

The Necessity and Theoretical Basis of Financial Statement Analysis in Modern Management

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Abstract

This article describes the need for economic analysis, scientific-theoretical and methodological bases in the management of the modern economy, the issues of their improvement.

Keywords: Modern economy, globalization, integration, innovation, liberalization, management, information, economic analysis, synthesis, method, reporting, factor analysis, decisions.



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Introduction

In the process of further development and liberalization of the country's economy, the effective management of economic entities, increasing the country's investment attractiveness and creating a favorable investment climate for foreign investors is a topical issue today. In particular, as noted in the Address of the President of the Republic of Uzbekistan Sh. Mirziyoyev to the Oliy Majlis on December 29, 2020, in 2020 alone, the construction of 6 new power plants began in the energy sector on the basis of public-private partnership with foreign investors. They are worth \$ 2 billion and have a capacity of 2,700 megawatts¹.

In this direction, further expansion of multifaceted and mutually beneficial relations is planned with our main foreign partners are Russia, China, the United States, Turkey, Germany, France, Great Britain, South Korea, Japan, India, Pakistan, the United Arab Emirates and other countries. It is in these processes that the objective necessity is to prepare and analyze the financial statements of business entities on the basis of international standards in determining the financial condition of enterprises and identifying suitable financial partners.

This is because the analysis of financial and economic indicators expressed in the forms of financial statements allows domestic and foreign investors to make investment decisions. Analysis plays an important role in the implementation of these processes. This is because the analysis emphasizes the importance of the human factor in the preparation of clear analytical conclusions on the objective reality, processes, results achieved, the definition and implementation of practical measures in the activities of economic entities.

Analysis in turn:

- organization and improvement of the management process;
- evaluate and improve management efficiency;
- study and ensure the quality of management;
- increases competitiveness.

Analysis in modern management is also vital part of the science and knowledge network to ensure the effective operation of business entities, and is also seen as an important tool in prevention of losses and safe operation, improving the economic and financial situation and increasing resilience to risks. The analysis is now entering a new stage of development. In this regard, a radically new theory, methodology and practice of analysis is in the process of formation. Uzbek and foreign scientists have developed a form of analysis based on communication technologies, mathematical models, statistical methods, which allows to ensure the efficiency of management, determine the current and future development, consistent with the form of economic and financial information flow (financial, management) efforts are being made to put².

In this regard, today in the development of the science of economic analysis in our national economy, the analysis of financial reporting is formed as a science and is distinguished in the system of economic sciences by its scientific, theoretical, methodological and practical significance.

¹<https://uzlidep.uz/uz/news-of-uzbekistan/7998>

²Пронина В. С. Экономический анализ: перспективы развития // Молодой ученый.-2016. №27. С. 485-487. URL <https://moluch.ru/archive/131/36374>.

Review of the literature on the subject.

The issue of analysis of financial reporting forms is addressed in the textbooks and manuals of a number of foreign and domestic economists, as well as in the results of scientific research. In particular, from the national literature “*Analysis of the financial condition of economic entities*”³ by M. Rakhimov, “*Financial and Management Analysis*”⁴ textbook by A.V.Vakhobov, A.T.Ibragimov, N.F.Ishankulov; M.Tulakhodjayeva, Sh.Ilkhomov and others’ “*Auditing*”⁵ textbook, M.K.Pardaev, A.N.Khalikulov, G.J.Jumayeva’s textbook “*Analysis of investment projects*”⁶ use many foreign sources, such as K.R.Subramanyam’s “*Financial Statement Analysis*”⁷ manual, N.A.Kazakova’s “*Финансовый анализ*”⁸ manual, A.N. Jilkina’s “*Финансовый анализ*”⁹ and others focus on financial analysis, and financial reporting forms are recognized as a source of financial analysis.

But today, the organization of analytical processes in the name of financial reporting analysis, rather than financial analysis, increases the quality and efficiency of the analysis, ensures its accuracy. It is known that A.V.Vakhobov, A.T.Ibragimov, N.F.Ishonkulov’s textbook “*Financial and Management Analysis*”¹⁰ recognizes that the basis of the analysis of financial and economic activities of the enterprise is the 1st form of financial reporting “Balance Sheet”.

Research methods

The theoretical and methodological foundations of economic analysis in modern economics are explored through computation, monographic observation, traditional statistical methods, economic-mathematical methods, and logical thinking.

Analysis and results.

The importance of the analysis of financial statements in the current context can be clearly explained by the fact that this subject is formed as a separate discipline. The comprehensive composition of property owners, partners and partners, suppliers and buyers, lenders and recipients, regulatory and audit bodies, counterparties, the conceptual framework for assessing the financial condition of the business entity and changes in it is being redefined. The content of accounting services organized in the Republic of Uzbekistan in the near future on the basis of the newly adopted laws “On Accounting”, “On Auditing”, a number of Codes (budget, tax, labor) is changing radically and in the financial statements the need for expressed information is growing.

