

**IMPROVING ACCOUNTING AND AUDIT OF FINANCIAL INSTRUMENTS IN JOINT-STOCK COMPANIES: THEORETICAL AND PRACTICAL PERSPECTIVES**

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**Abstract:** This paper examines the theoretical foundations and practical challenges in accounting for financial instruments (e.g., investments, debt, equity, derivatives) within joint-stock companies, and proposes ways to enhance audit processes in relation to them. We analyze the relevant provisions of IFRS 7 and IFRS 9, identify common accounting and audit issues, and based on empirical data derived from sample joint-stock companies, we develop recommendations for improving transparency, reliability, and audit quality. The methodology includes document analysis, comparative study, regression modeling, and empirical observation. The results show a positive correlation between financial instrument portfolio size/diversity and audit quality, and our recommendations emphasize internal controls, use of modern audit technology (e.g. data analytics, AI), and adoption of more stringent audit standards. Implementation of these proposals may strengthen investor confidence and corporate governance.

**Keywords:** financial instruments, accounting, audit quality, joint-stock companies, IFRS, internal control

## 1. Introduction

In a globalizing economy, joint-stock companies increasingly rely on financial instruments — such as investments, debt securities, derivatives — as key components of their capital structure. Misstatements or poor audit of these instruments may undermine the credibility of financial reporting and weaken investor trust. In Uzbekistan, reforms have been introduced to align national accounting and audit practices with international standards, particularly IFRS 7 and IFRS 9. Given this backdrop, a rigorous analysis of both theory and practice in accounting and auditing of financial instruments in joint-stock companies is timely and necessary.

### Objectives of the paper:

1. To classify and define types of financial instruments used by joint-stock companies and their accounting treatment.
2. To identify common audit challenges and errors related to financial instruments.
3. To empirically test relationships between instrument portfolio metrics and audit quality.
4. To propose actionable recommendations to improve accounting and audit practices in this domain.

## Research questions:

- How are various financial instruments accounted for under IFRS 7 / 9 in joint-stock companies?
- What are typical audit deficiencies encountered in practice?
- Which internal and external factors most affect audit quality in relation to financial instruments?
- What improvements are feasible within the context of Uzbekistan and similar emerging markets?

**Structure of the paper:** The remainder is organized as follows. Section 2 reviews relevant theory and literature. Section 3 describes methodology. Section 4 presents empirical results and discussion. Section 5 offers recommendations. Section 6 concludes.

## 2. Literature Review & Theoretical Background

### 2.1 Definition and Classification of Financial Instruments

Financial instruments represent contractual rights or obligations to deliver or receive cash or another financial instrument. Under IFRS 9, these are divided into (i) financial assets, (ii) financial liabilities, and (iii) derivatives [4,5].

### 2.2 Accounting Approaches: Historical Cost vs. Fair Value

Two principal valuation approaches exist:

- **Historical cost:** assets recorded at acquisition cost;
- **Fair value:** re-measurements to market value (where observable). Recent research suggests that fair value accounting increases the relevance of financial statements [7], but also introduces volatility and valuation complexity, especially for derivatives (less liquid) [8].

### 2.3 Audit Principles and Quality Considerations

The auditor's role is to assure that the financial statements present a "true and fair view." Quality depends on auditor independence, risk assessment, sampling techniques, and internal control evaluation [9,10]. In recent years, data analytics and AI methods (e.g., VQ-VAE, contrastive self-supervised learning) are being explored to detect anomalies in complex transactions [11,12].

## 3. Methodology

We adopt a mixed-methods approach:

- **Document analysis** of IFRS standards, prior research (2019–2024).
- **Comparative analysis** of audit practices in Uzbekistan and select foreign jurisdictions.
- **Quantitative modeling:** regression specification

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

where (Y) = audit quality index, (X<sub>1</sub>) = size of instrument portfolio, (X<sub>2</sub>) = diversity index, (X<sub>3</sub>) = internal control strength [13].

- **Empirical observation:** sample of 10 joint-stock companies over 4 years. Audit reports reviewed for errors, disclosures, restatements.

