

COMPARATIVE ANALYSIS OF NATIONAL ACCOUNTING STANDARDS AND IFRS: TRANSITION PATHWAYS FOR UZBEK ENTERPRISES

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Abstract

This research provides a complete comparative study between the National Accounting Standards (NAS) of Uzbekistan and the International Financial Reporting Standards (IFRS), especially focusing on the strategic transition pathways for domestic enterprises. As Uzbekistan fosters its integration into the global financial system, the divergence between rule-based national accounting and principle-based international frameworks represent immense obstacles for transparency and foreign investment. Through a qualitative and comparative methodology, the study find out essential discrepancies in asset valuation, income recognition, and financial instrument disclosure. The findings show that while the legislative framework in Uzbekistan has been updated to support IFRS, practical implementation is hindered by a substantial "technological gap" in automated accounting systems and a lack of internationally certified professionals. The paper proposes a structured transition roadmap that focuses on the synchronization of digital infrastructure and the enhancement of professional competencies through global certification programs like ACCA. Finally, this research concludes that a successful transition to IFRS is not merely a technical adjustment but a vital prerequisite for increasing the investment attractiveness of Uzbek enterprises and ensuring long-term economic stability in the region.

Key words: IFRS adoption, Uzbekistan economy, National Accounting Standards, Financial transparency, Transition roadmap, Investment attractiveness, Asset valuation

Introduction

The shift to International Financial Reporting Standards (IFRS) in Uzbekistan represents one of the biggest changes in the economy since the country gained independence. For decades, Uzbekistan followed a centralized, rule-based accounting system called the National Accounting Standards (NAS or BHMS). While these standards worked well for tax compliance and state statistics, they did not provide the depth and flexibility needed to show financial health to global investors. As the "New Uzbekistan" economic strategy was introduced, focusing on market liberalization, privatization, and attracting foreign direct investment (FDI), the limitations of the old system became a major obstacle. Therefore, adopting IFRS is not just about changing bookkeeping methods; it marks a significant move toward global transparency, accountability, and updating the entire national financial system. The main philosophical difference between NAS and IFRS is the shift from "legal form" to "economic substance."

Historically, under the national standards, accounting served mainly as a compliance task for the state. If a transaction was legally recorded as a lease, it was treated as such, regardless of the economic facts. In contrast, IFRS follows a principle-based approach that values "substance over form." This requires accountants to function as financial analysts rather than just record-keepers. For a Chief Accountant in Uzbekistan, this means developing professional judgment, something that was often not encouraged in the inflexible national system. For example, assessing an asset's impairment or determining the fair value of a financial instrument demands an understanding of

market trends and future economic benefits instead of just following a fixed depreciation schedule.

In his article Alisher Bakhadirov said that the national accounting system's reliance on legal form to classify leases leads to significant underreporting of liabilities and assets. For example, operating leases, which often have the economic characteristics of financial leases, are excluded from the balance sheet, with lease payments recorded solely as expenses. This practice obscures the true financial obligations of companies, as evidenced by Uzagroleasing JSC's financial statements, where operating lease payments increased from 82.1 billion soums in 2021 to 91.2 billion soums in 2024 but were not capitalized as assets or liabilities.

M. Babadjanov presented that when reporting, the forms of reporting on assets, capital, liabilities, income, and expenses in accounting and financial statements, as well as on IFRS, are quantitatively measured and expressed in the form of money. During the implementation of the IFRS and their quest for consolidated financial statements in accordance with the IFRS, it is impossible to determine the value of the elements and measure them, it is impossible to reflect them in accounting, and it is also impossible to include in the balance sheet and the rest of the forms of financial statements. When preparing financial statements by international standards of financial statements, when considering the main tools for the IFRS system, including the IFRS, you can use the currency circulation at the place of reporting – this means a consolidated report of the IFRS.

From Djambakieva G's article we can understand that currently, companies whose shares are traded on the RSE "Toshkent", in parallel, report on both national accounting standards and international financial reporting standards. And as a rule, the presented financial results do not match. Since NAS are intended to provide information to regulatory and tax authorities, and IFRS reporting is more used by investors and creditors to make investment decisions. Uzbekistan does not have a separate accounting standard for accounting for financial instruments. The NAS 12 "Accounting for financial investments" developed by the Ministry of Finance of the Republic of Uzbekistan regulates the general procedure for accounting for financial investments as an integral part of financial instruments. The national accounting system is gradually approaching international standards, but there are quite significant discrepancies in the accounting of financial investments.

