

IMPROVING THE STRUCTURE AND METHODS OF PREPARING THE PROFIT AND LOSS ACCOUNT

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This article is devoted to consideration of the best foreign experience and the practice of domestic enterprises with the aim of improving the structure and methods of compiling a profit and loss account. In reliance upon the research, proposals have been developed for compiling reporting forms and methodical recommendations for completing them.

Keywords. financial statements, financial results, profit, loss, gross profit, operating profit.

Introduction

The “Conceptual Framework for Financial Reporting” was published by the International Accounting Standards Board in September 2010. It was reconsidered and recommended in March 2018. The conceptual framework of financial reporting aims to help investors and other market participants achieve transparency by making financial information internationally comparable and improving its quality to enable them to make economic decisions [1].

Paragraph 21 of International Financial Reporting Standard № 7 “Financial Instruments: Disclosures” [2] requires an explanation of the valuation basis (or bases) used in preparing financial reporting and the accounting policies used to make those reports clear.

Regulatory framework for compiling financial reporting in Uzbekistan has been developed on the basis of the Law of the Republic of Uzbekistan “On accounting” and is carried out in compliance with the National Accounting Standard “Conceptual framework for the preparation and submission of financial statements”, which determines the concepts that constitute the basis for the preparation and submission of financial statements for users [3].

Literature Review

Both domestic and foreign scholars have expressed their considerations on improving the structure and methods of compiling the profit and loss account.

Professor Samiddin Tashnazarov emphasizes the necessity to pay attention to the purpose of the profit and loss account, such as what information is formulated in it, whether it meets the information needs of users, as well as the decisions made by the economic entities [4].

Professor Bakhodir Khasanov and other scholars focus on the need to systematize and compile the elements of financial reporting in compliance with the objectives of financial analysis, including the analysis of profit and profitability, the classification of internal and external factors [5].

Profit and loss account (P&L statement) can be prepared in one of two ways. These are the cash method and the accruals method.

Cash method. This method is used only when cash enters and leaves the business. This is a very simple method and only takes into account the money received or paid. In a business process, cash is recorded as income when it is received and as a liability when the

money is used to pay any account or obligation. This method is commonly used by smaller companies as well as entrepreneurs who want to manage their personal finances.

Accruals method. This method involves recording in the accounting until the income is received. This implies that a company that uses the accruals method reflects the money it expects to receive in the future as income. For example, a company that delivers a product or service to its customer, records the income received in a P&L statement even if it has not yet received payment. Similarly, liabilities are recognized even if the company has no expenses[6].

Methodology

Such research methods as analysis and synthesis of scientific knowledge, systematic approach, comparison, classification, grouping, absolute and relative quantities of statistical and financial analysis have been widely used in this article.

Analysis and results

In the current “Financial reporting forms and rules for their completion” approved by the Ministry of Finance of the Republic of Uzbekistan and registered by the Ministry of Justice determines that financial statements should be submitted by business entities (except for budget organizations, insurance companies, banks and other lending institutions), as well as those who own property, economic management or operational management and are liable for their obligations with this property, as well as an independent balance sheet and provide separate subdivisions that are taxpayers in compliance with the tax legislation that have the current account[7].

Profit and loss account is an essential element of financial reporting. In compliance with the current procedure introduced in our country, this report is called “Report on financial results”. In our opinion, this report should reflect such indicators as “Net income from sales of goods (works and services)”, “Cost of goods sold (works and services)”, “Gross profit from sales of goods (works and services)”, “Recurring (operational) expenses”, “Income from financial activities”, “Expenses on financial activities”, “Profit (loss) gained from core business”, “Income from non-core business”, “Expenses not related to regular activities”, “Emergency expenses”, “Profit before tax”, “Net profit (loss) for the reporting period”. However, this report requires logical placement of the above lines on a systematic and economic basis. In international practice, the activities of the business entity are divided into two parts: core (regular) activities and non-core (irregular) activities. Accordingly, the profit and loss account reflects the results of the core and non-core business. This is one of the primary purposes of compiling a profit and loss account [4].

