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# DETERMINATION OF PROFITABILITY OF AN ECONOMIC SUBJECT WITH THE HELP OF OPTIMIZATION OF FINANCIAL STATEMENTS ON THE BASIS OF INTERNATIONAL STANDARDS.

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## ANNOTATION

*This article discusses financial reporting standards, as well as current reporting forms. Reporting forms for total gross income, adapted to the specifics of the domestic economy, were also provided.*

**Key words**

*total gross income, profit, revaluation, financial asset, financial statements, unprofitability, profitability.*

## INTRODUCTION

In market conditions, profit is an important indicator that characterizes all aspects of an enterprise's activities. Profit covers all aspects of the enterprise, including the rational use of labor, material and financial resources.

Profit determines the feasibility of the enterprise's existence and its development. It is to make a profit that an enterprise uses all possible means, but first of all it must produce products and services that are in demand by consumers. Profit and profitability are criteria for assessing the performance of an enterprise.

To maintain the required level of profitability, the objective regularity of the normal functioning of an enterprise in a market economy. A systematic lack of profit and its unsatisfactory dynamics indicate the inefficiency and riskiness of the business - one of the main internal causes of bankruptcy. An objective systemic analysis of the formation, distribution and use of profit makes it possible to manage profit, which will identify reserves for its growth. Such an analysis is of interest to both internal and external entities, since profit growth determines the growth of the potential capabilities of the enterprise, increases the degree of its business activity,

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increases the income of founders and owners, and characterizes the financial condition of the enterprise.

To expand, as well as increase profits, investments and foreign investments are often attracted; in this case, it is necessary to emphasize the role of well-prepared financial reporting based on international standards.

The century in which we live is the century of information technology, mobility and speed. The market situation is changing by leaps and bounds. However, the main purpose of this report is to serve as a bridge between the investor and the business owner. International reporting standards make it possible to understand the potential of an organization without a single word.

Naturally, there are certain nuances of the transition to international standards, and one of them is that it is necessary to adapt the information. Here is an example: In foreign practice, the "Report on Gross Comprehensive Income" is used, which reflects the amount of profits, losses and changes in other comprehensive income for the reporting period. The preparation and presentation of the statement of comprehensive income is governed by IAS 1 Presentation of Financial Statements.

METHODOLOGY

The statement of comprehensive income consists of two sections, a statement of profit and loss and a statement of other comprehensive income, i.e. items that affect retained earnings, but are not reflected in the income statement, for example, declared dividends, changes in the revaluation reserve, etc. The first part provides the same information as Form № 2 “Report on financial results”, in domestic practice the second section of reporting is not used. Although practice shows that this report provides valuable information for founders and investors.

If we consider what is included in the “Profit and Loss” report, it is schematically presented in Figure No. 1. This reporting form contains information about profit or loss for all activities.