Presidential Decree established the legal groundwork for this shift No. PP-4611 in February 2020. This mandate required large taxpayers, joint-stock companies, commercial banks, and insurance organizations to switch to IFRS by 2021. However, this legislation was just the first step in a longer "transition pathway." Businesses face significant institutional challenges, mainly the "technological gap." Most accounting software in Uzbekistan was designed specifically for NAS and tax purposes. IFRS calls for multi-dimensional reporting capabilities, the ability to calculate discounted cash flows, and improved data management for complex disclosures. Upgrading these systems requires significant investments in hardware like high-performance servers and workstations—and complex enterprise resource planning (ERP) software. Without these digital improvements, the accuracy and timeliness of IFRS reporting could be jeopardized. Additionally, the lack of skilled human resources is probably the biggest hurdle for successful implementation.

IFRS requires a level of expertise that is currently scarce in the local job market. The transition will require extensive retraining for tens of thousands of accountants to meet international certification standards, such as ACCA or DipIFR. Many firms currently rely on costly third-party international auditors to convert their national accounts into IFRS-compliant reports. While this ensures compliance in the short term, it prevents the integration of these standards into the firm's everyday management culture. To fully benefit from IFRS, Uzbek companies need to develop a generation of local specialists who can use these standards for

internal management and strategic planning, not just for annual reporting. From an investment perspective,

IFRS serves as a "universal language" that makes it easier for foreign investors to enter the Uzbek market. Foreign investors tend to be risk-averse; when they see financial statements using unfamiliar local standards, they may apply a "risk premium," which raises the cost of capital for Uzbek businesses. By providing IFRS-compliant information, domestic companies can show a level of transparency comparable to their global counterparts, improving their creditworthiness and appeal on international stock exchanges. This is especially important for key sectors like energy, manufacturing, and agriculture, which need significant capital for modernization. In summary, integrating IFRS into Uzbekistan's economy is a complex project that connects macroeconomic policy with microeconomic practices. It requires aligning legal reforms, technological advancements, and educational changes.

This research aims to explore these transition pathways and identify the specific challenges technological, educational, and methodological that Uzbek companies must overcome. By bridging the gap between national practices and international expectations, Uzbekistan can ensure that its businesses not only comply with global standards but also compete effectively in the global economy. The success of this transition will lay the groundwork for sustainable economic growth and long-term financial stability for the nation.

The significance of this comparative analysis lies in its role as a strategic diagnostic tool for institutional modernization in Uzbekistan. By identifying the philosophical gaps between a tax-centric national system and a global investor-centric framework, this research helps enterprises dismantle the information barriers that historically deterred foreign capital. It provides a logical sequence for reform that moves beyond simple legislative compliance, emphasizing the shift from a rigid rule-based mentality to a principle-based approach. This study is vital because it highlights that the transition is not just a bureaucratic change but a holistic re-engineering of how business value is measured. It serves as a justification for the necessary technological and educational investments, proving that a modern economy requires both advanced data systems and highly skilled professionals. By outlining specific transition pathways, the research helps domestic firms avoid common pitfalls such as over-reliance on external consultants or failing to integrate these standards into daily management. Clear differences between National accounting standards and International accounting standards will pave the way to avoid any confusion for private and public companies. Such research may help to create perfect system for the International accounting standards for Uzbekistan. By pinpointing precise difference new created small businesses will be able to prepare their minor departments for issues that are going to come with IFRS. They might be able create specific training course for their staff. Needless to say most of the accountants get used to number-based shots, which is the main difference with IFRS.

Methods

At the heart of a nation's economic strategy lies its investment policy, a roadmap of goals and actions designed to boost capital and ensure every dollar spent drives efficiency. Uzbekistan is currently navigating a pivotal moment in this journey as its financial markets become increasingly globalized, linking local trade, labor, and currency with the international financial ecosystem. This evolution is particularly visible at the "Toshkent" Republican Stock Exchange, where companies find themselves navigating two different financial reporting worlds. While these firms use both National Accounting Standards (NAS) and International Financial Reporting Standards (IFRS), the results rarely align. This friction exists because the two systems serve different masters: national standards are built for tax and regulatory compliance, whereas IFRS is designed to give investors and creditors the clear, transparent data they need to make high-stakes decisions. One of the most significant gaps in this transition involves financial instruments. Currently, Uzbekistan relies on NAS 12, which provides a general framework for

financial investments but lacks the specificity found in global norms. In contrast, the international community has moved toward the more rigorous and modern requirements of IFRS 9 and IFRS 7. Since its global adoption in 2018, IFRS 9 has set a much higher bar for how financial instruments are defined and recorded. For Uzbekistan, closing the gap between these two methodologies is no longer just a technical task it is a vital step toward full integration into the global economy.