Table 1

Analysis of the composition of the financial results of the joint-stock company “Uzkimyosanoat” on the core and non-core business [8], thousand UZS

| № | Indicators | 2016 | 2017 | 2018 | 2019 | 2020 | Change in 2020 in relation to 2016, (+,-) | |
|----|---|-------------|--------------|------------|------------|-------------|---|-------------|
| | | | | | | | Absolute +,- | Relative, % |
| 1. | Profit (loss) of core (operating) business: | | | | | | | |
| | Income (profit) | - | - | - | - | - | | |
| | Expenses (loss) | 395 852,0 | 11 130 990,7 | 17483656,5 | 17483656,5 | 54946901,5 | +54 551 049,5 | 139 times |
| 2. | Income from financial activities, total: | | | | | | | |
| | Income (profit) | 7691454,6 | 12766426,3 | 36802177,5 | 36802177,5 | 104039281,2 | +96 347 826,6 | 13,5 times |
| | Expenses (loss) | - | - | - | - | - | | |
| 3. | Expenses on financial activities: | | | | | | | |
| | Income (profit) | - | - | - | - | - | | |
| | Expenses (loss) | 22 960,0 | 156343,5 | 113484,3 | 113484,3 | 8341450,9 | +8 318 490,9 | 363 times |
| 4. | Profit (loss) before paying income (profit) tax | | | | | | | |
| | Income (profit) | 9 709 970,3 | 1479092,1 | 19205036,7 | 19205036,7 | 40750928,8 | +31 040 958,5 | 4,2 times |
| | Expenses (loss) | - | - | - | - | - | | |
| | Net profit (loss) for the reporting period | 3 709 970,3 | 1479092,1 | 19205036,7 | 19205036,7 | 40750928,8 | +37 040 958,5 | 11 times |

With the aim of analyzing the development trends and prospects of the chemical industry of the Republic of Uzbekistan, we will analyze the report on the financial results of “Uzkimyosanoat” JSC (table 1).

The analysis of the table data shows that between 2016-2020, the income line of profit (loss) of the core (operating) business line of the industry-based enterprises was empty, and the expenditure part was increasing. Revenues from financial activities in the analyzed period in 2016 amounted to a total of 7691454.6 thousand UZS, and in 2020 this figure increased to 104039281.2 thousand UZS or 96347826.6 thousand UZS (13.5 times). Expenditures on financial activities in the analyzed period accounted for 22960.0 thousand UZS and 8341450.9 thousand UZS, thus there is an increase of 8318490.9 thousand UZS (363 times). Before paying income (profit) tax, we see that the profit in 2016 amounted to 9709970.3 thousand UZS and in 2020 amounted to 40750928.8 thousand UZS, an increase of 31040958.5 thousand UZS or 4.2 times.

The analysis demonstrates that the net profit for the reporting period constituted 3 709970.3 thousand UZS in 2016 and 40 750928.8 thousand UZS in 2020, the overall growth trend increased by an absolute amount of 37 040958.5 thousand UZS or 11 times.

Table 2

**Analysis of financial results of the core business of
“GLOBAL KOMSCO DAEWOO” LLC [9], million UZS**

| Indicator | 2019 | | 2020 | | Change, % |
|--|--------------------|--------------------|--------------------|--------------------|--------------|
| | Income (profit) | Expenses (loss) | Income (profit) | Expenses (loss) | |
| Net proceeds from the sale of products (goods, works and services) | 152984,9 | x | 208369,4 | x | 136,2 |
| Cost of products sold (goods, works and services) | x | 92421,8 | x | 140329,9 | 151,8 |
| Gross profit (loss) from the sale of products (goods, works and services) | 60563,1 | 0 | 68039,5 | 0 | 112,3 |
| Period expenses, total including: | x | 16335,9 | x | 19632,6 | 120,2 |
| Expenses on sale | x | 674,5 | x | 1509,1 | 223,7 |
| Administrative expenses | x | 3920,7 | x | 4336,1 | 110,6 |
| Other operating expenses | x | 11740,7 | x | 13787,3 | 117,4 |
| Other income received from core business | 137,2 | x | 3977,5 | x | 28 times |
| Profit (loss) from core business | 44364,4 | 0 | 52384,4 | 0 | 118,1 |

The table shows that the net proceeds obtained from the sale of products (goods, works and services) at the research object in the reporting year increased by 136.2 percent compared to the same period of the last year, while the prime-cost of goods amounted to 151.8 percent. As a result, the gross profit (loss) from the sale of products (goods, works and services) constituted 112.3 percent. The total period expenses of the enterprise last year amounted to 16335.9 million UZS, and in the reporting year it accounted for 19632.6 million UZS, or there is an increase of 120.2 percent.