Financial reporting is a method of presenting financial information that reflects the activities of an entity over a period of time, regardless of whether the entity is a separate independent entity or an aggregate group of entities. Therefore, a financial statement is a set of documents

³Vakhobov A.V, Ibragimov A.T, Ishonkulov N.F. Financial and management analysis. Textbook.-T.: Economics and Finance, 2013. 600 p.

⁴Rakhimov M.Y. Analysis of the financial condition of economic entities.T.: Finance and Economics, 2015.-316 p.

⁵Tulakhodjayeva M, IlkhomovSh and others. Auditing. Textbook -T.: “Economy” 2018.-408 p.

⁶Pardayev M.K., Kholikulov A.N. Jumayeva G.J. Analysis of investment projects.-T.: 2020.

⁷ Subramanyam K.R. Financial statement analysis. 11th edition. New York, Mc Graw-Hill Education, 2016. - 814 pages.

⁸ Казакова Н.А. Финансовый анализ. Учебник. М.: Юрайт, 2018. – 470 с.

⁹ Жилкина А.Н. Финансовый анализ. Учебник. М.: Юрайт, 2018. – 285 с.

¹⁰Vakhobov A.V., Ibrohimov A.T., Ishonqulov N.F. Moliyaviy va boshqaruv tahlili. Darslik.-T.: Iqtisodmoliya, 2013. 600 b.

consisting of several forms, consisting of systematized information about the financial position of the business entity at the reporting date, the financial results of operations for the reporting period and cash flows.

The annual financial report includes the following forms:

- Form 1: “Balance sheet”;
- Form 2: “Statement of Financial Performance”;
- Form 4: “Cash Flow Statement”;
- Form 5: “Private Equity Report”;
- comments, calculations and explanations.

In today’s modern economy, based on free commodity-money relations, the analysis of these forms of financial reporting and the indicators expressed in them, the selection of suitable financial and economic partners for each business entity, assessment of its financial condition, diagnosis of compliance with financial discipline as well as predicting financial opportunities in the near future.

The theoretical foundations of the indicators expressed in the main forms of financial reporting are scientifically described in textbooks and manuals prepared by our leading economists working in our national economy, as well as foreign economists. The analysis of theoretical sources shows that the financial analysis of the indicators expressed in the forms of financial reporting in our country is not fundamentally different from the analysis of the financial situation in developed countries, but there are different directions. In particular, the main differences can be seen in the diversity of business conditions, accounting rules and the rules of their preparation, methodological aspects, as well as a more theoretical basis.

There are many differences in the conditions of management. This is primarily characterized by the economic development of the system and the different aspects of management¹¹.

Different aspects of management, of course, have a significant impact on the current state of information flow. However, the organizational structure of business entities and their inclusion in the list of business entities (large, medium and small businesses) are radically different between countries. In developed countries, the main task of accountants is not to solve the information obligations of the enterprise to the state (through financial, tax, customs, statistical reporting), but primarily to ensure the effective management of property owners and managers.

Similar aspects in the analysis of the main forms of financial reporting can be explained by the principle of the superiority of content over form, which is an important principle of accounting. There are almost no differences between the financial statements of developed countries and the number of financial reporting forms prepared by businesses in Uzbekistan. The main form of financial reporting, which is prepared and presented in practice, does not differ radically from foreign practice in terms of the official structure and content of the “Balance Sheet” (Figure 1). Many authors note that in determining the balance sheet and its structure, which is an important source of assessment of the financial condition of business entities, assets should be restructured

¹¹Rakhimov M.Y. Analysis of the financial condition of economic entities. Т.: Finance and Economics, 2015.-316 p, Ефимова О.В. [и др.]. Анализ финансовой отчетности. /учеб. пособие / - М.: Омега-Л, 2013. - 388 с. K.R.Subramanyam FINANCIAL STATEMENT ANALYSIS, ELEVENTH EDITION Published by McGraw-Hill Education, 2 Penn Plaza, New York, NY 10121. Copyright © 2014 by¹¹.

according to the level of liquidity and be understandable to a wide range of stakeholders¹².

There are many similarities between Uzbek and foreign practices in assessing and analyzing the financial condition of business entities and changes in them. Because the global economy also requires integration in the accounting, auditing and analysis systems of all countries. For the same reason, international standards of accounting and auditing, financial reporting have been developed and are being implemented. That is, the only “*business language*” of international economic relations is officially formed. For this reason, in all developing countries, where the market economy is based on the rule of law, the forms and indicators of financial reporting, the analysis of changes in it are conducted in the same way, even if they differ organizationally and methodologically.

