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METHODOLOGY OF TRANSFORMATION OF FINANCIAL REPORTING TO INTERNATIONAL STANDARDS IN UZBEKISTAN (evidence from commercial banks)

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Abstract: *This article presents the description of the research aimed at the development of the methodology of transformation of accounting balance to international standards in commercial banks in Uzbekistan. In addition, the article reveals significance, advantages and stages of the technique of transformation of assets, liabilities and equity to international standards in banks, as well as the ways in which banks apply the principles of the IFRS and eliminate current problems. Moreover, the article contains some proposals on adjusting regulatory requirements for accounting in banks with the requirements of the IFRS.*

Key words: *International Financial Reporting Standards, accounting balance, transformation, conversion, correction entries, reclassification, transformation table, transformation stages, financial reporting*.

Introduction

As a result of globalization, the integration of international markets for goods, services and capital is going on throughout the world. If previously companies focused on financing in domestic markets, currently they can attract equity capital from domestic resources of the country and from abroad as well. One of the main advantages of International Financial Reporting Standards is that it enables international capital markets to efficiently evaluate and compare the performance of different companies from various countries. This helps companies attract capital efficiently, at low cost. The following information reflects the most important reasons and the necessity for commercial banks for transition to international financial reporting standard:

first, the need to adjust the banking system with the general trends of economic globalization has resulted in the emergence of banks as participants in international financial markets. It is impossible to attract external financing without submitting reports in the format of International Financial Reporting Standards, in particular, get loans from foreign banks, place securities in foreign markets and collateral operations;

second, ensuring greater transparency of banks' financial reporting. The application of international standards eliminates the shortcomings of national accounts and reports, which provides clarity not only to the structure of the bank's internal management reports, but also to a wide range of users. As the bank has a special social status, it operates mainly on borrowed funds, including deposits of citizens.

third, the operation of accounting procedures in conjunction with international rules results in the emergence of an effective system of accounting and reporting. It ensures competitive growth of banks.

At the initial stage, only the first reports should be prepared in compliance with international standards, because in case of taxation, reports based on national standards constitute the foundation. There are two ways to adjust the reporting in compliance:

Transformation - takes more time, but the results are clear, first the report is based on national standards and then interpreted into international standards;

Parallel accounting is quick to prepare, but requires specialized software. This has a negative impact on the bank's profitability as the software becomes very expensive.

In our opinion, the method of transformation is more convenient for commercial banks, but it is advisable to prepare for the second method by creating necessary conditions, reserves. In general, it is essential to keep not only reports, but also handle accounting based on international standards.

Nowadays application of internationally recognized international standards in the banking system and adjusting financial statements in compliance with international norms and standards affect the profitability, liquidity and solvency of commercial banks. The report, based on International Financial Reporting Standards provided by commercial banks, is comprehensive as it is used by shareholders, investors and other stakeholders to make management decisions. Therefore, it is important to ensure that the IFRS-based report is accurate and transparent.

It is crucially important to study in detail the main rules and stages of the transformation of the balance sheet, reflecting the financial condition of a commercial bank in terms of international standards, and to develop a single technique. While the balance sheet report prepared on the basis of national standards is used for tax purposes, the report adjusted in compliance with international standards is intended for external users. It is necessary to have adequate qualifications and regulatory framework to reflect the actual financial condition of a commercial bank in the balance sheet. Therefore, in order to bring the banking system of our country in line with internationally recognized norms, the main goal is to develop the methods for transforming the balance sheet based on our own characteristics through the study of world experience and approaches of the researches done in this area.

Research problem.

During the study and review of the literary sources, it has been revealed that the preparation of financial statements in accordance with international standards is an essential condition for the efficient operation of commercial banks. However, it has become obvious that the specialists of the commercial bank do not have adequate knowledge and skills, clear methodological guidelines to prepare these financial statements on the basis of international standards. This can cast doubt on the accuracy, reliability and transparency of financial statements. Financial statements can cause problems for users in decision-making. Therefore, it is necessary to determine the procedure for preparation of financial statements of commercial banks in our country on the basis of international standards. Herewith there are the following research questions:

What are the theoretical and practical features of international financial reporting standards and the prospects for their implementation in Uzbekistan?

How important is it for a commercial bank to prepare financial statements based on international standards?

What methods are used to prepare financial statements in accordance with international standards, whether they have advantages and disadvantages?

Has a clear technique of the transformation method been already developed? What should be taken into consideration when developing it?

As a result of the development of the technique for transforming the balance sheet of commercial banks to international standards and its introduction in all banks of the country, the transformation costs of banks will be reduced. This is due to the fact that at present time commercial banks use the services of international auditing companies to bring their financial statements in compliance with international standards. Herewith it is necessary to develop guidelines for handling not only reporting, but also accounting in accordance with international standards through a comprehensive study of international standards in banking practice. In turn, financial statements prepared in compliance with international standards ensure that the information is accurate, reliable and transparent.

Materials and Methods

Positivistic and interpretive studies have been used in the research of the methodology of transformation of financial statements in commercial banks to international standards. The positivistic studies deal with the relationship between the variables, i.e. the extent to which the structure of financial statements is based on international standards, affects the financial performance of the bank. Moreover, it analyzes how the application of the transformation or conversion method affects bank expenses. In addition, according to the interpretive study, the international audit company collected data on the basis of surveys and interviews with experts not only from JSCB “Agrobank”, but also from other commercial banks to obtain primary data. Information and data from literary sources, Internet sites have been collected in order to study foreign experience.

The assessment of the financial condition of commercial banks focuses on their profitability, liquidity and solvency. It is these factors, that determine current conditions of the bank. Liquidity and solvency of banks ensure the balance not only of one bank or banking system, but also of the whole economy.

The assessment of the financial stability of a commercial bank starts with an analysis of the financial situation, which is reflected in the formation, distribution and use of financial resources. Accordingly, the sequence of financial analysis involves a gradual review of all processes, including an analysis of the availability, formation, distribution, and use of financial resources.

In general, the analysis of accounts in the transformation of commercial bank reports includes the following:

- analysis of the results and status of banking activities as of the date of the analysis;
- compareison of the results and status of banking activities for the period under review;
- comparison of the bank’s performance with the results of other banks;
- development of recommendations for adopting management decisions aimed at improving efficiency of banking and generalization of the results of the analysis.

Qualitative methods have been applied throughout the study as well. Nominal procedures are based on general knowledge in the field of accounting, which enables to draw conclusions about the accuracy, legality and completeness of accounts and interrelations. The disadvantage of this method is subjectivity. They allow the identification of substances with significant and major changes. Such research methods as comparison, grouping, and systematic approach have been widely used in financial analysis.

The analysis examines the results of most advanced practices by studying foreign experience and comparing it with national legislation and practice, and aims to apply the experience gained in future activities in practice. The research has identified the need to study foreign experience, based on which it will be possible to develop our own strategy, as each country has its own legal framework and accounting. For example, in the United Kingdom, Singapore, and Hong Kong, the transition to international standards was not difficult because their national standards were close to international standards.

EU countries have faced a number of challenges in the transition and application of international financial reporting standards.

- Belgium has challenged such problems as uniform rules, lack of explanations, transformation, complexity of parallel accounts, poor development of IT infrastructure;
- Poland - there are problems with the involvement of independent appraisers to determine the fair value of fixed assets with a balance sheet value of 0, as well as restoration of goodwill;
- Greece - problems with taxation, asset classification;
- Czech Republic - difficulties in maintaining financial leasing accounts in compliance with international standards;
- Spain - there are problems with the classification of intangible asset accounts, asset valuation methods (based on initial or market value.

