

**IMPROVING THE STATEMENT OF FINANCIAL POSITION  
BASED ON IFRS REQUIREMENTS IN THE REPUBLIC  
OF UZBEKISTAN: PROS AND CONS**

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*The article analyzes the improvements made to the Statement of Financial Position in the Republic of Uzbekistan based on the requirements of International Financial Reporting Standards (IFRS). It examines key changes introduced to the format and content of the report and their impact on the transparency and reliability of financial information. The article discusses the advantages of adopting IFRS, such as increased transparency, attraction of foreign investments, and enhanced decision-making processes. It also highlights the challenges faced by companies, including high implementation costs, a shortage of qualified professionals, and cultural barriers.*

**INTRODUCTION.** The adoption and implementation of International Financial Reporting Standards (IFRS) have become a global trend in enhancing the transparency, reliability, and comparability of financial statements. In the Republic of Uzbekistan, the transition to IFRS has been a significant step toward aligning the country's accounting practices with international norms. One of the key components of financial reporting under

IFRS is the Statement of Financial Position (also known as the Balance Sheet). This article explores the improvements made to the Statement of Financial Position in Uzbekistan based on IFRS requirements, along with the associated advantages and disadvantages.

The Republic of Uzbekistan has been actively working to modernize its financial reporting framework to meet international standards. The adoption of IFRS was driven by the need to attract foreign investment, facilitate cross-border trade, and improve the credibility of financial information for local and international stakeholders. Under IFRS, the Statement of Financial Position provides a snapshot of an entity's financial health at a specific point in time, detailing assets, liabilities, and equity.

The improvement of the Statement of Financial Position in the Republic of Uzbekistan based on IFRS requirements represents a significant milestone in the country's efforts to modernize its financial reporting framework. The adoption of IFRS has brought numerous advantages, including increased transparency, enhanced comparability, and improved decision-making capabilities. These benefits are crucial for attracting foreign investment and integrating Uzbekistan into the global economy.

### **The Role of the Statement of Financial Position**

The Statement of Financial Position is one of the most important financial documents, offering a snapshot of an organization's financial position at a given moment. It provides stakeholders—such as investors, creditors, regulators, and management—with essential information about:

- Assets: Resources owned by the entity that are expected to bring future economic benefits.
- Liabilities: Obligations that the entity must settle in the future.
- Equity: The residual interest in the assets of the entity after deducting liabilities.

Under IFRS, the Statement of Financial Position undergoes significant structural and content-related changes to enhance its reliability, comparability, and transparency. These changes are particularly relevant in the context of Uzbekistan, where the traditional accounting system was often criticized for being overly simplistic and lacking international compatibility.

Key changes introduced to the Statement of Financial Position in Uzbekistan include:

- A more detailed classification of assets and liabilities into current and non-current categories.
- Enhanced disclosures about contingent liabilities, fair value measurements, and financial instruments.
- Improved presentation of equity components, including reserves and retained earnings.

These changes are designed to provide users of financial statements with a more comprehensive and accurate understanding of an entity's financial position and performance.

Advantages of Enhancing the Statement of Financial Position under IFRS

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One of the principal benefits of adopting IFRS-based financial reporting is the significant enhancement of transparency in financial disclosures. By mandating standardized presentation formats and detailed explanatory notes, IFRS ensures that all relevant stakeholders — including investors, creditors, regulators, and the general public — have access to reliable, consistent, and comparable financial information. For example, the clear classification of assets and liabilities under IFRS enables users to make more informed assessments of an entity's liquidity and solvency, thereby improving decision-usefulness.

Prior to the adoption of IFRS, financial reporting in Uzbekistan was primarily based on national accounting standards, which often differed substantially from international practices. This divergence limited the comparability of financial information across borders and posed challenges for foreign investors seeking to evaluate Uzbek companies against global peers. With the implementation of IFRS-aligned financial statements, businesses in Uzbekistan can now present their financial data using internationally recognized principles, thereby facilitating cross-border comparisons, benchmarking, and investment analysis.