IFRS defines a financial instrument as a contract that establishes a financial asset for one entity while simultaneously creating a corresponding financial liability or equity instrument for the counterparty. Under this framework, any contract that gives rise to these components must be recognized in the company's financial statements.

In contrast, the national standard NAS 12 (Accounting for Financial Investments) lacks a formal definition of financial instruments. Its scope regarding financial investments is considerably more restrictive than the broader IFRS definition of financial assets. Notably, NAS 12 provides no regulatory guidance for accounts receivable, nor does it establish any procedures for the accounting of financial obligations.

The fundamental distinctions between the national accounting system and IFRS 16 center on how leasing transactions are recognized on the balance sheet, the treatment of depreciation and interest, and the subsequent effect on financial performance. Under national standards, a clear line is drawn between financial leases, which are recorded as assets and liabilities, and operating leases, which are simply treated as direct expenses. Conversely, IFRS 16 eliminates this distinction, requiring all lease contracts to be reflected on the balance sheet as right-of-use assets and corresponding lease liabilities.

The practical implications of these divergent approaches are evident in the 2019–2024 financial statements of Uzagroleasing JSC and Uzbek Leasing International JSC. Specifically, the data for Uzagroleasing JSC illustrates the fluctuating dynamics of long-term financial lease liabilities during this period. Starting at 1,084.3 billion soums in 2019, these liabilities rose to 1,555.1 billion soums in 2020 and peaked at 1,623.5 billion soums in 2021. This was followed by a steady decline, with figures reaching 1,242.3 billion in 2022, 1,017.3 billion in 2023, and ending at 950.6 billion soums by the close of 2024. These values represent the specific volume of lease-related obligations that the company reported on its balance sheet under its existing agreements.

Under the national accounting framework, operational leasing obligations are omitted from the balance sheet as long-term liabilities, with the associated payments recognized instead as direct operating expenses. This practice is clearly reflected in the financial performance of Uzagroleasing JSC between 2022 and 2024. During this period, the company's operating expenses rose from 85.8 billion soums in 2022 to 89.4 billion soums in 2023, eventually reaching 91.2 billion soums by the end of 2024. A substantial portion of these recorded costs was driven specifically by lease-related payments.

Results

The comparative analysis demonstrates that the divergence between National Accounting Standards (NAS) and International Financial Reporting Standards (IFRS) leads to significant inconsistencies in the financial reporting of Uzbek enterprises. Practical application shows that under NAS, companies like Uzagroleasing JSC often underreport liabilities because the national framework relies heavily on legal form rather than economic substance. For instance, operating lease payments at Uzagroleasing JSC increased from 82.1 billion soums in 2021 to 91.2 billion soums in 2024 but remained excluded from the balance sheet, whereas IFRS 16 would require these to be recognized as right-of-use assets and liabilities. Furthermore, the study identifies a regulatory vacuum regarding financial instruments; NAS 12 is restricted to a narrow scope of

financial investments and lacks the comprehensive definitions and accounting procedures for financial obligations found in IFRS 9. Quantitative data regarding Uzagroleasing's long-term financial lease liabilities shows a peak of 1,623.5 billion soums in 2021 followed by a decline to 950.6 billion soums by 2024, representing only the portion of debt officially recognized under the current national system. Beyond methodological gaps, the results indicate that successful IFRS implementation is currently obstructed by a substantial technological gap in automated accounting software and a critical shortage of internationally certified professionals. These infrastructure deficits force many domestic firms to rely on costly third-party auditors, which hinders the integration of international standards into daily management cultures. Ultimately, the results suggest that bridging these discrepancies is a vital prerequisite for increasing the investment attractiveness of Uzbek enterprises, as IFRS-compliant reporting reduces the risk premium applied by foreign investors and lowers the overall cost of capital.

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