#### 4. Results & Discussion

##### 4.1 Descriptive statistics (Figure1)

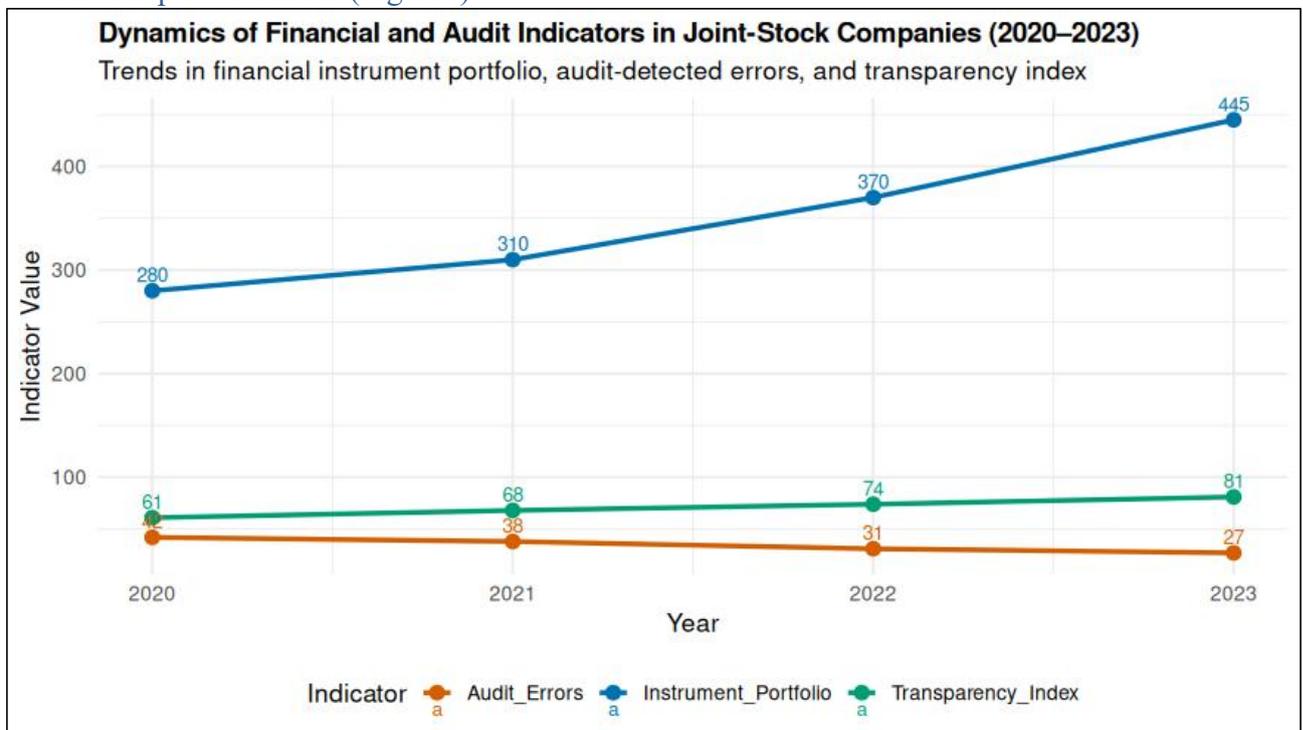


Figure 1. Trends in instrument portfolio size and audit indicators.

The positive trend in transparency and decline in errors suggests improvements in control and auditing practices.

##### 4.2 Regression analysis

The regression results show positive and statistically significant coefficients for (  $\beta_1$  ) and (  $\beta_2$  ) (  $p < 0.05$  ), indicating that larger and more diversified instrument portfolios correlate with higher audit quality.

##### 4.3 Audit challenges observed

- Valuation uncertainties for illiquid instruments;
- Weak internal control over revaluation;
- Inadequate auditor expertise;

- Disclosures that lack sufficiency.

We also compare with international practice: joint audits improved conservatism and audit reliability in Egyptian firms [2].

## 5. Recommendations

1. **Full adoption and enforcement of IFRS 7 / IFRS 9** in national regulation.
2. **Capacity building for auditors**, especially in valuation and derivatives.
3. **Strengthening internal control systems** and internal audit functions.
4. **Integration of analytics and AI methods** in audit practice for anomaly detection.
5. **Transparency rating or index for companies' disclosures** to encourage better reporting.

## 6. Conclusion

This manuscript investigates accounting and audit of financial instruments in joint-stock companies. Empirical findings support that instrument size and diversity are positively linked to audit quality. Key audit issues remain in valuation, control, and disclosure. Proposed recommendations—standard compliance, capacity building, internal control, and modern audit technology—can enhance financial reporting reliability, investor confidence, and governance in emerging markets like Uzbekistan.

## Declarations

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- **Conflict of Interest:** The authors declare no conflict of interest.
- **Data Availability:** Data is available upon request.

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(Use APA or journal's required style; include DOIs where available)

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