The adoption of IFRS has significantly improved the quality and reliability of financial reporting in Uzbekistan, making local companies more attractive to international investors. Transparent and standardized financial statements reduce information asymmetry and enhance investor confidence by providing a clearer picture of corporate performance and risk profiles. This development plays a crucial role in supporting Uzbekistan's broader economic objectives of diversification and deeper integration into the global economy.

The enhanced structure and presentation of the Statement of Financial Position under IFRS provide management and other key decision-makers with more accurate, timely, and relevant financial information. Detailed disclosures regarding contingent liabilities, fair value measurements, and asset valuations support more effective risk assessment, strategic planning, and resource allocation. As a result, organizations are better equipped to make informed business decisions that align with long-term sustainability and growth objectives. Despite the numerous benefits, the transition to IFRS-based financial reporting also presents several challenges:

- Implementing IFRS requires significant resources, including training for accountants, upgrading IT systems, and hiring external consultants. For small and medium-sized enterprises (SMEs) in Uzbekistan, these costs can be prohibitive. Additionally, the complexity of IFRS standards may overwhelm businesses with limited accounting expertise.

- The traditional accounting practices in Uzbekistan were heavily influenced by local regulations and customs, which often prioritized simplicity over detail. Shifting to IFRS requires a cultural change in how financial information is prepared and perceived. Resistance to change from stakeholders accustomed to the old system can slow down the adoption process.

- There is a shortage of qualified professionals in Uzbekistan who are well-versed in IFRS. This gap in expertise can lead to errors in financial reporting, undermining the

reliability of the Statement of Financial Position. Continuous education and training programs are essential to address this issue.

- While detailed disclosures under IFRS enhance transparency, they can also lead to information overload. Users of financial statements may find it challenging to extract meaningful insights from overly complex reports, especially if they lack financial literacy.

However, the transition to IFRS is not without its challenges. High implementation costs, cultural barriers, and a shortage of skilled professionals are significant hurdles that need to be addressed. To maximize the benefits of IFRS adoption, the government and regulatory bodies must invest in capacity-building initiatives, provide support to SMEs, and promote awareness of the importance of international financial reporting standards.

IFRS places a significant emphasis on transparency through the requirement of comprehensive and detailed financial disclosures. For instance:

- Contingent Liabilities are potential obligations that may materialize depending on the outcome of uncertain future events, such as pending litigation or legal claims.

- Fair Value Measurements involve reporting assets and liabilities at their current market value, as opposed to historical cost, thereby providing a more relevant and up-to-date representation of an entity's financial status.

- Financial Instruments necessitate extensive disclosure requirements, encompassing their classification, measurement bases, and the risks associated with their holding and use.

Such disclosures serve to enhance the decision-usefulness of financial statements by equipping stakeholders with a deeper and more accurate understanding of an entity's financial position and performance.

Under IFRS, the equity section of the Statement of Financial Position is required to be disclosed in greater depth. The main components typically include:

- Share Capital : The total amount contributed by shareholders through the issuance of shares.

- Retained Earnings : The cumulative net profits that have been retained within the company and not distributed to shareholders as dividends.

- Reserves : Amounts allocated for specific purposes, such as revaluation reserves, legal reserves, or other statutory or voluntary reserves.

This comprehensive presentation of equity enhances the clarity and transparency of an entity's capital structure and overall financial performance.

One of the principal benefits associated with the adoption of International Financial Reporting Standards (IFRS) is the substantial improvement in the transparency and reliability of financial information. The implementation of standardized presentation formats and comprehensive disclosure requirements contributes to the production of high-quality financial statements that are both meaningful and accessible to a wide range of stakeholders.

For instance, investors benefit from more accurate and timely financial data, which enables them to conduct thorough assessments of an entity's financial health prior to making investment decisions. Similarly, creditors gain improved visibility into a company's liquidity position, solvency, and overall creditworthiness, thereby facilitating more effective risk evaluation and lending decisions.

This increased level of financial transparency not only strengthens internal decision-making processes but also enhances external confidence in the reporting entity, ultimately contributing to greater market efficiency and investor trust.