The grouping method is used in economic research as an important factor in describing the interdependence and interrelation of many indicators. The data have been studied in different ways according to their grouping sign. This enables to identify and evaluate relative changes in the indicators and their causes.

Literature review

In accordance with International Financial Reporting Standards, financial reporting is a structured view of a company's financial position and the operations it performs.

According to the Law on Accounting, financial statements contain structured information about the financial position of the accounting entity at the reporting date, financial results of its activities during the reporting period and movement of funds.

According to the IFRS, the primary aim of financial reporting is to provide information about a company's financial position, performance and cash flows. Herewith, a financial report shows the results of resource management entrusted to the management of the company. The information obtained from the financial statements is necessary for a wide range of users in making economic decisions.

Unlike the IFRS, national legislation does not provide for such objectives as economic decision-making, which is a basic requirement of financial reporting. In contrast to foreign practice, in our country financial reporting is intended for control, management, while in countries that have already shifted to the market economy, financial reporting is intended for investors and lenders. Using this report, the contributing party evaluates the administrator's resource management performance.

The IFRS is an important factor in determining the quality of reports, but it does not guarantee the quality of the report. A legally effective and institutionally regulated report is a high-quality report (Indiael Daniel KAAYA, 2015).

International standards start by stating the basic principles that must be followed in the preparation of financial statements (Vakhrushina, 2007). If there are no clear principles for any particular situation, then an accountant can make a clear decision using the basic principles to get out of the non-standard situation.

In practice, there are two ways to prepare statements in accordance with the principles of International Financial Reporting Standards (IFRSs) (Vakhrushina et al., 2007): conversion and transformation.

Under the conversion method, accounting is performed in parallel. Each operation performed is reflected in both systems. Special software must be available for this. Financial statements, developed in compliance with the IFRS, rely upon accounting data based on international standards.

The conversion method can be divided into two: complete and gradual. The method of accounting for all financial transactions in the method of full conversion is carried out in banks with operating software. The gradual conversion method is convenient for banks that are not programmed, i.e., where information technology is not developed. The accounting of economic operations related to a particular industry (for example, accounting of fixed assets, accounting of perishable and low-cost items, calculation of wages, etc.) is gradually automated.

We consider it important to choose a gradual conversion method in order to provide automated accounting in banks in the country on the basis of national standards, but also for the rapid submission of financial statements prepared in compliance with international standards.

The transformation method implies compiling a report by re-grouping account data. The essence of the transformation is the additional interpretation of the primary accounting information in accordance with the IFRS (Vakhrushina et al., 2007). The transformation will take place after the report is prepared in accordance with national regulations.

In the opinion of Dmitrieva, Leussky and Malkova (2007), transformation is the process of modifying and re-grouping reporting data to adjust it in compliance with the IFRS. There is no single algorithm for reviewing a report, each company approaches based on its own characteristics. However, based on practice, it is suggested that it is necessary to develop a methodological manual for businesses with the account of the negative and positive consequences of the transformation.

Transformation is the process of periodically preparing reports in accordance with IFRS by reclassifying and amending reporting items to the date of issue (Proskurovskaya, 2008). From the point of view of experts, transformation can be done in three ways: transformation of reports, transmission of entries, parallel account. In this case, the first and second methods complement each other, so it is advisable to combine them and reflect them as a single method.

Methods for transforming financial statements to internationally recognized standards have not yet been developed (Marenkov and Veselova, 2005).

Transformation takes more time, but the results are clear, first a report based on the primary national standards and then adjusted in compliance with the international standards (Davydova, 2017).

The transformation method is much cheaper than a parallel account and does not require special software. However, it can be reviewed and controlled (Zhuravka, 2017).

Barkhatov (2012) suggests reviewing the reports at the micro and macro levels when compiling IFRSs. Conversion and convergence of reports at the micro level (transformation of financial statements). Making amendments in the regulatory legal system governing accounting and reporting in order to bring it closer to international standards in the transition to the IFRS at the macro level.

The stages of reporting transformation are as follows:

1. Preparatory stage which implies determining the method of transformation, the volume of work, the cost, as well as terms;

2. Stage of work - analysis of financial and economic activities, work plan development, revision of accounting policies, data collection, completion of transformational tables;

3. Accounting for the hyperinflation impact when using the IFRS;

4. Representation of information in foreign exchange in accordance with international standards;

5. Preparation of financial statements in accordance with IFRS (management report and analysis, an auditor's report, message to shareholders, publication of reports and posting on the Internet).

Mikhailenko and Kolesnik (2015) suggest another way of transforming reports. In their opinion, transformation includes preparation, analysis (analytical aspect), information, work and control stages.

From the point of view of Meshkova and Kuzmenko (2017), transformation is implemented according to the following stages:

- structural transformation of the balance sheet and profit and loss statements;
- providing correcting entries;
- preparation of adjusted balance sheet and other reports on the basis of profit and loss statements;
- preparation of the comments part of the report.

Two different methods can be used to transform financial statements (Kesyan and Eremina, 2017):

- in terms of currency (IAS21 “Impact of exchange rate fluctuations”)
- in terms of inflation (IAS29 “Financial statements under hyperinflation conditions).

Financial statements in compliance with International Accounting Standards (IAS1) include:

1. Statement of financial position
2. Statement on financial results
3. Statement on changes in the capital
4. Cash flow statement
5. Notes.

In commercial banks, the balance sheet is the main form of financial reporting, which enables to obtain information about the financial condition of the bank. If we look at the history of the emergence and development of the balance sheet, “balance” is derived from the Latin word, which means “equality”. Initially, the principle of double entry was used by the Italian monk Luca Pacholi to keep track of trade transactions.

Although many changes have been made to date, accounting in all countries of the world is based on this very principle. According to Ibragimov, Marpatov, Rizaev (2010), the report, which is directly related to the balance sheet equation, is the balance sheet. The balance sheet reflects the financial condition of the bank for a particular date. The balance sheet provides economic information about the entity’s resources (assets), claims for resources (liabilities) and the owner’s share (equity).

Many scholars have considered significance of the balance sheet. The statement of financial position has long been known as “balance sheet” or “balance sheet statement”. The usefulness of the balance sheet is that it provides a basis for calculating financial ratios (liquidity, financial flexibility, profitability, etc.) and valuing its assets. For banks, the balance sheet is very useful in assessing their future cash flows and banking risks (Ibragimov, Rizaev, 2016). In their research papers they cite Fisher and Scott’s controversial views on the subject area. According to Fisher, for accounting purposes, the profit and loss statement, which represents the movement of funds, is more important than the balance sheet statement, which consists of the residual amounts. Unlike Fisher, Scott concludes that “because the balance sheet reflects the total capital in use, it is the source of information in the profit and loss statement”. The IFRS Board has renamed the balance sheet statement into the statement of financial position (Marpatov, 2016).

In the opinion of D.Yendovitsky (2015), there are two types of accounting: individual and consolidated accounting. According to the scientist, an individual accounting report performs two functions: information and control. On the one hand, it characterizes the financial condition and results of the business entity, on the other hand, it provides systematic control over the accuracy and correctness of accounting data.

Results

The Resolution of the President of the Republic of Uzbekistan №-4611 “On additional measures for the transition to international financial reporting standards” dated February 24, 2020, has set the objective to provide foreign investors with the necessary information environment and expand access to international financial markets by accelerating the transition to International Financial Reporting Standards (IFRS), as well as training of accounting and auditing specialists in accordance with international standards and implementation of gradual financial reporting in accordance with international accounting standards.

