Problems of creating and operating an accounting system in Kyrgyz Republic in accordance with the requirements of international financial reporting standards.

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Abstract: *The transition to International Financial Reporting Standards (IFRS) will enable Kyrgyz Republic to strengthen investor confidence by increasing transparency, comparability, understandability, and reliability of financial reporting and will maintain a steady trend of integration into the world economy. It is well known that accounting is a product of socio-economic conditions. Therefore, each country needs to have an accounting system compatible with the environment in which they are applied. For the information presented in an organisation's financial statements to be helpful to users of this reporting, it is clear that the reports must be comparable. Both shareholders and potential investors, along with other users of financial statements, study not just the financial condition, cash flows and financial results of the organisation in one specific period but also evaluate the general trends in changes in financial performance. For these trends to be assessed, an entity must consistently apply the same accounting principles and policies, and any deviation from them must be clearly described in the notes to the financial statements.*

Key words: *Financial reporting, financial analysis, accounting, IFRS, accounting methods, competitiveness, assets, liabilities forecasting.*

Any financial report is the result of selecting certain accounting principles and techniques from a range of acceptable methods and principles. Managers, when choosing and adopting accounting policies, assume that the methods they choose will best reflect the specifics of the business and the economic reality that are characteristic of their organization. Accounting and reporting changes have always been the subject of controversy among specialists. Almost all financial analysis is based on the comparability and consistency of reporting of different periods. Any change in accounting policies leads to inconsistencies in reporting and distortion of the results of financial analysis. That is why, before deciding to change accounting principles, it is necessary to weigh and evaluate the effect that these changes will have on the comparability of statements.

Introduction: "The accounting system as an element of the infrastructure of the modern world economy is characterized by a variety of ways of preparing and presenting information to external users about the financial position of organizations and the financial results of their activities as market entities for the purpose of making decisions in various sectors of economy. The entry of the largest companies into foreign markets has created the need to develop uniform reporting rules that are understandable to investors from different countries. It is obvious that the accounting systems of different countries differed significantly. The reasons for these differences were socio-economic, political and geographical factors. This led to difficulty in understanding information for users in different countries. Given that the user received information from the reporting of organizations, systematization of the rules in a form understandable to both preparers and users of reporting (both developed countries and countries with emerging markets) became a global necessity. Models and accounting methods of different countries are as different from each other as their economic systems of trade relations are different. These differences are influenced by various factors:

-level of centralization of the economy (from complete state control to freedom of private initiative);

- nature of economic activity (agricultural economy - use of advanced technologies):

- degree of economic development of society;

- stability of the national currency;

- model and indicators of economic development" [1, p.132].

“The need to formulate uniform rules for the preparation and presentation of information for external users, the main share of which are investors, arose in connection with the need to attract capital at the beginning of the second half of 20th century. The formulation of these rules determined the concepts for the preparation and presentation of information contained in the reporting oriented towards potential investors. Such reporting is called financial reporting. Financial statements must present fairly the financial position, financial performance and cash flows of the organization. Proper application of IFRS with additional disclosure (if necessary), in virtually all circumstances, leads to the fact that the financial statements provide a fair presentation” [2, p. 74].

A reliable representation requires:

- selecting and applying appropriate accounting policies under IAS 8;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when the requirements in IFRSs are not sufficient to enable users to understand the effect of specific transactions or events on the entity's financial position and financial performance.

An entity whose financial statements comply with IFRS discloses that fact and must make a clear and unqualified statement of such compliance in the notes to the financial statements. Financial statements are not required to be presented as conforming to IFRSs unless they comply with all of the requirements of each applicable Standard and each applicable interpretation. In the extremely rare circumstances where management concludes that compliance with the requirements of the Standard would be misleading to users of the statements, a departure accordingly any requirement is necessary to achieve a reliable representation, the organization must:

• disclose that management has concluded that the financial statements present fairly the financial position, financial performance and cash flows of the entity;

• disclose that the financial statements comply in all material respects with applicable IFRSs, except that they depart from any standard in order to achieve a fair presentation;

• state the standard from which the entity departed, the nature of the departure, including the accounting treatment that would be required by the standard, the reasons why the accounting treatment would be misleading, and the accounting treatment adopted;

• disclose the financial impact of the waiver on the company's net income or loss, assets, liabilities, equity and cash flows, in each of the periods presented[4;5;6].