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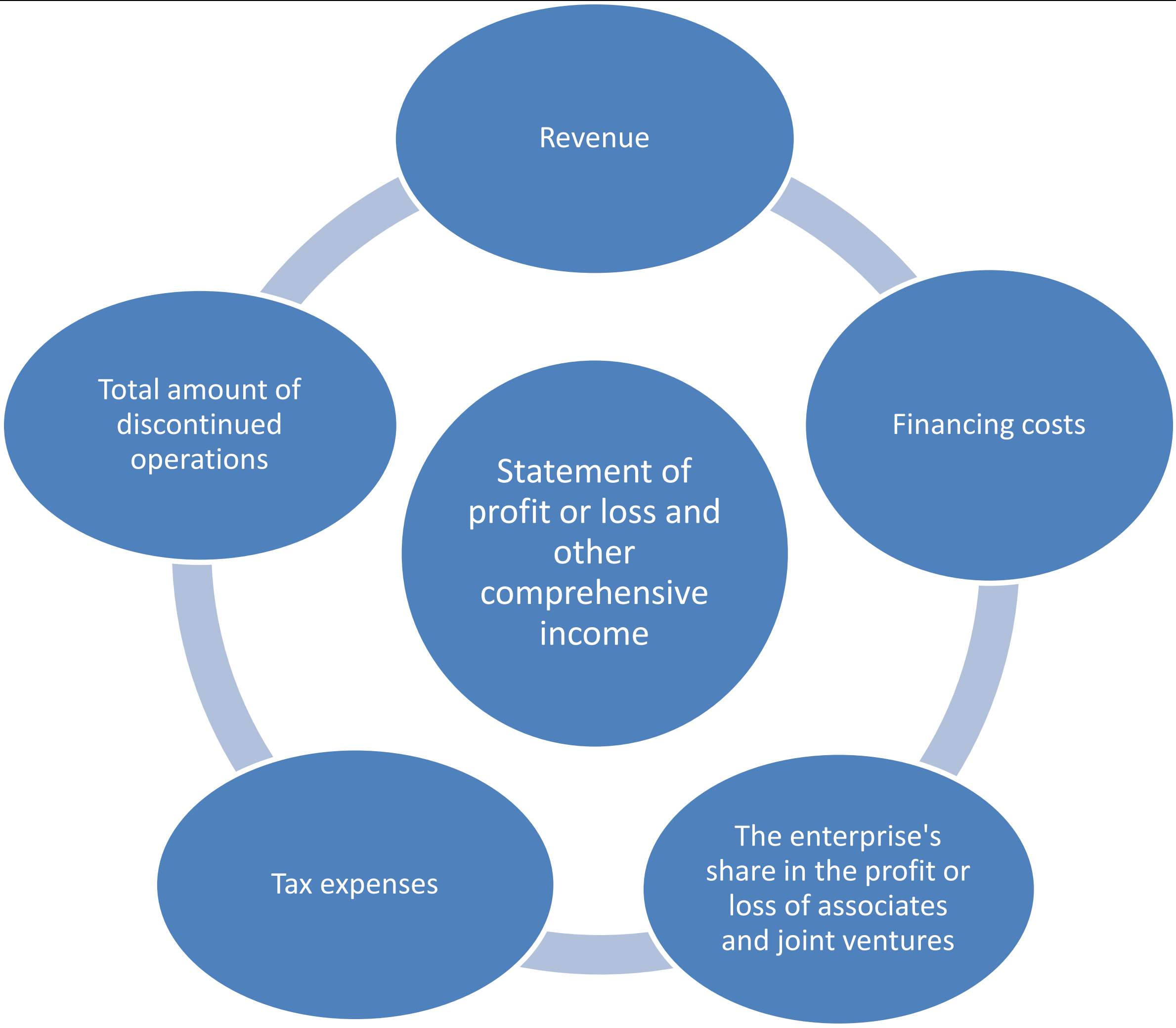


Picture №1. Composition of a profit or loss statement

The statement of comprehensive income includes:

- the result of the revaluation of the pension plan recognized in other comprehensive income;
- the result of the revaluation of the pension plan, recognized in other comprehensive income, before tax;
- deferred taxes relating to the result of the revaluation of the pension plan recognized in other comprehensive income;
- the result of the revaluation of the pension plan, recognized in other comprehensive income, net of tax;
-exchange differences from recalculation of operations in foreign currency;
- unrealized gains / losses from translation into another currency;

First of all, companies that prepare their financial statements in accordance with IFRS should be aware that there is currently no separate standard governing the accounting for other comprehensive income and its reflection in financial statements.

Specific requirements for accounting for and reporting elements of other comprehensive income are set out in separate standards.

In general, the IFRS rule-requirement mandatory for the company is as follows: some of the company's income and expenses cannot be taken into account as part of the organization's profit from current activities, but must form other comprehensive income [1].

Therefore, when reporting under IFRS, an economic entity should first of all understand which of its income and expenses are not subject to attribution to the financial result of the enterprise, but should be taken into account as part of other comprehensive income. Such income and expenses, in particular, the compilers of the standards include the following:

Income of the joint-stock company or its expenses received as a result of the revaluation of fixed assets. The procedure and regulations for such a revaluation, as well as the requirements for the amount of income that must be included in other comprehensive income, are contained in IFRS 16 [2].

Income or expenses of a joint-stock company, which it received as a result of the revaluation of intangible assets, (IFRS 38) [3].

Income and expenses of a joint-stock company received as a result of revaluation of financial assets (IFRS 39)[4].

The results of pension plans of a joint-stock company with defined benefits (IFRS 19)[5].

Exchange differences that are classified by a joint-stock company as translational (the regulation is defined in IFRS 21)[6].

Income and expenses of a joint-stock company that are associated with cash flow hedging.

The next point, which must necessarily be in the field of view of the accounting department of the company for the correct presentation of information on total income in the report, is related to aspects of the current accounting of the above elements of such income.

The first difficulty that organizations face in practice in this context is the lack of the necessary accounting accounts on which it is possible to carry out analytical accounting for each of the listed elements. After all, companies that apply international reporting standards should be guided by a special chart of accounts under IFRS.