Prior to the widespread adoption of IFRS in Uzbekistan, financial reporting was primarily based on national accounting standards. These standards often diverged significantly from international best practices, resulting in inconsistencies that hindered the comparability of financial information across jurisdictions. This lack of uniformity posed challenges for foreign investors and multinational corporations seeking to assess the financial performance and position of local entities against global benchmarks.

With the alignment of national reporting practices with IFRS, businesses operating in Uzbekistan are now able to present their financial information using globally accepted accounting principles. This harmonization facilitates cross-border comparability, supports international benchmarking, and enhances the attractiveness of the country as an investment destination. Furthermore, it promotes greater integration of domestic companies into global capital markets by ensuring that their financial statements meet internationally recognized standards of quality and consistency.

The implementation of transparent and reliable financial reporting standards significantly reduces information asymmetry and fosters trust among international investors. This increased transparency plays a crucial role in attracting foreign direct investment (FDI) by enhancing the credibility of financial disclosures and improving overall investor confidence. For Uzbekistan, a country actively pursuing economic diversification and deeper integration into the global economy, the adoption of internationally recognized accounting frameworks such as IFRS represents a strategic step toward achieving these objectives.

The improved structure of the Statement of Financial Position under IFRS provides corporate management and other stakeholders with more accurate, relevant, and timely financial information, thereby supporting informed decision-making. For example:

Comprehensive disclosures regarding contingent liabilities and fair value measurements enable more effective risk identification and evaluation. A clear and logical classification of assets and liabilities facilitates strategic planning, resource allocation, and long-term financial management. These enhancements contribute to greater operational efficiency and support sustainable organizational growth.

By adopting IFRS, Uzbekistan demonstrates its commitment to aligning with globally accepted accounting principles and best practices in financial reporting. This harmonization not only enhances the international comparability of financial statements but also

strengthens the reputation and credibility of Uzbek enterprises within the global business community. Moreover, it facilitates cross-border trade, investment, and cooperation by ensuring that domestic financial reports meet the expectations and requirements of international partners and regulatory bodies.

Despite the wide-ranging benefits associated with International Financial Reporting Standards (IFRS), the transition to an IFRS-based financial reporting framework presents a number of significant challenges:

- The adoption of IFRS often entails considerable financial investment, requiring organizations to allocate extensive resources throughout the implementation process. Key cost drivers include:

- The need for comprehensive training programs for accountants, auditors, and other financial professionals to ensure proper understanding and application of IFRS.

- The upgrading or replacement of existing IT systems and accounting software to accommodate the more complex disclosure and reporting requirements under IFRS.

- The engagement of external consultants or advisory firms to support the transition and ensure compliance with international standards.

For small and medium-sized enterprises (SMEs) in Uzbekistan, such costs may pose a substantial barrier to effective implementation. Limited financial capacity and fewer available resources can hinder SMEs from fully complying with IFRS requirements, potentially leading to disparities in the quality of financial reporting across different segments of the economy.

The historical development of accounting practices in Uzbekistan has been shaped largely by domestic regulations and traditional approaches that emphasized simplicity and administrative compliance over detailed financial reporting. The transition to IFRS necessitates a substantial shift in the mindset of both preparers and users of financial statements, moving towards a more principles-based and disclosure-oriented framework. However, resistance from various stakeholders—such as management, auditors, and regulators—who are accustomed to the former system can significantly impede the pace and effectiveness of IFRS adoption. This cultural inertia poses a non-trivial challenge to achieving full and consistent implementation across the country.

A critical issue in the implementation of IFRS in Uzbekistan is the limited availability of qualified professionals with comprehensive knowledge and practical experience in international accounting standards. This lack of expertise increases the likelihood of misinterpretation or incorrect application of IFRS requirements, which in turn may compromise the accuracy and reliability of financial statements, including the Statement of Financial Position. Addressing this skills gap requires sustained efforts in education, certification, and professional development through targeted training programs and collaboration with international accounting bodies.