The Resolution of the President of the Republic of Uzbekistan №-3720 “On measures to further develop and raise stability of the banking system of the republic” dated September 12, 2017, has set the objective of introduction of contemporary norms, standards and evaluation indicators in the activities of commercial banks, further improvement of objective evaluation of the banking and financial system in accordance with international rating agencies and the national independent rating system, enhancing competitiveness of banks and transforming banks into a system of advanced banking practice. The analysis shows that despite the adoption of the legal framework and regulations, to date, no instructive methodology for the transformation of financial statements of commercial banks to international standards has been developed yet.

The IFRS system does not provide clear rules for financial reporting techniques. From this, different approaches can be used to prepare financial statements.

Table 1

Comparative analysis of transformation and conversion methods

Period of comparison	Transformation	Conversion
Essence of the method	Correction of previous period reports	Parallel accounting based on national and international standards
Quickness and periodicity of preparation	A report will be prepared on the exact date required	Current information is provided on an urgent and ongoing basis
The cost of preparing a report based on the IFRS	Financial expenses are relatively low	Requires additional financial expenses
Data preparation sequence	Initially, financial statements on the national account are prepared and then adjusted in compliance with international standards	A report based on international standards is prepared at the same time as a national report
Period expenses	It doesn’t take long time	It includes a long period of time
Accuracy of data presentation	The accuracy level of financial information by the IFRS is lower	The accuracy of the information is high

In practice, there are two different ways to convert the information to the IFRS format: conversion and transformation. There are definitely pros and cons to each approach. These can be seen in Table 1.

In the current situation, it is advisable for banks to use the transformation method. The essence of the transformation is additional interpretation of the initial accounting data in accordance with the requirements of the IFRS, i.e. preparation of the report on the basis of clear standards by making amendments to the current report.

When performing a transformation, it is important to determine its order. Usually the transformation starts from the balance sheet and then the profit and loss statement is adjusted in compliance with international standards. The cash flow statement and statements of changes in equity are based on the above two reports prepared in accordance with international standards. There is also the second method of transformation, in which the balance sheet and profit and loss statement are transformed at the same time. In this case, a single adjustment table is created. Each adjustment is reflected in the balance sheet or profit and loss statement as appropriate. However, the sequence of transformation must be maintained in order to avoid different variations in terms of the period.

In general, the transformation process can be divided into preparation and operational stages. The following issues will be considered during the ***preparation stage***:

- the purpose of the transformation is determined (shifting a report to the IFRS or GAAP principles);
- it is determined whether the auditor is needed to oversee the transformation of the report;
- the organizational chart of the bank is considered, reports of subsidiaries and branches are received;
- the bank's accounting policy is analyzed;
- the currency of the report to be transformed is determined;
- the transformational model, i.e. a system of transformational tables, is created.

The transformation type is determined in the ***operational stage***. The transformation can be done in a simplified or complete form. The simplified form can include the following:

- transformation of the report at foreign exchange rates;
- re-creation of report items using software programs;
- partial transformation of the report.

A complete transformation of the report can be done in several options:

- complete transformation without taking into account the hyperinflation impact;
- transformation taking into account hyperinflation;
- complete transformation with the account of requirements of shifting the indicators into foreign exchange.

One significant aspect to consider when selecting a transformation method is, firstly, transformation of the consolidated report compiled on the basis of national standards or, secondly, transformation of the individual report intended for consolidation.

In general, transformation process can be divided into three stages:

1) obtaining additional information required for conversion;
2) regrouping and reclassifying reporting items;
3) making corrections to the report compiled on the basis of national standards.

The ***first step*** in the reporting transformation is to obtain additional information that complements the bank's financial statements. With its help, the accounts are regrouped and corrective transfers are made. Herewith, additional information is also used in the comments section of the financial statements. Additional information may include:

- location and date of establishment of the bank, its legal status;
- organizational chart of the bank;
- activity of the bank, availability of a license;
- amount of the charter capital;
- the number, quality and administrative staff of the bank;
- information on significant events after the reporting period, etc.

During the ***second stage*** of the transformation, the residuals in the accounts are detailed, i.e. the information is clarified. There are various ways to do this:

1. Clarification by categories is used to separate items that are held in a synthetic account and are not homogeneous in economic content.

2. Clarification by type of transaction is used to fully disclose information about the residuals in the accounts of the accounting.

When reclassifying residuals in the accounts, assets, liabilities, and elements of the equity may be reflected in a different way in a report prepared in accordance with international standards. As a result, it is possible to eliminate discrepancies in reports prepared on the basis of national standards and international standards.

In the ***third stage*** of the report transformation, transformational records (transformation corrections or correction entries) are created. In this regard, two types of transformational records can be distinguished:

1) related to the reporting period, in which the bank eliminates transactions that do not comply with IFRS during the reporting period, with adjustments in the residuals made to the initial (preliminary) balance at the end of the reporting period.

2) transformation entries for the previous period are required to reflect inconsistencies in the previous period, with the differences added to the residuals at the beginning and end of the reporting period of the initial balance sheet and reflected in the retained earnings of the previous year.

Through the formation of corrective transfers, we address key issues in the transformation of a report based on national standards into the compiled on the basis of the IFRS:

- Recognition of assets and liabilities required under the IFRS;
- Removal of items not reflected in the IFRS but reflected in national reports as assets and liabilities;
- Fnancial statements are to reflect all items assessed in accordance with the IFRS.

If there is a difference in the recognition of assets or liabilities for reporting in the national accounting and in accordance with international standards, the items of the report should be re-evaluated taking into account the hyperinflation factor.

The basic working document of the transformation process is the consolidated transformation table. The structure of the consolidated transformation table is as follows:

1. Turnover balance sheet developed on the basis of accounting accounts in relation to the reporting items,
2. Adjustments made to the account residual (turnover) to bring in compliance with the international reporting,
3. Residuals by international reporting items.

Worksheets, correspondence of accounts, i.e., a transformational entry journal are used to reflect debit and credit for the purpose of data collection and processing. In addition, a special transformation table is maintained, which makes up a part of the consolidated transformation table and belongs to a specific worksheet as well as the transformational record journal. A private transformation table enables multiple performers to load sections of the account during the transformation process and distribute the transformation operations between them. Necessary transformation operations are carried out on each section of the account: preliminary data is entered into the private transformational table, the working table is formed, the transformational log is filled, the formation of the private transformational table on the working table and journal data is completed.

However, the implementation of the transformation process, the form, structure and essence of tables and logs are not standardized yet. This should be developed in reliance upon the specifics of the bank's accounting policy and its own peculiarities.

Raising confidence in commercial banks and ensuring their financial stability currently remains an urgent issue. In this regard, great importance is paid by commercial banks to ensure compliance with the requirements for financial statements and objective reflection of quality indicators. The application of international financial reporting standards to the activities of banks will lead to success in achieving this goal, as banks will be provided with transparency, which will serve as a means of attracting confidence and foreign investors.

The statement of financial position provides information on the status and movements of the bank's financial resources and their sources of origin in monetary terms for a particular date. Based on this report, it becomes possible to identify financial strengths and weaknesses of the reporter, assess his liquidity and solvency, as well as the need for financial assistance.

International Accounting Standard 1 (IAS 1) does not provide a clear format for the statement of financial position, but provides a sample of an accepted format. Unlike companies' reports, banks' financial statements are arranged according to their level of liquidity.