At the same time, IFRS standards do not establish which additional accounts a firm needs to create for accounting purposes. Consequently, companies can independently organize the accounting of elements of total income in the accounts defined by internal accounting documents. In particular, an economic entity may

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provide for specific accounts for accounting for the components of total income that are reflected in the financial statements as the company's own capital, namely:

reserve for the revaluation of fixed assets and intangible assets before tax;

• income tax in respect of the reserve for the revaluation of fixed assets and intangible assets;

• revaluation reserve for financial assets (liability) before tax;

• income tax in respect of the revaluation reserve for financial assets (liability);

In addition, in some cases, in practice, companies in accounting provide for a separate block of accounts, where they take into account those elements of other comprehensive income that IFRS requires to be included in the value of the non-controlling interest, reflected in the corresponding line in the income statement (on financial result) .

In order to account for the elements of comprehensive income attributable to a non-controlling interest in a firm, it is appropriate for an entity to account for each of these elements separately.

After all, if the shareholder loses control over the corresponding share in the organization, IFRS 10 requires the holder to reclassify the existing asset and attribute it to profit or loss. And not only in relation to its share, but also in relation to the uncontrolled. Therefore, if there is only one account for non-controlling interest for all elements of comprehensive income, it will be much more difficult to allocate the amount to be charged to profit/loss.

So, if a company follows all the above rules for accounting for other comprehensive income to the proper extent, reporting it should not be a difficult task for it.

However, the accounting department preparing the statement of comprehensive income should keep a few things in mind.

As a general rule, other comprehensive income includes those income and expenses of the company that IFRS does not allow to be taken into account in the financial result from the main activity of the enterprise. However, these elements of other comprehensive income may also be of a different nature.

Under certain circumstances, they may be reclassified, i.e. may become attributable to the company's financial result (through profit or loss). This group includes translational exchange differences, revaluation results of financial assets that the firm holds for sale, and the company's income and expenses that are associated with cash flow hedging.

They cannot be reclassified and therefore cannot, under any circumstances, affect the amount of profit/loss recognized in the statement of comprehensive income. A striking example is financial assets that are measured at fair value

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through other comprehensive income in accordance with the requirements of IFRS 9.

RESULT

IFRS rules require that a company in the statement of comprehensive income not only correctly classify the income and expenses arising in the company into the specified groups, but also disclose information about the reclassifications of elements of other comprehensive income that have taken place[7].

It should be noted that this form does not fully comply with domestic requirements, in accordance with this, we have developed a more simplified form of this reporting. This will provide an opportunity to provide more open reporting for founders and shareholders.

Table № 1

**Internal report on total gross income, million soums**

| Indicators | Reporting year | Last year |
|---|---|---|
| Revenue | | |
| Cost price | | |
| Gross income | | |
| Sales expenses | | |
| Administrative expenses | | |
| Other operating expenses | | |
| Other operating income | | |
| Income from operating activities | | |
| Income from financial activities | | |
| Expense/income from foreign currency revaluation | | |
| Interest expense | | |
| Profit before tax | | |
| income tax | | |
| Net profit | | |
| Other gross income for the year | - | - |
| Including: | | |
| Income / expenses from the revaluation of fixed assets | | |
| Income/expenses from revaluation of intangible assets | | |
| Income/loss from investments in equity instruments | | |

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| | | |
|---|---|---|
| Dividend income | | |
| Gross income total (per year) | | |

In compiling this table, all factors related to the domestic economy were taken into account. And the composition of other gross income was disclosed taking into account the characteristics of our economy. In particular, cash flow hedges were not included in this table, as this is not practiced in the study, and the revaluation of the organization's defined benefit pension plans was not taken into account.

In conclusion, it is worth emphasizing that the application of international standards is not aimed at complicating and detailing the preparation of financial statements, but, on the contrary, at facilitating and simplifying them. The use of reporting and the form recommended by us makes it possible to provide information in a more simplified manner, since we have adapted this report to the specifics of the domestic economy.

## LIST OF USED LITERATURE:

1. Article by Marina Sivova “Rules for preparing a statement of comprehensive income under IFRS”
2. International Financial Reporting Standards 16 “Fixed Assets;
3. International Financial Reporting Standards 38 “Revenue”
4. International Financial Reporting Standards 39 "Financial Instruments"
5. International Financial Reporting Standards 19 Employee Benefits
6. International Financial Reporting Standards 21 “The Effects of Changes in Foreign Exchange Rates”
7. International Financial Reporting Standards 1 “Presentation of Financial Statements”