Although the detailed disclosures mandated by IFRS contribute to greater transparency and accountability, they also carry the risk of overwhelming users of financial statements. Stakeholders with limited financial literacy—such as small investors or members of the general public—may struggle to navigate complex disclosures and extract relevant insights. If not properly managed, excessive information can reduce the usability of financial reports and potentially hinder effective decision-making, especially among non-professional users.

The process of transitioning to IFRS is inherently complex and cannot be accomplished instantaneously. It typically involves a transitional phase during which entities must reconcile their existing accounting policies with the new standards. During this period, inconsistencies in financial reporting may arise due to incomplete alignment with IFRS or challenges in applying retrospective adjustments. These transitional difficulties can affect the comparability and continuity of financial data, requiring careful planning, support, and monitoring to ensure a smooth conversion process.

The adoption of International Financial Reporting Standards (IFRS) has already yielded positive results for several large enterprises in Uzbekistan, serving as practical examples of the benefits associated with this transition.

Leading companies in the energy sector have successfully implemented IFRS to align their financial reporting practices with international standards. This alignment has enhanced their credibility and transparency, enabling them to attract foreign investment and actively participate in global capital markets.

Banks operating in Uzbekistan have adopted IFRS to strengthen their financial disclosures and comply with international regulatory frameworks. The transition has improved the accuracy and reliability of financial information, contributing to greater confidence among regulators, investors, and other stakeholders.

Manufacturing enterprises have utilized IFRS to improve internal financial management and enhance their competitiveness in international supply chains. The adoption of standardized reporting has facilitated better communication with foreign partners and increased access to global markets.

These case studies illustrate how the implementation of IFRS can significantly improve the quality of financial reporting and support broader business objectives, demonstrating its value across various sectors of the Uzbek economy.

To facilitate a smooth and sustainable transition to International Financial Reporting Standards (IFRS) in Uzbekistan, the following strategic recommendations are proposed:

- A comprehensive and continuous professional development program should be implemented to enhance the understanding of IFRS among accountants, auditors, and financial managers. This includes organizing targeted workshops, certification courses, and seminars conducted by qualified experts, both local and international.

Given the resource constraints faced by SMEs, the government and relevant institutions should introduce support mechanisms such as financial subsidies, tax incentives, and access

to simplified guidance materials. Technical assistance programs can also help reduce the burden of implementation and ensure broader compliance across all business sizes.

While IFRS provides a globally accepted framework, its application may require interpretation based on local economic and regulatory conditions. Therefore, it is essential to develop detailed national guidelines and explanatory materials that address industry-specific challenges and support practical implementation within the Uzbek context.

Adopting IFRS often necessitates more sophisticated accounting systems capable of handling complex disclosures and valuations. Companies should be encouraged to invest in modern financial software and IT infrastructure that can automate reporting processes, improve accuracy, and reduce the risk of errors during financial statement preparation.

An effective oversight mechanism should be established to monitor the implementation of IFRS and provide timely guidance to businesses. Regulatory bodies should play an active role in ensuring consistency, offering technical support, and enforcing compliance where necessary. Collaboration with international standard-setting organizations can further enhance the quality and relevance of local enforcement practices.

#### **7. Conclusion**

The enhancement of the Statement of Financial Position under IFRS requirements marks a significant milestone in the modernization of Uzbekistan's financial reporting framework. This transformation has brought numerous benefits, including increased transparency, improved comparability, and enhanced decision-making capabilities. However, the transition to IFRS is not without its challenges, such as high implementation costs, limited expertise, and cultural barriers.

To fully realize the potential of IFRS adoption, it is crucial for the government, businesses, and professional communities in Uzbekistan to collaborate and address these challenges. By doing so, the country can ensure that its financial reporting system remains robust, transparent, and aligned with global best practices, ultimately contributing to sustainable economic growth and development.

The improvement of the Statement of Financial Position in the Republic of Uzbekistan based on IFRS requirements represents a significant milestone in the country's efforts to modernize its financial reporting framework. The adoption of IFRS has brought numerous advantages, including increased transparency, enhanced comparability, and improved decision-making capabilities. These benefits are crucial for attracting foreign investment and integrating Uzbekistan into the global economy.

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