It begins with high-liquidity assets and ends with low-liquidity assets, and corresponds to liabilities and equity, starting with current liabilities and ending with liquidity capital. The main aim of this procedure is also cash. The reason is that every investor wants to know how much liquid assets the bank possesses.

Until now, it has been used by banks for special purposes by setting up subsidiaries. However, due to some financial crises (Enron), new and strict rules have been adopted. In particular, in accordance with the requirements of IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Profit Tax", banks are required to consolidate the financial statements of subsidiaries that have a controlling stake.

First of all, it is necessary for the commercial bank to develop an accounting policy in accordance with International Financial Reporting Standards, which constitutes the basis for the transformation. IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" defines the procedure for presenting information in financial statements, not in accounting. In order to develop an accounting policy in accordance with the IFRS, a special committee should be established in a commercial bank, consisting of accounting, finance, risk management, credit lines, lawyers and other departments. Accounting policies should set out the basic principles for recognizing, evaluating and reporting all elements of the financial statements.

As the technical preparation of the transformation process to international financial reporting standards has not been adjusted in compliance with international standards, each commercial bank will need to reflect the process in detail in the accounting policy and the accompanying orders, regulations and guidelines. This results in the increase in the quality of accounting data, the unification of procedures and a reduction of expenses. It is advisable to note the following in the organization of the IFRS transformation process:

- a list of management staff who have the authority to make decisions on relevant issues;
- a list of management staff responsible for reviewing reporting correction practices;
- typological form of corrective actions, which reflects the essence of the issue, the initial situation, the basis for the issuance of the corrective transfer, accounting transfer with debit and credit, the name of the person in charge;
- a structural unit responsible for the transformation of financial statements into the IFRS;
- the procedure of storage of documents;

- list of initial groupings of balance sheet items;
- transformation list of reports containing transformational corrections;
- final reporting form prepared in accordance with the IFRS (with comments);
- the banking authority that approves the financial statements prepared on the basis of IFRS;
- algorithm and methodology for credit risk assessment of various financial assets, calculation of reserves and determination of debt risk group.

The order of placement of balance sheet items and their names may be changed, as the balance sheet must contain detailed information about the financial condition of the bank. Balance sheet items can be enlarged as well. Their detailing can be done according to the following criteria:

- liquidity and nature of assets, as well as significance;
- the function of the bank to separate assets into separate items, such as operating and financial assets, reserves, receivables;
- when classifying liabilities and reserves into types such as interest-bearing and non-interest, their distribution by size, nature, and time.

To the minimum extent, the statement of financial position should reflect the following amounts: fixed assets, investment property, intangible assets, financial assets, investments accounted for by equity, biological assets, inventories, trade and other receivables, cash and cash equivalents, trade and accounts payable, reserves, financial liabilities, current tax liabilities and assets, deferred tax liabilities and deferred tax assets, non-controlling interests reflected in the capital structure, owned capital of the parent organization, issued capital and reserves in capital.

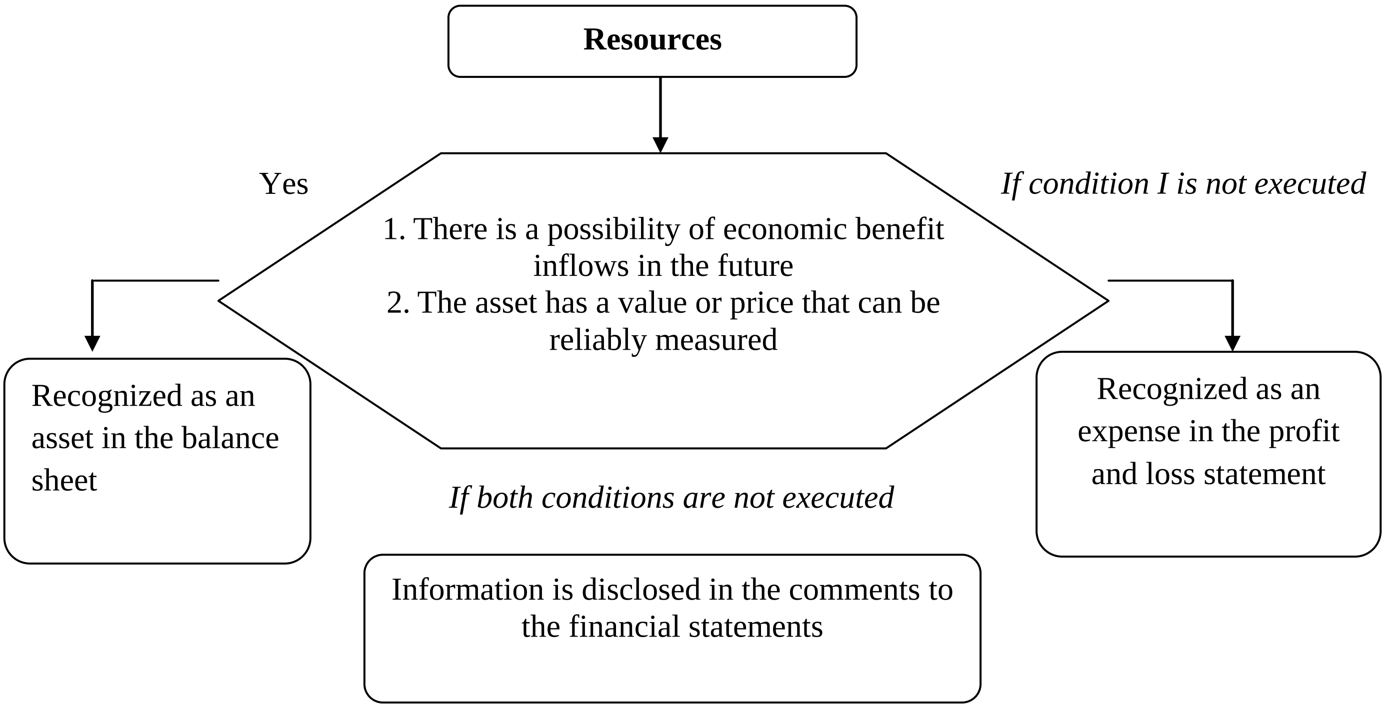

Figure 1. Process of recognizing an asset at the commerial banks

Elements of the financial statements are the items of the report that reflect the financial position and financial performance of the bank. The elements of financial reporting include assets, liabilities, equity, income and expenses.

To be recognized as an asset, resources must meet the following conditions:

- to be under control by the company;

- the company owns it as a result of past events;
- should provide economic benefits from it in the future.

However, fulfillment of these three conditions does not mean that it should be automatically reflected in the report. The reason is that it is necessary to ensure compliance of the principle that the content has priority over the form.

The IFRS requires that an accounting item meet two criteria in order to be reflected as an element of financial statements:

1. The possibility of future economic benefit or loss associated with the object;
2. Availability of reliable assessment of the object.

The bank must test its assets for compliance with the criteria. This process is carried out according to the above scheme. The items in the assets section of the balance sheet are analyzed in order to be reflected in the reports prepared in accordance with international standards. Starting with high-liquidity assets, low-liquidity assets are compared against national standards, regulatory documents and the IFRS. Residuals of financial statements prepared on the basis of national standards are included in the first, starting lines of the transformation table, respectively, and its actual state and approaches to pricing are considered. The assets section of the statement of financial position includes cash and cash equivalents, correspondent accounts, loans extended to customers, assets for sale, investments in subsidiaries, deferred tax assets, property, plant and equipment, intangible assets and other assets. Where there is sufficient evidence to classify them as other assets, their share should not be significant in the total assets. Otherwise, it is expedient for them to be reflected as a separate item of these assets. This process can be illustrated as shown in Table 2.

