

# The Possibilities Of Applying Ifrs And Us Gaap Standards In Accounting For Financial Assets: On The Example Of Uzbekistan

Kenjebayeva Gulfuza Raxmatillayevna

Fergana State Technical University, Senior Lecturer of the Department of "Finance and Accounting", Uzbekistan

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**Abstract:** In this article, we will look at how International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles of the United States (US GAAP) affect the accounting of financial assets in Uzbekistan. We will discuss how to make financial reporting more understandable, consistent and accurate in the context of globalization. We will also consider the need to reform Uzbekistan's economy and improve its financial sector. The article will analyze the differences between IFRS and US GAAP in the classification, measurement and recognition of income and expenses related to financial assets. In addition, we will look at the problems that Uzbekistan may face during the transition to IFRS. Among them: the shortage of specialists, the cost of modernizing accounting systems, the need to adapt standards to the country's legislation and the complexity of their application in small and medium-sized businesses. In order to bring Uzbekistan's financial statements in line with international standards (IFRS), it is proposed to implement them gradually. It is also necessary to adapt the accounting and reporting system to the requirements of US GAAP, paying special attention to internal control and audit.

**Keywords:** International financial reporting standards, financial assets, financial accounting, economy of Uzbekistan, application of standards, economic integration, financial reporting, investments.

**Introduction:** In the context of globalization and the interconnectedness of national economies with international financial markets and investment flows, the importance of ensuring transparency, consistency, and accuracy in financial reporting has become increasingly crucial. In this regard, the International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles of the United States (US GAAP) have emerged as widely recognized frameworks for financial reporting.

In recent years, Uzbekistan has undergone significant changes in its economic landscape, including the liberalization of the economy, the reform of state-owned enterprises, and the active development of the private sector. These transformations necessitated the modernization of the financial sector, the development of the capital market, and the attraction of foreign investment.

Financial assets, such as bank deposits, securities,

accounts payable and receivable, derivative financial instruments, and more, are fundamental components of any economy. The accurate, timely, and standardized accounting of these assets serves as the foundation for decision-making by company managers, investors, creditors, and other stakeholders.

The International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles of the United States (US GAAP) employ distinct approaches to categorizing, valuing, and calculating income and expenses associated with financial assets. This can make it challenging to compare financial statements across companies operating under different standards.

Uzbekistan's financial reporting system has historically relied on accounting policies and national standards, which are largely inspired by the European model. However, as the country seeks to integrate into the global community, particularly in the context of

preparing for membership in the World Trade Organization (WTO), it becomes imperative to adopt advanced international standards.

Uzbekistan is also committed to addressing a range of priorities, including enhancing corporate governance, combating corruption, and fostering the development of the financial market. In this context, ensuring the conformity of financial statements with international standards is of paramount importance.

The significance of this research is underscored by the following considerations:

In the course of Uzbekistan's economic liberalization and the pursuit of foreign investment, it is crucial to align national financial reporting practices with the standards set by International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles of the United States (US GAAP).

IFRS is a globally recognized financial reporting framework that is implemented in over 140 countries worldwide. On the other hand, US GAAP is a system of accounting standards that is widely used in the US market and by companies operating in its influence.

For businesses in Uzbekistan, particularly those that collaborate with multinational corporations or operate in the international market, the study and partial or full implementation of these standards is becoming increasingly significant.

Furthermore, the contrasts between the International Financial Reporting Standards (IFRS) and the standards of the United States Generally Accepted Accounting Principles (US GAAP) in the realm of accounting for financial assets have not been thoroughly explored. Consequently, it is imperative to develop a suitable approach in the context of Uzbekistan.

For instance, the standards IFRS 9 "Financial Instruments" and US GAAP ASC 320 "Investment Securities" and ASC 815 "Derivatives and Risk Management" exhibit substantial variations in the categorization and assessment of financial assets.

The examination of these disparities and the investigation of the potential for their implementation in the Uzbek context are of practical significance for enhancing the accounting framework.

The third pressing issue in our nation is the shortage of skilled professionals in the realm of financial accounting and auditing. Furthermore, there is a scarcity of educational materials and teaching aids that focus on International Financial Reporting Standards (IFRS) and American Generally Accepted Accounting Principles (US GAAP).

One potential solution to this problem could be to enhance the educational resources, revise the

curriculum, and create practical guides in this area, drawing upon the findings of academic research.

Finally, the government of Uzbekistan is actively engaged in reforming the financial accounting system. In 2020, a new resolution was passed, titled "On additional measures for the transition to International Financial Reporting Standards," which made the use of IFRS mandatory for certain types of companies. Nevertheless, the exploration of US GAAP and the potential for incorporating its elements in different economic sectors remains underexplored. This research aims to address this gap.

Furthermore, in the current global financial landscape, particularly in the context of the pandemic and geopolitical shifts, financial risk management and precise evaluation of financial assets have become increasingly crucial. Uzbekistan's ability to adapt to the latest approaches outlined in the International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles of the United States (GAAP), which incorporate financial risks, is a pivotal factor in maintaining economic stability.

To sum up, this research not only elucidates the theoretical distinctions between the IFRS and GAAP frameworks, but also provides practical solutions for their implementation in the economic environment of Uzbekistan. The findings of this study may be beneficial for governmental entities engaged in reforming the financial accounting system, accounting and auditing professionals, educational institutions, and business leaders. The significance of this subject is rooted in the economic development strategy of Uzbekistan and the imperative to adhere to global financial standards.