Results of research: Our republic is an active participant in the process of global recognition of IFRS, the ultimate goal of which for Kyrgyzstan is to create a transparent accounting and reporting system adequate to the new conditions, without which, in turn, sustainable economic development of the country is impossible. Thus, on the basis of the Decree of the Government of Kyrgyz Republic dated September 28, 2001 No. 593, International Financial Reporting Standards (IFRS) were approved in Kyrgyz Republic[7], as well as in order to form and improve the regulatory framework in the field of accounting and create a legislative basis for transition of the subjects of the republic to IFRS, the Law of Kyrgyz Republic "On Accounting" dated April 29, 2002 No. 76[3] was adopted, which establishes the legal basis for accounting and preparation of financial statements in accordance with the requirements of IFRS. The transition to IFRS will enable Kyrgyz Republic to strengthen investor confidence by increasing the transparency, comparability, understandability, and reliability of financial reporting, and will maintain a sustainable trend of integration into the global economy. This process of implementing IFRS is regulated by Financial Market Supervision and Regulation Service of Kyrgyz Republic, whose activities are primarily aimed at development and formation of the legislative framework for the transformation and harmonization of IFRS in Kyrgyz Republic. It is well known that accounting is a product of socio-economic conditions, and therefore it is important for each country to have an accounting system compatible with the environment in which they are applied. The economic reforms carried out in Kyrgyz Republic since independence were not socially oriented and only caused discontent among the people. Due to the hasty and thoughtless implementation of market reforms by the former leadership of the republic, the country's economy was actually destroyed during the acquisition of sovereignty and was set back many years. No measures were taken to preserve and revive national production. The largest factories and factories were stopped and dismantled, hundreds of thousands of people were left without work.

The reform turned into huge and unforeseen disasters for Kyrgyzstan. What is happening in Kyrgyzstan has nothing in common with the generally accepted practice of implementing economic reforms, and the way they are planned is, for the most part, simply absurd. The insufficiently balanced implementation of market reforms in economic sectors, in the social sphere, science, and international economic cooperation, under the influence of unfavorable external and internal factors, significantly influenced the decline in industrial production. The level of participation of local commodity producers in the domestic commodity market has decreased due to low competitiveness and amounts to less than 10% of total sales. The openness of the market, the practically unhindered import of goods into the republic from other highly developed countries leads to the gradual displacement of commodity producers even from the domestic market. At the same time, corruption flourished in the highest echelons of power, crime, mass unemployment, chronic stagnation of industry and agriculture, which forced people in search of a piece of bread to leave their native places and go to countries near and far abroad. Social security for the able-bodied part of the country's population, abandoned to the mercy of fate and left without a means of subsistence, looks rather deplorable: those who were rich became even richer, those who were poor became homeless.

At one time, ChingizAitmatov wrote: “I think that there are two types of power. One is service to the people, the other is exclusively for oneself and one’s clan. The first is generated by a deep awareness of one’s responsibility and honesty, the other by all-consuming selfishness and immorality” [8, p.47]. Under these conditions, there is no evidence of a high quality of accounting organization in the Kyrgyz Republic. But, in fairness, it should be noted that Government of Kyrgyz Republic has done some work to create and operate an accounting and reporting system that meets the requirements of the development of the country's market economy. IFRS were initially created with the goal of unifying existing national requirements to provide interested users who are not familiar with the peculiarities of accounting and reporting rules in different countries with information that is understandable to them. That is why international standards have not only advantages, but also disadvantages: Firstly, IFRS is a supranational system that is not directly related to the economies of specific countries and does not have its own historical roots; Secondly, IFRS is due to the fact that initially they were a system of general standards that did not prescribe industrial rules that took into account the characteristics of a particular industry. Specialized standards began to be created only in the late 1990s, but they are still few. Thus, other industrial standards are absent or are under development, for example, for the mining industry, including the oil and gas industry; Thirdly, IFRS leaves a lot to the professional judgment of the preparer. This raises the problem of the lack of experience of such judgment among the people preparing the reports, as well as the breadth of choice of internal and external sources of information for decision-making.

IFRS focuses only on business enterprises that are created and maintained to earn a profit. Thus, non-profits are excluded from the impact of international standards. IFRS is a system of principles for the preparation and presentation of financial statements, but not accounting. For example, Financial reporting is the result of the process of processing a large number of transactions, which are structurally grouped according to their nature and function. The final stage of the aggregation process is the presentation of condensed and classified data that forms items either in the financial statements themselves or in the notes to them. If an item is not significant in isolation, it is combined with other items in the financial statements themselves.

Omissions and misstatements in items are considered material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. Each material item must be presented separately in the financial statements. Immaterial amounts should be aggregated with amounts of a similar nature or purpose and should not be presented separately. Materiality depends on the size and nature of the items assessed in the specific circumstances of its omission. In order to decide whether an item or set of items is material, both the nature and extent of the item must be assessed. Depending on the circumstances, both the nature and size of the article may be a determining factor. However, major articles that differ in nature are presented separately. Materiality also implies that specific IFRS disclosure requirements may not be met if the resulting information is immaterial.

Assets and liabilities and income and expenses are not subject to netting unless required or permitted by any standard or interpretation. For example, IAS 12 requires that tax liabilities and assets be offset if there is a legally enforceable right of offset and the settlement is on a net basis. However, reporting assets less provisions for them, such as obsolescence for inventories or doubtful accounts for accounts receivable, is not offsetting.