Table 2

Recognition of assets according to national and international standards

Balance items	National standards and other statutory acts	International Financial Reporting Standards	Balance account
Cash and cash equivalents	1419,1445, 1602, 1831, 1598	IAS 1, IAS 7, IFRS 10	10100, 10300, 10500
Funds in other banks	1419,1445	IAS 1	10597,11901, 12100,14500, 16301,16302,16303
Loans extended to customers	1435, 1528, 1648,1675, 953, 2696,1304	IAS 32, IFRS 9, IAS 36, IFRS 7, IFRS 10, IFRS 39	11100,11100, 12400,12500, 12500,12600, 12700,12900, 14300,13100, 13300,14900, 15000,15100, 15200,15300, 15400,15500
Financial assets intended for sale	1528, 2696, 1304	IAS 32, IFRS 9, IAS 36, IFRS 7, IFRS 39	15809,15813,
Investments in dependent business associations	1424,1429, 2696	IAS 40, IAS 28, IFRS 10	15817,15821

Deferred tax assets	Tax Code, by-law statutory acts	IAS 12, IFRS 10	19931
Fixed assets	1434	IAS 16,IFRS 10, IAS 17,(IFRS 16)	16500
Intangible assets	1199	IAS 38, IFRS 3, IFRS 10	16600
Long-term assets intended for sale	1528	IFRS 5, IAS 36	16700
Other assets	2364,1496,1429	IFRS 10, IAS 2, IFRS13, IAS 12	19907,19908, 19909,19921, 19925,19929, 19934,19939, 19995,19997

One of the most important elements of the statement of financial position in assessing the liquidity of primary and commercial banks is the item of cash and cash equivalents. In contrast to national standards, this item also includes a representative account, so the appropriate adjustment to the transformation table is made in the accounting entries.

When reclassifying accounts under the item of cash and cash equivalents, the following accounting entry is issued, through which the item of cash and cash equivalents increases by 15 010 028 thousand UZS, the amount of accounts in other banks decreases, but by the amount of deposits with the term of up to 3 months.

Accounting entry	Debit	Credit
10597- Deposits in other banks		*15 000 000*
16303- Interest accrued on deposits in other banks		*10 028*
10501- Representative account in other banks - Nostro	*15 010 028*	
10597- Deposits in other banks	*60 152 000*	
10309- Reserve requirements in the Central Bank		*60 152 000*

Reserve requirements of the Central Bank are reclassified to the item of accounts in other banks due to the fact that they do not qualitatively correspond to the item of money and its equivalents.

Financial assets make up the bulk of a bank’s assets. IFRS 9 currently divides financial assets into two groups:

1. Contractual cash flows agreement fixes the constant principal and interest accrued on at the date of the transaction;
2. Business model financial assets (Business model) - there is a cash flow under the transaction and it is scheduled to sell this asset in future.

One of the peculiarities of commercial banks is that they deal with financial instruments. In this regard, the main program of Standard Bank No. 9, adopted by the Council for International Financial Reporting Standards, remains one of the applicable documents. This standard, developed in 2014, is mandatory from January 1, 2018 by all commercial banks. The new standard (IFRS 9) adopted instead of the International

Financial Reporting Standard (IAS 39) requires a new approach to financial instruments, i.e. expected credit losses. (Vakhrushina, 2007).

The new standard on financial instruments, which evaluates and classifies financial instruments, recognizes the impairment of financial instruments, has a significant impact on financial performance due to changes in the order. The implementation process is complex, long-term, and requires large-scale investments. The introduction of the IFRS impacts various areas of the bank: reporting, risk management, information technology, business (activity).

Table 3

Evaluation and classification of financial instruments

IFRS 39	IFRS 9
Maintained until expiration	Maintained for getting income
Accounts payable and accounts receivable	Maintained for getting income or intended for sale
Financial instruments available for sale	All other financial instruments
Financial instruments that are reflected at fair value in profit or loss statement	

The chosen business model is an important factor in deciding on the recognition, valuation and classification of assets:

1. The main aim of the financial instruments business model maintained for profit is to hold financial assets to receive cash flows under the contract. In this case, the statement of financial position reflects financial assets at depreciable cost.
2. In the business model of financial instruments maintained for the purpose of earning or selling income, financial assets can be acquired through the receipt of cash flows under a contract or through the sale of those assets. In this model, financial assets are reflected at fair value in the statement of financial position, but changes in their value should be reflected in the profit and loss statement.
3. All other instruments are used in the business model if the financial assets do not fall into the above classification. Their fair value is reflected in the profit and loss statement.

IFRS 9 requires ongoing analysis of the compatibility of the business model used. Business model analysis should be conducted in conjunction with the SPPI (solely payments of principal and interest) test. The SPPI test assumes that cash flows on a financial asset will be paid off only on principal and interest. IFRS 9 modifies the devaluation recognition procedure and leads to an increase in inventories, and provides a comparative account of the approaches to financial instruments under IAS 39 and IFRS 9.

The main requirements of IFRS 9 for credit risk assessment models are as follows:

In the PD (probability of default) model, the probability of default is calculated for the entire life of the instrument, overdue debt of more than 90 days is defaulted, forward-looking data is used, the reserve is calculated for each individual level of financial asset.

Table 4

Comparative data to approaches towards financial instruments

IAS 39	IFRS 9
Losses are not taken into account in the initial recognition of an asset	Expected losses are recognized on initial recognition of the asset (minimum for the next 12 months)
Default detection is not set	Recognition of default is the presence of an overdue debt of more than 90 days
There are two types of loans: working loans and devaluated loans	There are three types of loans: well-performing (stage 1), loans with deteriorating credit quality (stage 2), and devaluated loans (stage 3)
The probability of default on an existing loan portfolio is taken into account by the loss determination period	The calculation of the probability of default on an existing loan portfolio is based on forecast data for the next 12 months
-	The calculation of the probability of default on loans with deteriorating credit quality is calculated over the full life of the financial instrument
Off-balance sheet liabilities are not taken into account	It is necessary to take into account the possibility of conversion of off-balance sheet liabilities

The LGD (Loss given default) model takes into account reduction in the probability of receiving expected return on a financial asset, credit recovery, restructuring and sale of collateral, the reserve is calculated for the entire life of the financial instrument.

In the EAD (Exposure at default) model, off-balance sheet liabilities are converted, and the reserve calculation procedure for 12 months and the entire period may vary. Based on these models, commercial banks assess their credit risks and create appropriate reserves by forecasting expected losses. This results in the fact that the bank takes into account the expenses aligned with the income. However, despite this, banks challenge a number of issues in implementing IFRS 9. They are the following:

- an increase in the volume of reserves, which, in turn, can be an additional burden on capital;
- incomplete information technology and inadequate data;
- complicated procedure of creating PD, LGD, EAD models for the present time;
- the model of determining stages makes a significant impact on inventories.

In order to overcome these problems, it is advisable to undertake the following measures:

- introduction of a rating system of borrowers used to classify loans;

- carry out calculations on the class of loans in which the credit risk characteristics of the reserves are the same;

- in the process of classification, i.e. the transition from class 1 to class 2, the bank must take into account all the qualitative information available on this loan. It is not advisable to shift to stage 2 only for loans overdue for over 90 days;

- Forward looking information, i.e. forecasting, is compulsory to keep an account based on the principle of forecasting;

- the bank should be tested on a regular basis to determine the appropriateness of the classification of financial assets.

