting Standards:

1. Current liabilities or short-term liabilities - liabilities to be paid within one year.
2. Long-term liabilities - liabilities that must be paid in more than one year.
3. Contingent liabilities - liabilities that may or may not occur because of a certain event.

There is no concept of contingent liability in the national accounting standards of the Republic of Uzbekistan. Contingent liabilities are mainly used in international practice. International Accounting Standard №37 provides the following definition to the concept of contingent liability: Contingent liabilities are possible obligations which existence will be confirmed by uncertain future events that are not wholly within the control of the entity [6].

As a contingent liability may reduce the entity's assets and adversely affect the entity's future net profitability and cash flow, information about a contingent liability may influence an investor's decision. Contingent liabilities must be reflected in connection with accounting principles based on the requirements of International Financial Reporting Standards. These three important principles are as follows:

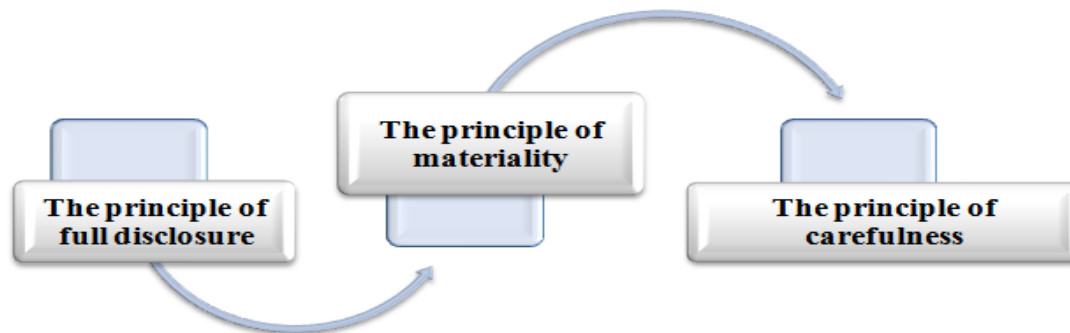


Figure 3: Main principles of the accounting.

According to the principle of full disclosure, all important and relevant facts related to the financial performance and fundamentals of the economic entity should be disclosed in the financial statements. Contingent liability may reduce the assets and net profitability of the company and therefore can make a negative impact on the financial performance and financial condition of the company. Therefore, such cases should be disclosed in the financial statements of the company in accordance with the principle of full disclosure.

The principle of materiality implies that all significant financial information and matters should be disclosed in the financial statements. An entity is material if awareness about the entity can change the economic decision of users of the entity's financial statements. In this context, the term "material" is basically synonymous with "important". A contingent liability can have an adverse effect on the financial performance and health of the entity and being aware of this fact can influence the decision-making of various users of the company's financial statements.

The principle of carefulness is a basic accounting concept that ensures that assets and income are not overstated, and that liabilities and expenses are properly accounted for. Since the outcome of contingent liabilities cannot be certain, the probability of the contingent event occurring is estimated and if it exceeds 50%, then the liability and related expenses are recorded. Accounting for contingent liabilities prevents understatement of liabilities and expenses.

5 Conclusion And Proposals

We can make a conclusion that when the concept of obligations during the activity of economic entities is compared with the concept of obligations used in the International Financial Reporting Standards, several differences have been identified. Accounting of liabilities is reflected in financial statements based on the principles of full disclosure, materiality, and carefulness in accounting on the basis of International Financial Reporting Standards. We recommend keeping accounts of liabilities in national accounting systems based on the same principles, as well as introducing International Accounting Standard №37 "Provisions, contingent liabilities and contingent assets" into the national accounting system within the framework of the Law "On Accounting". Accounting in compliance with International Financial Reporting Standards provides foreign investors with the necessary information environment and expands access to international financial markets.

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