Items of income and expenses must be offset if: either IFRS requires or permits this; or profits, losses and related expenses arising from the same or similar transactions and events are not material. IAS 18 defines the term revenue and requires it to be measured at the fair value of the consideration received or receivables, taking into account trade discounts and volume discounts provided by the entity. In the normal course of business, an entity engages in other activities that do not generate revenue, but which are incidental to its core revenue-generating activities. The results of such transactions are presented when their presentation reflects the substance of the transaction or event by offsetting any income against related expenses arising on the same transaction. One aspect of comparability is comparative information for the previous period. It is clear that it is much more convenient for the user of financial statements to navigate or analyze financial information if there is similar data for the previous period. IAS 1 states that comparative information should:

- be disclosed on a prior period basis for all numerical information in the financial statements, unless otherwise permitted or required by IFRSs.
- be included in narrative and descriptive information when relevant to an understanding of the financial statements for the currentperiods [9;10].

The main problem of the transition of business entities of Kyrgyz Republic to IFRS, in our opinion, is the incompatibility of international standards with our traditions, with our psychology and existing accounting practices:

- firstly, they lack Chart of Accounts that are familiar to our perception and psychology, and most importantly for classical accounting;

- secondly, in the accounting records, there are no clearly formulated and clear business transactions;

- thirdly, forms of primary accounting documents and accounting registers;

- fourthly, there is no connection between synthetic and analytical accounting and reporting;

- fifthly, the main element of the accounting method under the international standard is reporting, because IFRS are standards specifically for reporting - the final stage of accounting work. As is known, the need to apply certain standards in accounting is determined primarily by the tasks assigned to accounting. International financial reporting standards have always been positioned as the basis for providing users of reporting with economic information. These standards were created only to best adapt this information for making economic decisions by an unlimited number of users. The IFRS system has never burdened itself with any other tasks, and the direction of resolving any issues has always been clear and definite. It is not surprising that in such conditions, IFRS have established themselves as the best basis for creating useful economic information.

Accounting in Kyrgyzstan was formed in much more difficult conditions. Before the transition to a market economy, he did not solve the problem of creating information adapted for making economic decisions. And even with the beginning of the construction of market relations, ensuring the information needs of investors always remained in the background. The virtual absence of the institution of financial reporting in Kyrgyz Republic is still one of the main reasons for the underdevelopment of the domestic capital market. The meager volume of private investment cannot ensure normal economic growth. As is known, the main task of the previous system was property control, and therefore such accounting operated only with property categories. With the transition to the market, the task of property control lost its former relevance, but the property basis of accounting was fully preserved. Most specialists do not even think about the fact that the property status of an organization is not at all the same as its financial position. Therefore, it is extremely incorrect to identify the concept of assets used in IFRS with the concept of property and property rights used in the civil legislation of any country, including Kyrgyz Republic.

There are often cases where a parent company changes its ownership interest in a subsidiary. The accounting treatment for these changes is also provided in IFRS. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are transactions in equity. When the equity interest held by non-controlling interests changes, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect those changes. Any difference between the adjustment to non-controlling interests and the fair value of the parent's acquired or acquired interest in the subsidiary is recognized directly in equity [11].

The transition to IFRS will enable Kyrgyz Republic to strengthen investor confidence by increasing transparency, comparability, understandability, and reliability of financial reporting, and will maintain a steady trend of integration into the world economy. A lot of organizational work has been carried out to retrain accountants of business entities. A number of on-site seminars were held to retrain accountants of enterprises and organizations in IFRS in the regions of the republic. The Ministry of Finance, with the support of international donor organizations, has trained a larger number of accountants of joint-stock companies, teachers of accounting and auditing at universities of Kyrgyz Republic, and inspectors of the state tax service in IFRS. The Ministry of Finance approved an Action Plan for organizing and conducting on-site seminars in regions and regions of Kyrgyz Republic on the transition of business entities to IFRS.

Conclusions: Thus, as already noted, the Government of Kyrgyz Republic has done some work to create and operate an accounting and reporting system that meets the requirements of the development of the country's market economy. There is still a lot of work ahead, in particular it is advisable to solve the following tasks:

1. Legislatively streamline the accounting methodology and tax accounting system. The current practice and tendency to increase the dependence of accounting on taxation leads to undermining the independence of the accounting system, the functions of which in the state are much broader;

2. Create a comprehensive accounting information system of economic entities for countries belonging to Eurasian Union, EurAsEC, regardless of the form of ownership and legal management, for the purpose of developing a strategy for their development in the current conditions of economic integration.

3. Raise the classification level of accountants and auditors throughout the entire chain of their training by improving university curricula, international certification of training and retraining, material and moral incentives, etc.

4. To develop a Kyrgyz system of accounting and tax accounting; for this it is necessary to develop national standards for financial reporting, taking into account the peculiarities of the economy of Kyrgyz Republic.

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