Discussion

Based on the above consideration, it should be noted that the recognition, valuation and classification of financial instruments by commercial banks implemented in accordance with the requirements of IFRS 9, can result in, first, ensuring transperancy and reliability of the reports to foreign investors, second, changes in the methodology for creating reserves for bank assets will enable to anticipate the expected losses and undertake necessary measures, third, the quality of the loan portfolio will increase as a result of regular testing of financial assets and the introduction of the bank's internal rating system on historical valuation. This will lead to the financial stability of commercial banks, raise efficiency, as well as improve credit policy.

Another correction entry that can make a significant impact on the results of the bank's operations is creation of reserves for financial assets in accordance with the requirements of international standards. According to national standards, inventories on assets are created in accordance with the requirements of Regulation 2696, and according to international standards, classification of loans is based on the financial condition of the borrower and his credit service and credit history.

Reserves created on loans are transferred from the passive part of the balance sheet depreciation to fixed assets to the active part of the balance sheet prepared in accordance with the IFRS. Although the reserves created for loans are accurate in compliance with the requirements of Instruction 2696, according to international standards, it is necessary to create an additional reserve of 31 254 214 000 UZS.

Accounting entry	Debit	Credit
15599- Reserve for loans extended to customers		*31 254 214*
31203- Profit of the previous year	*26 037 082*	
56802-Amount of expenses on reserves		*(5 217 132)*

The bank's tariff includes income, such as a commission fee for the consideration of loans to customers. They are received as a lump sum at the time the loan is extended, but according to international standards, that income must be carried in proportion to the income over the entire period of the loan. Therefore, the following correction entries should be made in the transformation table:

Accounting entry	Debit	Credit
12400-15700 – Loan accounts issued to customers		*27 129 512*
31203- Profit of the previous year	*21 517 102*	
45233- Commission-based income	*5 612 410*	

Fixed assets and intangible assets included in non-earning assets are reflected by their real value and the accumulated depreciation value is reflected by deducting from the initial value. The underlying asset should be valued on the basis of reliable evidence, which is reflected in the initial value. Otherwise, the bank's accounting policy should cover this process in detail.

Account	Accounting entry	Debit	Credit
16529	*Vehicles*	-	*1 422 169*
16535	*Furniture, appliances and tools*	-	*2 330 536*
16541	*Terminal*	-	*856 108*
16515	*Fixed assets accepted for rent*	-	*5 159*
16509	*Bank buildings and structures*	-	*11 924 169*
16549	*Fixed assets under operating leases*	-	*543 813*
16561	*Warehouse*	-	*9 459*
16601	*Intangible assets*	*304 250*	*455*
16605	*Intangible assets- Accumulated depreciation*	*449*	*601 343*
16511	*Buildings and structures – Accumulated depreciation*	*1 169 718*	-
16519	*Fixed assets accepted for rent - Accumulated depreciation*	*2 288*	-
16531	*Vehicles - Accumulated depreciation*	*859 239*	-
16539	*Furniture, appliances and tools - Accumulated depreciation*	-	*6 793 526*
16543	*Payment terminals - Accumulated depreciation*	*355 194*	-
16551	*Fixed assets under operating leases - Accumulated depreciation*	*201 661*	-
30908	*Revaluation results*	*22 105 159*	-
31203	*Retained earnings of the previous year*	-	*511 1*

Liabilities in the IFRS concept reflect the current debt of the company arising from past events, and as a result of their regulation causes the loss of resources that may have future economic benefits. Regulation of liabilities is implemented in different ways: payment of funds, transfer of other assets, rendering of services, replacement of one obligation with another, transfer of an obligation to capital, reimbursement by the lender of his rights or losses for various reasons.

Table 5

Evaluation methods for measuring financial reporting elements

Evaluation method	Asset	Obligation
	Essence of the evaluation method	
Initial (historical) value (purchase value)	The amount of cash or cash equivalents paid in the purchase process (IFRS 2 "Reserves", IFRS 16 "Fixed assets", IFRS 38 "Intangible assets")	The amount of funds received in lieu of the obligation. In some cases (for example, profit tax) this is the amount of cash that has been paid and is expected to be paid on a regular basis
Current value	The amount to be paid in the event that a similar asset is purchased	Non-discounted amount currently required to settle the liability
Sale value	The amount that can be obtained from the sale of an asset (IFRS 2 "Reserves")	Non-discounted amount intended to cover the liability
Discounted value	The present discounted value of the net cash flows expected to be generated by the asset in the future	Present discounted value of the future net cost of cash required to cover the liability (IFRS 37- "Inventories, contingent liabilities and contingent assets"
Actual cost	The amount that can be received in exchange for the replacement of an asset in accordance with an agreement with independent parties	The amount that can be received to cover an obligation under an agreement with independent parties

Obligations are liabilities of a person (debtor) to perform certain actions in favor of another person (lender), for example, transfer of property, performance of work, payment and other liabilities, or a liability to refrain from certain actions, and a lender has the right to demand performance of obligations.

The elements of financial reporting are presented in opposite ways. Revenue is recognized when an increase in assets or a decrease in liabilities is admitted and an expense is recognized when an increase in liabilities or a decrease in assets is admitted.

The recognition of an element in the financial statements requires its evaluation. Evaluation is the monetary expression of the elements of a financial statement to be reflected in the balance sheet and profit and loss statement. It is necessary to select the evaluation method to assess the accounting item. In order to transform the item of obligations into international standards, it is essential to classify them. In particular, the customer's deposit amount and interest accrued on them should be reflected as an item.

In the process of transformation of obligations by commercial banks from national financial reporting to international financial reporting standards, it is necessary to pay particular attention to the following aspects:

- clarification by categories is used to separate items that are held in a synthetic account and are not homogeneous by economic content;

- clarification by type of transaction is used to fully disclose information about the residuals in the accounts of the accounting.

As can be seen from the data presented in the table below, it is appropriate to interpret obligations by type of transaction. In the comments to the financial statements, these items are classified by class and nature.

Table 6

Recognition of obligations in accordance with national and international standards

Balance items	National standards and other statutory acts	International Financial Reporting Standards	Balance account
Bank deposits	*1306, 2711*	*IAS 1, IAS 32, IFRS 9*	*21002, 21008, 21010, 21012*
Customer deposits	*1306, 2711*	*IAS 32, IFRS 9*	*20200,20400, 20600,22600, 23200,23400,*
Issued debt securities	*1885,1216, 1859*	*IAS 32, IFRS 9, IFRS 7*	*23604, 23606*
Other borrowed funds	*1885,1829*	*IAS 32, IFRS 9, IFRS 7, IAS 21*	*21604,22002, 22004,22005, 22006,22010*
Other obligations	*2711,1435, 1602, 1434, 1496,1885*	*IAS 12, IAS 2*	*29801,29802, 29803,29804, 29805,29810, 29814,29816, 29822,29824, 29896*

When consolidation is carried out, inter-branch entries are eliminated. These transactions may include cash, financial resources, inventories, correspondent accounts between the parent bank and branches, and interest-bearing accounts. Funds reflected as income of one branch are reflected as expenses in the second branch. Therefore, when the balance sheet is consolidated, the following accounting entries are made:

Account	Reclassification of inter-branch accounting entries	Debit	Credit
16101	*Funds received from the bank head office /branches - Cash*	-	*211 175 906*
16102	*Funds received from the bank head office /branches – Non-cash*	-	*2 502 589 172*
16103	*Funds received from the bank head office / branches on settlements between branches and interbank settlements*	-	*307 923 123*
16107	*Funds received from the bank head office / branches on settlements between branches and interbank settlements – Overdraft*	-	*317 903 923*
16304	*Accrued interest to be charged from the bank head office /branch*	-	*3 281 638*
22202	*Funds to be paid to the bank head office / branches - Cash*	*211 175 906*	-
22203	*Funds to be paid to the bank head office / branches – Non-cash*	*2 502 589 172*	-
22204	*Funds paid to the bank head office / branches on interbranch and interbank*	*374 704 416*	-

	settlements		
22208	*Funds paid to the bank head office / branches on interbranch and interbank settlements - Overdraft*	*317 903 923*	-
22409	*Accrued interest on resources received from the bank head office / branch*	*3 281 638*	-
44905	*Interest-bearing income on resources provided to the bank head office / branch*	*127 171 906*	-
54904	*Interest-bearing expenses on resources provided to the bank head office / branch*	-	*123 972 879*
54902	*Other interest-bearing expenses*	-	*3 199 027*
	The amount of interbranch balances	***3 337 493 556***	***3 337 493 556***

Deposits made by customers with the bank are placed in accounts 20200, 20400, 20600 according to the term and organizational legal form of the customer. In compliance with International Financial Reporting Standards, they are reflected in a single item as customer deposits and detailed information is provided when interpreting the financial statements.

According to International Financial Reporting Standards, equity is the portion that remains when all obligations are deducted from a company's assets. In reliance upon the IFRS, equity may consist of the following:

- funds contributed by shareholders;
- retained earnings;
- reserves;
- adjustments on capital (revaluation reserves).

The IFRS classifies two main types of capital concepts: financial and physical. The financial concept of capital implies that the monetary expression of net assets corresponds to the beginning and end of the report. If the balance of net assets per reporting period exceeds the balance at the end of the month, the profit is considered to have been received. Definitely, in this case, fair value of the assets and liabilities and the income and expenses associated with their revaluation are recognized as adjustment or revaluation reserves without being reflected as elements of the financial statements.

The physical concept of capital describes capital as the operational capacity of a bank. The bank reflects its assets at current value and adjustments made as a result of price changes are included in capital, but do not raise profits. The bank possesses an opportunity to choose the capital concept and this should be reflected in the accounting policy.

Banks may face different problems in the classification of liabilities and equity when performing various transactions with cash and financial instruments. IAS 32 "Reflection of Financial Instruments" specifies the differences between equity and liabilities. If a financial instrument has a contractual obligation to transfer economic benefits, it is classified as a liability, otherwise it is reflected as capital. Herewith, the capital item can be considered as a connecting element between financial reporting forms.

From the elements of financial reporting it is possible to generate a balance sheet that reflects the interrelations between the balance sheet, which is the main form of reporting, and the profit and loss statement:

Assets= Liabilities+Equity

Taking into consideration that there is a difference between non-capital income and expenses in equity, we present this equation as follows:

Assets = Liabilities+Equity+Income-Expenses

The above equation shows the correlation between the two reporting forms: the difference between the income and expenses reflected in the profit and loss statement (profit or loss) increases (or decreases) the bank's equity.

However, both of the above equations do not take into account the investments that can be made and the return on capital by shareholders. Considering them, we can formulate the following equation:

Assets = Liabilities + Equity + Income – Expenses+ Investments – Return on capital

The given equation reflects that capital growth can occur not only from domestic facilities, but also due to external sources.

During the transformation process, corrective transfers are made in order to eliminate the differences between the IFRS and the IAS. It is possible to make correction entries to the reporting period and retained earnings of the previous year through a new account in the capital structure.

Table 7

Accounts for correction entries offered at commercial banks

Correction entries related to the reporting period (there is opened account 31255 "Retained earnings / uncovered losses for the reporting period")	*These entries are used to reflect transfers made by the bank during the reporting period in accordance with IFRS requirements. These amounts are included in the initial balance sheet at the end of the reporting period and resulted in the retained earnings of the reporting period.*
Correction entries related to the previous period (there is opened account 31256 "Retained earnings / uncovered losses for the previous period)	*These entries are used to include in the initial balance sheet at the beginning and end of the reporting period transactions that were not previously reflected in accordance with IFRS. These amounts are resulted in the retained earnings of previous years.*

The process of private capital transformation can be conditionally divided into three blocks:

1. Analysis of accounting data (preliminary documents and accounting records) for the formation of equity;
2. Formation of correction entries on equity and reclassification of accounts;
3. After the equity section of the preliminary accounting balance, changes in equity are developed in accordance with the IFRS.

If we analyze the balances developed in reliance upon national and international standards, we can see that they have many similarities. The balance sheet, based on national standards, contains almost all the items required by the IFRS. These are fixed assets, intangible assets, long-term and short-term financial investments, cash, tax liabilities, reserves, receivables.

The item "Minorities interests" (conversion for banks: capital) is an exception. The term refers to the share of subsidiaries not directly owned by the bank head office in terms of the capital and net results of the parent bank.

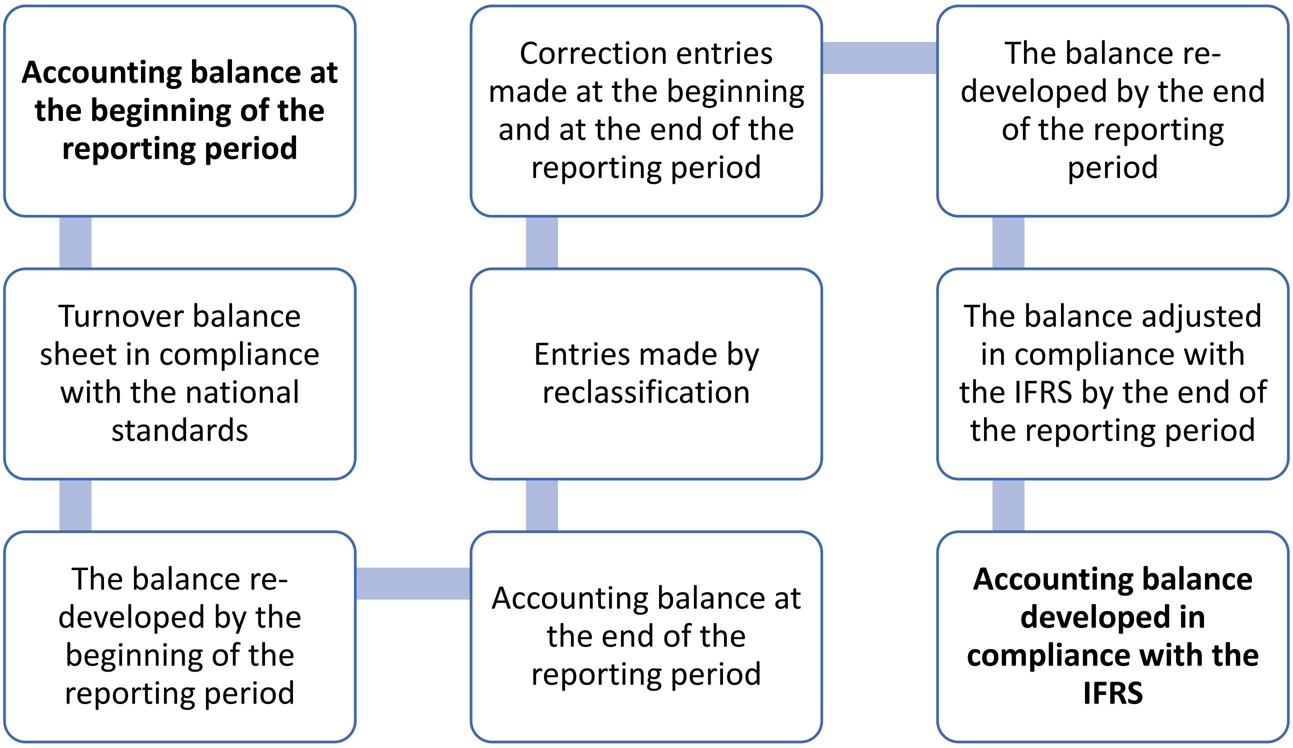

Figure 2. Transformation process of the accounting balance at commercial banks

Based on the consideration above, in order to analyze the theoretical issues in practice, in the process of developing statements on the financial position of the bank in compliance with international standards, there has been made a comparative analysis of the regulatory framework and international standards adopted in the country and it is recommended to distinguish several stages of developing an accounting balance in compliance with the IFRS.

