Ethiopian International Journal of Multidisciplinary Research

pISSN:2349-5707 Volume:13,Issue 3, March -2026 eISSN:2349-5715

SIGNIFICANT FINANCIAL REPORTS ISSUES BASED ON INTERNATIONAL STANDARDS

Xalilov Bahromjon Bahodirovich

Asia International University, Bukhara

Lecturer of department of Economics

Abstract: This article provides basic concepts about the compilation and presentation financial statements of companies, as well as information on how to conduct financial statements and its principles, and conclusions and proposals on this. In addition to this, significant financial reports issues based on international standarts

Key words: financial statement, IFRS, financial reporting, financial elements, financial ecosystem, financial markets

Accounting is the universal language of business. One noted economist and politician indicated that the single most important innovation shaping capital markets was the development of sound accounting principles. The essential characteristics of accounting are the identification, measurement, and communication of financial information about economic entities to interested parties. Financial accounting is the process that culminates in the preparation of financial reports on the enterprise for use by both internal and external parties. Users of these financial reports include investors, creditors, managers, unions, and government agencies. In contrast, managerial accounting is the process of identifying, measuring, analyzing, and communicating financial information needed by management to plan, control, and evaluate a company's operations. Financial statements are the principal means through which a company communicates its financial information to those outside the business. These statements provide a company's history quantified in money terms. The financial statements most frequently provided are the statement of financial position, the income statement (or statement of comprehensive income), the statement of cash flows, and the statement of changes in equity. Note disclosures are an integral part of each financial statement. Some financial information is better provided, or can be provided only, by means of financial reporting other than formal financial statements. Examples include the president's letter or supplementary schedules in the company annual report, prospectuses, reports filed with government agencies, news releases, management's forecasts, and social or environmental impact statements. Companies may need to provide such information because of authoritative pronouncements and regulatory rules, or custom. Or, they may supply it because management wishes to disclose it voluntarily.

The objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments, and providing or settling loans and other forms of credit.

General-purpose financial statements provide financial reporting information to a wide variety of users. For example, when Nestlé (CHE) issues its financial statements, these statements help shareholders, creditors, suppliers, employees, and regulators to better understand its financial position and related performance. Nestlé's users need this type of information to make effective decisions. To be cost-effective in providing this information, general-purpose financial statements are most appropriate. In other words, general-purpose financial statements provide, at the least cost, the most useful information possible.

While our reporting model has worked well in capturing and organizing financial information in a useful and reliable fashion, much still needs to be done. For example, if we move ahead to the year 2030 and look back at financial reporting today, we might read the following:

pISSN:2349-5707 Volume:13,Issue 3, March -2026 eISSN:2349-5715

• Non-financial measurements. Financial reports failed to provide some key performance measures widely used by management, such as customer satisfaction indexes, backlog information, and reject rates on goods purchased.

• Forward-looking information. Financial reports failed to provide forward-looking information needed by present and potential investors and creditors. One individual noted that financial statements in 2022 should have started with the phrase, "Once upon a time," to signify their use of historical cost and accumulation of past events.

• Soft assets. Financial reports focused on hard assets (inventory, plant assets) but failed to provide much information about a company's soft assets (intangibles). The most valuable assets are often intangible. Consider Sony's (JPN) expertise in electronics and Ikea's (NLD) brand image.

• Timeliness. Companies only prepared financial statements quarterly and provided audited financials annually. Little to no real-time financial statement information was available.

We believe each of these challenges must be met for the accounting profession to provide the type of information needed for an efficient capital allocation process. We are confident that changes will occur, based on these positive signs:

• Already, some companies voluntarily disclose information deemed relevant to investors. Often such information is non-financial. For example, banking companies now disclose data on loan growth, credit quality, operating efficiency, capital management, and management strategy.

• Initially, companies used the Internet to provide limited financial data. Now, most companies publish their annual reports in several formats on the Web. The most innovative companies offer sections of their annual reports in a format that the user can readily manipulate, such as in an electronic spreadsheet format. Companies also format their financial reports using eXtensible Business Reporting Language (XBRL), which permits quicker and lower-cost access to companies' financial information.

• More accounting standards now require the recording or disclosing of fair value information. For example, companies either record investments in shares and bonds, debt obligations, and derivatives at fair value, or companies show information related to fair values in the notes to the financial statements. Changes in these directions will enhance the relevance of financial reporting and provide useful information to financial statement readers

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