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THE CONCEPTUAL FRAMEWORK OF FINANCIAL REPORTING IN ACCOUNTING

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AnnotationThe article reveals the features of the content, essence and meaning of the conceptual foundations for presenting financial statements according to international financial reporting standards (IFRS). The studies of economists were studied within the framework of regulatory documents related to international accounting, conclusions and proposals on the topic were developed.

Key words
financial statements, IFRS, asset, liability, capital, income, expenses.

Introduction

Financial reporting is considered a fundamental pillar of accounting and serves as a standard used by economic entities to disclose financial information and results for a specific period, typically on an annual or quarterly basis. In simple terms, financial reporting is a crucial source of information that allows for understanding how much monetary resources an economic entity possesses, the sources of these funds, and where they are intended to be allocated. Moreover, financial reporting is of great importance for the management of an economic entity in making fact-based business decisions. Through financial reports, potential investors, commercial banks, and financial institutions are provided with the necessary information for making investment or lending decisions. Therefore, in order to study financial reporting both theoretically and practically, conducting scientific research on the content, essence, and significance of the conceptual framework for the presentation of financial statements is considered to be of particular relevance.

The selected research topic also contributes to the implementation of the tasks set out in the Resolution of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022, "On the Development Strategy of New Uzbekistan for 2022–2026," and the Resolution No. PQ-4611 dated February 24, 2020, "On

Additional Measures for the Transition to International Financial Reporting Standards," as well as other regulatory documents related to this field [1,2].

Literature Review

When any new accounting system is introduced in a country, a conceptual framework for that system is first developed, and based on that, accounting standards are formulated. The conceptual framework is a set of theoretical principles designed for the preparation of financial statements. These theoretical principles serve to develop new accounting standards and to further improve existing ones. The IASB (International Accounting Standards Board) developed the initial Conceptual Framework in 1989, which was amended in 2010. A revised version of the framework was developed and officially issued in 2018.

According to the "Conceptual Framework for Financial Reporting" issued by the International Accounting Standards Board (IASB), the conceptual framework is defined as follows [3]:

The Conceptual Framework describes the objective and principles of general purpose financial reporting. The objectives of the Conceptual Framework are as follows:

• to assist the IASB in the development of IFRS Standards based on consistent principles;

• to assist preparers of financial statements in applying judgment when no specific standard applies to a particular transaction or other event, or when a standard allows a choice of accounting policy;

• to assist all parties in understanding and interpreting the standards.

According to the "Conceptual Framework for the Preparation and Presentation of Financial Statements" adopted by the Ministry of Finance of the Republic of Uzbekistan:

The Conceptual Framework is developed on the basis of the Law of the Republic of Uzbekistan "On Accounting" and defines the concepts that form the foundation for the preparation and presentation of financial statements for users. The purpose of this framework is to assist in the following:

• the Ministry of Economy and Finance of the Republic of Uzbekistan, as the state authority regulating the accounting and financial reporting system, in the development and revision of National Accounting Standards (NAS);

• preparers of financial statements in applying NAS;

• auditors in forming conclusions regarding the compliance of financial statements with NAS;

• users of financial statements in analyzing the information contained in the financial reports [4].

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According to economist and scholar Sh. Ergasheva, the conceptual framework for financial reporting (also known as the "IFRS Framework") serves as the basis for all IFRS standards. The conceptual framework itself is not a standard; however, it is very important as it includes certain guidelines for the preparation of financial statements. She emphasizes that changes in the conceptual framework may affect the application of IFRS in situations where no specific standard applies to a particular transaction or event [5].

According to foreign economist T.Yu. Druzhilovskaya, "It is no coincidence that the conceptual framework of financial reporting in the IFRS system has been chosen as a specific guideline for financial reporting principles within the accounting system. Indeed, according to the decisions of the Government of the Russian Federation, all internal accounting is being reformed based on compliance with international standards. It should be acknowledged that the 'Concept of Accounting in the Market Economy of Russia' at that time was close to the 'Conceptual Framework for the Preparation and Presentation of Financial Statements' in the IFRS system then in effect," she emphasizes [6].

Research Methodology

In the process of organizing and conducting the research, accounting methods such as expert evaluation, comparative analysis, content and inventory analysis, as well as systematic and factor analysis were utilized.

Analysis and Discussion of Results

The conceptual framework of financial reporting is a fundamental basis that summarizes the information needs of users, defines the objective of financial reporting, describes the qualitative characteristics of information, outlines the rules and principles to be followed in its preparation, and characterizes the elements of financial statements.

The advantages of the conceptual framework of financial reporting include the following:

- It prevents the inclusion of contentious accounting issues in standards regardless of their materiality or significance.
- It protects the development of standards from political interference.
- In accounting systems without a conceptual framework, standards have sometimes been developed either based solely on a profit or loss approach or only on a net asset-based approach.
- The conceptual framework integrates both of these approaches.