In general, preparation of the statement of financial position in accordance with international standards can be done in different methods, depending on the specifics of the bank. In the process of applying conversion method, personnel with adequate experience require special software. Taking into consideration many advantages of the transformation method and financial condition of commercial banks, it is necessary to develop appropriate technique. However, as a strategy, it is necessary to study in depth the foreign experience and develop a roadmap for conducting not only the reporting, but also the accounting of commercial banks in compliance with international standards with the account of the specifics of our country.

Conclusion

Based on the results of the analysis, it can be concluded that, despite the adoption of the legislative framework and regulations, to date, no instructive methodology has been developed to bring the financial statements of commercial banks in compliance with international standards:

- scientific approaches and views of expert scientists have been systematized to bring the balance sheet in accordance with international standards and an independent author's approach has been developed;
- peculiarities of transformation have been studied and comparison with other methods has been implemented. Based on the research, scientifically substantiated conclusions have been formulated;

- there has been studied international experience in preparing financial statements based on international standards, identifying development trends and revealing their features;
- the system of scientific proposals and recommendations aimed at the process of transforming the balance sheet to international standards has been developed.

As a result of the analysis implemented above, it is proposed to improve the balance of commercial banks in Uzbekistan in the following areas in order to transform them into international standards:

first, it is necessary to revise the regulations, including the Regulations on the requirements for the annual financial statements of commercial banks published by the Central Bank of the Republic of Uzbekistan and the Regulations on the procedure for preparation and submission of consolidated financial statements by commercial banks, as well as to supplement them with the appropriate articles about transformation. The functioning of accounting procedures and regulations in commercial banks in conjunction with international regulations results in the emergence of an efficient system of accounting and reporting. At the same time, this principle is one of the basic requirements of the Central Bank.

second, commercial banks are required to develop an accounting policy in accordance with International Financial Reporting Standards, which is the basis for the transformation. In order to develop an accounting policy in accordance with the IFRS, the committee should be established in a commercial bank, consisting of accounting, finance, risk management, credit lines, lawyers and other departments. Accounting policies should set out the basic principles for recognizing, evaluating and revealing all elements of the financial statements.

Since the technical preparation of the transformation process to international financial reporting standards has not been adjusted in compliance with international standards, each commercial bank should reflect the process in detail in the accounting policy and appropriate orders, regulations and guidelines. This leads to an increase in data quality, unification of procedures and reduction of expenses.

third, it is recommended to maintain a qualitative and quantitative data bank (reserve) for each item of the report in order to ensure comparability and transparency of financial reporting data. In order to improve the level of asset management, it is necessary to ensure the completeness and reliability of information. Without submitting reports in the IFRS format it is not possible to attract external financing, in particular, loans from foreign banks, placement of securities in foreign markets, and guarantee operations abroad. Therefore, it is advisable for commercial banks to establish a quality historical database. This will simplify the process of transformation of all reporting to international standards.

In general, the transition of financial reporting to international standards can have both positive and negative effects.

Advantages include transparency, comparability of indicators, increased analytical capabilities, access to international capital markets. ***Disadvantages*** in the introduction of IFRS are the following: complexity of the transformation of accounting reports from national to international standards, increase in expenses for parallel accounting. However, advantages outweigh the disadvantages. The transition of banks to the IFRS will affect the structure of the labor market of accounting and financial services, and the demand for specialists in financial reporting on international standards will increase.

fourth, it is recommended to use specific transformational tables that provide a link between the financial statements prepared on the basis of the national standard and the IFRS. Transformation tables are created in the statements of financial position and profit and loss statements as the indicators are reclassified. The indicators of cash flow statement and changes in equity are determined on the basis of the transformed balance sheet and profit and loss statement. Transformation tables are completed on the basis of the turnover residual account, accounting registers and primary documents. Normally, balances in a IFRS-based report are transferred directly to the IFRS-based balances, and correction entries are made only if there is a difference.

fifth, in the process of transformation, there are cases when the residuals of the report based on national standards must be divided into two accounts in order to ensure compliance with the requirements of international standards. In this case, it was proposed to open an account 31255 – "Retained earnings/uncovered losses" for the correction entries relating to the reporting period. These entries are used to reflect transfers made by the bank in accordance with the IFRS requirements during the reporting period, and these amounts are included in the initial balance sheet at the end of the reporting period and carried to the retained earnings of the reporting period.

Account 31256 – "Retained earnings/uncovered losses" of the previous period is opened for correction entries related to the previous period. These entries are used to be included in the primary balance sheet at the beginning and end of the reporting period transactions that have not been previously reflected in accordance with the IFRS, and these amounts result in the retained earnings of previous years.

sixth, recognition, valuation and classification of financial instruments by commercial banks in accordance with the IFRS 9 will ensure that reports are transparent, reliable and understandable to foreign investors, as well as anticipate expected losses as a result of changes in the methodology for creating reserves for bank assets. Herewith, the quality of the loan portfolio will increase due to the constant testing of financial assets and the introduction of the bank's internal rating system on historical valuation. This will lead to the financial stability of commercial banks, raise efficiency, improve credit policy.

In order to eliminate the problems that arise in the implementation of the IFRS 9, it is advisable to undertake the following measures:

- introducing a rating system for borrowers used to classify loans;
- making calculations on the class of loans in which the credit risk characteristics of the reserves are the same;
- in the process of classification, i.e. the transition from class 1 to class 2, the bank must take into account all the qualitative information available on this loan. It is not advisable to transfer to stage 2 only for loans overdue for over 90 days;
- Forward looking information, that is, it is compulsory to keep accounting based on the principle of forecasting;
- the bank should be tested on a regular basis to determine the appropriateness of the classification of financial assets.

seventh, in order to properly account for liabilities and to account for differences in the transformation process, it is necessary to enter the difference account 29999 – "Transformation process". It is proposed to include in this account deferred tax payments and preference shares excluded from the capital structure. Preferential dividends should be considered as a liability to shareholders, not as part of the capital.

eighth, taking into account elimination of inter-branch transfers in the consolidation process, it is proposed not to settle interest on resources in balance accounts, but to reflect them in off-balance sheet accounts. The reason is that each branch, as a taxpayer, pays taxes at the expense of profits received by local tax offices, and as a result, there may be changes in tax accounts after consolidation at the end of the year.

ninth, preparation of financial statements in accordance with international standards can be done in different ways, depending on the specifics of the bank. Personnel with an adequate experience in using the conversion method require special software. In reliance upon many advantages of the transformation method and the financial condition of commercial banks, the necessary methodology needs to be developed. However, as a strategy, it is necessary to study in depth the foreign experience and develop a roadmap for conducting not only the reporting, but also accounting of commercial banks in accordance with international standards, taking into account the specifics of our country.

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