In particular, in our national economy, Form 1 of financial reporting is considered the main form of “Balance Sheet”, in international practice, this form of reporting is called “Statement of Financial Statement” and, in terms of importance, is derived from the statement “Cash Flows”. This is because, in the form of this report, the indicators for the completed reporting year are expressed, while the statement of cash flows describes the indicators related to the movement of cash in the current period. Also, Form 2 of the financial report “Report on financial results” is called “Profit and Loss” report in international practice and represents a system of indicators that is clear and simple for all stakeholders. As known that it is not possible to obtain information on marginal profit, break-even point, profit or loss from investment activities with the help of the Financial Performance Report indicators compiled in the national economy. For example, the financial results of an investment activity are presented in the aggregate “*Other operating income*”.

Another important aspect is that in foreign practice, special emphasis is placed on the analysis of the market value of commercial enterprises, the performance of companies. These indicators include: the ratio of net profit to the number of outstanding shares; the share of dividend payments in net profit; the ratio of annual dividend payments on shares to their average market value; the market price of the share and the ratio of net profit per share. Based on these indicators, the market activity of firms and companies is assessed. In the practice of Uzbekistan, this type of analysis is not part of the assessment of financial condition and is studied separately as an important indicator of performance.

The definition of these analytical indicators, the necessary aspects and importance of the comparative study are determined by the level of participation and activity of enterprises in the financial market. That is, investment activity, attractiveness indicators are assessed by assessing the indicators of market activity. Therefore, the preparation of financial statements in our national economy on the basis of international standards is a requirement of the time. It is known that the requirements for the preparation of financial statements in accordance with international standards are set by international standards.

In this regard, the adoption of the Resolution of the President of the Republic of Uzbekistan dated February 24, 2020 №-4611 “On additional measures for the transition to international financial reporting standards” provides a solution to organizational problems in this area.

¹²Rakhimov M.Y. Analysis of the financial condition of economic entities. Т.: Finance and Economics, 2015.-316 p., Ефимова О.В. [идр.]. Анализ финансовой отчетности./учеб. пособие / - М.: Омега-Л, 2013. - 388 с., K.R.Subramanyam FINANCIAL STATEMENT ANALYSIS, ELEVENTH EDITION Published by McGraw-Hill Education, 2 Penn Plaza, New York, NY 10121. Copyright © 2014 by.

“Providing foreign investors with the necessary information environment and expanding access to international financial markets by accelerating the transition to international financial reporting standards (after - IFRS), as well as improving the system of training specialists in accounting and auditing in accordance with international standards”¹³ issues are described.

Because in paragraph 5 of this decision, approval of the schedule of accelerated training of pedagogical staff on “Accounting” and “Auditing” in accredited training centers in the Ministry of Finance of the Republic of Uzbekistan and the Ministry of Higher and Secondary Special Education jointly with the Tashkent State University of Economics, Tashkent Financial Institute, Samarkand Institute of Economics and Service, Fergana Polytechnic Institute (experimental higher education institutions) in accordance with IFRS, higher and secondary special education of the Republic of Uzbekistan Approval of the updated curriculum by the Ministry of Education and Science of the Republic of Kazakhstan until August 1, 2020, which provides for in-depth study of IFRS in the disciplines of “Accounting” and “Auditing” in bachelor’s and master’s specialties; introduction into the educational process in the prescribed manner, international accreditation of the curricula of experimental higher education institutions in the field of accounting from 2020 and the gradual introduction of this pilot project in other higher education institutions in the field in the country, and other priorities are defined.

According to the Resolution №-4611 of February 24, 2020, joint-stock companies, commercial banks, insurance companies and legal entities included in the category of large taxpayers from January 1, 2021 will organize accounting on the basis of IFRS and prepares financial statements from the end of 2021 on the basis of IFRS (except for legal entities whose legislation provides for earlier periods of transition to IFRS).

Based on the above, it can be concluded that the development and analysis of financial reporting forms on the basis of international standards is a requirement of the time to further develop the economy of Uzbekistan, increase investment attractiveness and create a favorable investment climate for investors. This is because a market model that is recognized as a pillar of interests requires, first and foremost, an algorithm of precise calculations, their evaluation, and in-depth analytical solutions.

The analysis shows that reading and analyzing financial reporting forms to ensure financial competitiveness and sound financial policy, maximizing corporate profits allows to obtain detailed information about the financial condition of the enterprise, to make quick and correct decisions.

By the end of 2021, enterprises and organizations included in the category of large taxpayers transferred to IFRS in the national economy will be required to provide accountants with at least three specialists with one of the CIPA, ACCA, CRA and DipIFR certificates within the framework of international certification to solve the problem of personnel in the transfer of financial statements of enterprises and organizations to international standards. We propose to create a single portal of electronic reports (financial (accounting), tax, statistics, customs, bank reports) in the order of preparation and submission of financial statements. This, in turn, allows for comparative analysis between enterprises and allows for solutions to problems related to

¹³Resolution of the President of the Republic of Uzbekistan №-4611 of February 24, 2020 “On additional measures for the transition to international financial reporting standards”. www.lex.uz

methodological diversity, different calculations.

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