The objectives of the conceptual framework are as follows:

- to assist the International Accounting Standards Board (IASB) in developing IFRS standards based on consistent principles;

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• to assist preparers of financial statements when no standard applies to a particular transaction or event, or when a standard permits a choice of accounting policy;

• to assist all parties in understanding and interpreting the standards.

Table 1

Components of the Conceptual Framework

№	Section Titles in the Conceptual Framework
Chapter 1	The Objective of General Purpose Financial Reporting
Chapter 2	Qualitative Characteristics of Useful Financial Information
Chapter 3	Financial Statements and the Reporting Entity
Chapter 4	Elements of Financial Statements
Chapter 5	Recognition and Derecognition
Chapter 6	Measurement
Chapter 7	Presentation and Disclosure
Chapter 8	Concepts of Capital and Capital Maintenance

Chapter 1 of the Conceptual Framework outlines the objectives and purposes of general purpose financial reporting. The purpose of financial reports provided by companies is to deliver financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions related to providing resources to the entity.

Chapter 2 of the Conceptual Framework outlines the key qualitative characteristics necessary to ensure that financial statement information is useful to users. For financial information to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced when it is comparable, verifiable, timely, and understandable.

Chapter 3 of the Conceptual Framework addresses the objective of financial statements. The objective of financial reporting is to provide financial information about the reporting entity's assets, liabilities, equity, income, and expenses (with profit or loss as the result). This information plays a key role for users of financial statements in assessing the entity's future net cash inflows and in evaluating how

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effectively the entity's management has discharged its responsibility for managing the entity's economic resources.

Chapter 4 of the Conceptual Framework classifies the elements of financial statements as follows, in accordance with the conceptual framework:

An asset is an economic resource controlled by an entity as a result of past events. An economic resource is a right that has the potential to generate economic benefits.

A liability is the present obligation of an entity arising from past events to transfer an economic resource.

Equity is the residual interest in the assets of an entity after deducting all its liabilities.

Income refers to increases in assets or decreases in liabilities that result in an increase in equity, excluding contributions from equity holders.

Expenses are decreases in assets or increases in liabilities that result in a decrease in equity,

Figure 1. Elements of Financial Statements

Profit or loss – Contributions from, and distributions to, holders of claims against the entity's equity that affect profit or loss. These are exchanges of assets or liabilities that do not result in an increase or decrease in equity.

Chapter 5 of the Conceptual Framework establishes the rules for the recognition and derecognition of financial statement elements. Items that meet the definition of an asset or a liability are not recognized in the financial statements automatically. In order to be recognized, such items must also meet the recognition criteria. Recognition is the process of identifying an item that satisfies the definition of one of the elements of financial statements and including it in the statement of financial position or in the statement of profit or loss and other comprehensive income.

Chapter 6 of the Conceptual Framework explains the measurement of financial statement elements. Elements recognized in the financial statements are presented in monetary terms, which requires the selection of an appropriate measurement basis. Applying a measurement basis to an asset or liability determines the value of that asset or liability, as well as the related income and expenses.

Measurement bases include historical cost, current cost, current value, fair value, value in use, and fulfillment value. Considering the qualitative characteristics of useful financial information and the cost constraint, different measurement bases may be selected for different assets, liabilities, income, and expenses.

Chapter 7 of the Conceptual Framework states that the effective communication of information in financial statements contributes to presenting financial reports that are relevant and faithfully represented, thereby enhancing their usefulness. Therefore, the presentation and disclosure of information in financial statements should aim to achieve the following objectives:

- To focus on the objectives and principles of presentation and disclosure rather than on detailed rules;
- To classify information in a manner that allows grouping similar items together and distinguishing dissimilar items;
- To aggregate information in a way that does not make it complex due to either difficulty in understanding, excessive unnecessary details, or inefficient aggregation.

According to Chapter 8 of the Conceptual Framework, there are two concepts of capital preservation:

- Financial capital maintenance
- Physical capital maintenance

Financial capital maintenance: Under this concept, profit is earned only if the net monetary assets at the end of the period exceed the net monetary assets at the beginning of the period after excluding distributions to and contributions from owners. Financial capital maintenance can be measured either in nominal monetary units or units of constant purchasing power.

Physical capital maintenance: According to this concept, profit is earned only if the physical productive capacity of the entity at the end of the period exceeds the physical productive capacity at the beginning of the period after deducting distributions to and contributions from owners.

IAS 1 "Presentation of Financial Statements" establishes the overall objectives of financial reporting. It sets out the general requirements for the presentation of financial statements, guidelines for their structure, and minimum content requirements.

The objective of financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions. Additionally, this document reflects the results of the stewardship of resources entrusted to the management of the company.

Conclusion and Recommendations

In conclusion, based on the results of a company's activities over a certain period, it is necessary for management to include the following information in the general-purpose financial statements to make informed decisions and achieve other objectives:

- assets;
- liabilities;
- equity;
- income and expenses;
- profit or loss resulting from income and expenses;
- distribution of dividends;
- cash flows;
- information about transactions with persons acting as owners, with separate disclosure of owners' shares and amounts distributed to them.

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