Last year other income received from the core business operating income amounted to 137.2 million UZS, which in the reporting year constituted 3977.5 million UZS or an increase of 28 times.

Last year the profit obtained from the core business amounted to 44364.4 million UZS, while in the reporting year it increased by 52384.4 million UZS or 118.1 percent.

Table 3

**Analysis of income and expenses of financial activities of
“GLOBAL KOMSCO DAEWOO” LLC [9], million UZS**

| Indicator | 2019 | | 2020 | | Change, % |
|---|--------------------|--------------------|--------------------|--------------------|--------------|
| | Income (profit) | Expenses (loss) | Income (profit) | Expenses (loss) | |
| Profit (loss) from the core business | 44364,4 | 0 | 52384,4 | 0 | 118,1 |
| Income gained from financial activities, total including: | 8089,9 | x | 9032,6 | x | 111,6 |
| Interest income | - | x | 144,3 | x | |
| Income gained from the exchange rate difference | 8089,9 | x | 8888,3 | x | 109,9 |
| Expenses on financial activities, including: | x | 40375,7 | x | 30610,8 | 75,8 |
| Interest expenses | | 7603,3 | | 4116,4 | 54,1 |
| Losses occurred due to the exchange rate difference | x | 32772,3 | x | 26494,3 | 80,8 |

From the analysis of the table it is obvious that the income received from financial activities last year amounted to 8089.9 million UZS, an increase of 9032.6 million UZS at the end of the reporting year or 111.6 percent. One of the basic factors influencing this is the fact that interest income did not exist last year, and in the reporting year increased by 144.3 million UZS as a positive result of the entity's activities in the financial market.

In addition, interest expenses in 2019 amounted to 7603.3 million UZS, and in 2020 decreased by 4116.4 million UZS or 54.1 percent, which indicates the effective management of expenditures. It should be noted that the reduction of losses from the exchange rate difference by 80.8 percent demonstrates a positive result as well.

Table 4

**Analysis of pre-tax profit and net profit of
“GLOBAL KOMSCO DAEWOO” LLC [9], million UZS**

| Indicator | 2019 | | 2020 | | Change, % |
|--|--------------------|--------------------|--------------------|--------------------|--------------|
| | Income (profit) | Expenses (loss) | Income (profit) | Expenses (loss) | |
| Profit (loss) of common economic activity | 12078,6 | 0 | 30806,2 | 0 | 2,5times |
| Profit (loss) before paying an income tax | 12078,6 | 0 | 30806,2 | 0 | 2,5 times |
| Profit tax | x | 13,0 | x | 320,9 | 25 times |
| Net profit (loss) for the reporting period | 12065,6 | 0 | 30485,3 | 0 | 2,5 times |

It is obvious from the table that the profit of the common economic activity at the object of research in 2020 constituted 30806.2 mln. UZS. The profit tax amounted to 320.9 mln. UZS, net profit (loss) for the reporting period accounted for 30485.3 mln. UZS. When we analyze these figures compared to 2019, we see that before paying the profit tax, profits increased 2.5 times (from 12078.6 million UZS up to 30806.2 UZS). In turn, the income tax increased 25 times (from 13.0 million UZS up to 320.9 million UZS), net profit for the reporting period increased by 2.5 times.

Conclusion and Recommendations

Taking into consideration the fact, that transition of compiling and submitting financial reporting to the international standards is inevitable in Uzbekistan, it is crucially important to establish its organizational, methodological and practical support. In this regard, we consider it necessary to accelerate the process of translation and formal approval of international financial reporting standards into the state language.

Thus, it is expedient to transform and adjust the National Accounting Standards, which have been tested and effectively applied in the practice of business entities, in compliance with the international standards, as well as to unify the transformation tables and accounting registers for this purpose.

In order to recognize, formalize and limit the scope of the elements and components of financial reporting, it is required to ensure that the financial statements of business entities, banks, budgetary organizations and insurance companies are regularly published in the media on a comparable, reliable, understandable and transparent basis.

In a view of the significance of training qualified and skilled personnel in the implementation of international financial reporting standards, it is necessary to establish community-based methodological councils with the participation of experienced practitioners and theorists, to create textbooks and manuals based on a single methodological program.

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