## **LITERATURE ANALYSIS**

During the study of the works of domestic and foreign economists on the topic "The possibilities of applying IFRS and US GAAP standards in accounting for financial assets: using the example of Uzbekistan", the main aspects underlying this issue were identified.

### **1. Literature on the development and interaction of international and national accounting standards.**

The formation and global dissemination of international financial reporting Standards (IFRS) are widely reflected in the works of many researchers. Notable among them are the works of C. Nobes [1], K. Camfferman and S. A. Zeff [2]. These authors analyzed in detail the process of convergence of IFRS, which resulted from demand in global capital markets, the activities of multinational corporations and the policies of regulatory authorities, in particular, the European Union.

In his research, R. Ball [3] discussed the quality of IFRS

and their impact on economic decision-making. Soderstrom, N. S., and Sun, K. J. [4] studied how the implementation of IFRS affects the quality of reporting and the cost of capital in different countries. These works help to better understand the essence of global standards and justify their necessity.

The development of US GAAP and its significance in the American market were investigated in the works of Storey, R. K., & Storey, S. [5] and FASB [6]. In their work, Epstein, B. J., & Jermakowicz, E. K. [7] conducted an in-depth analysis of the main differences between US GAAP and IFRS, and also considered the prospects for their possible convergence.

The PWC [8] Guidance "IFRS and US GAAP: Differences" is a systematic presentation of the similarities and differences between the two standard systems from a practical point of view. This guide served as an important source for the formation of the theoretical basis of this study.

Analytical reports and reports from major audit firms such as Ernst & Young LLP. [9] and Shamrock, S. E. [10] reveal the latest developments and complex issues that arise in the practical application of IFRS 9 "Financial Instruments" and US GAAP standards.

## **2. Theoretical and practical aspects of accounting for financial assets**

In the works of such prominent economists as John R. Hicks [11], Harry Markowitz [12], and W. F. Sharp [13], the theory of financial assets, their classification, and valuation principles were thoroughly studied.

In the context of modern financial accounting, the accounting of financial instruments has received in-depth coverage in the work of S. G. Ryan "Accounting for financial Instruments" [14]. This paper examines various approaches to asset accounting, including fair value and historical cost, as well as methods for assessing risks and recognizing income.

International Financial Reporting Standards (IFRS) include several standards governing the accounting of financial assets. These include IAS 32, IAS 39 and the new IFRS 9 standard, which replaced the previous ones.

M. E. Barth and W. R. Landsman [15] reviewed key changes made to IFRS 9, such as the new classification of financial assets, the introduction of the Expected Credit Loss (ECL) model and its impact on financial stability.

The study by C. Laux and C. Leuz [16] analyzed both the positive and negative aspects of applying fair value assessment in the context of the economic crisis.

In accordance with US GAAP, financial assets are accounted for primarily in accordance with ASC 320, ASC 321, ASC 326 and ASC 815. In his research, Buesa,

A., Población, J., & Tarancón, J. [17] studied in detail the process of accounting for credit losses in American banks using the CECL model, and identified its similarities and differences with the ECL model used in International Financial Reporting Standards (IFRS).

Guillaume, D. P. D. O., & Pierre, D. [18] compared the approaches of US GAAP and IFRS to accounting for accounts receivable and borrowed funds (loans and receivers).

## **3. Application of international standards in emerging market economies**

In the works of scientists such as Zeghal, D., & Mhedhbi, K. [19], Mihaela Ionascu et al. [20] and others investigated the problems and prospects of implementing International Financial Reporting Standards (IFRS) in developing countries. As a result, it was found that difficulties arise due to differences in legislation, cultural characteristics and the institutional environment, which makes it difficult to effectively apply IFRS.

In the work of Judge, W., Li, S., & Pinsker, R. [21], it is noted that political and economic factors play a key role in deciding on the implementation of IFRS, especially in countries that were previously part of the socialist bloc.

The works of V.G. Hetman [22], M.A. Vakhrushina, V.P. Suits [23], Duisebek, A. [24], Abdullah, A., Khadaroo, I., & Zhameshev, N. [25], Alexander, D., & Alon, A. [26] consider the experience of implementing IFRS in the CIS countries, including Russia, Kazakhstan and Belarus. These studies analyze the problems faced by countries in the process of implementing IFRS, such as the harmonization of legislation, training and changing information systems.

McGee, Robert & Preobragenskaya, Galina. [27] summarize the experience of Central and Eastern European countries that are in the process of transition to IFRS. The authors emphasize that successful convergence requires institutional transformation.

## **4. Literature on the financial accounting system in Uzbekistan and its reform**

In the works of R.O. Xolbekov [28], Abduvaxidov F.T., Qo'ziyev I.N., Dadabayev Sh.X., [29] the historical stages of the formation of the financial accounting system in Uzbekistan and its features are considered in detail. The authors note that the national accounting system originates in the traditions of Soviet accounting and needs to be modernized.

The study is based on the following regulatory documents: the Law "On Accounting" and related legislative acts, as well as the collection of National Accounting Standards (NSAs), developed by the

Ministry of Finance of the Republic of Uzbekistan in 2016 and 2020.

The works of Uzbek researchers such as Ergasheva Sh.T., Ibragimov A.K., Rizayev N.K., Ibragimova I.R. [30], A.A. Karimov, A.K. Ibragimov, N.M. Imamova [31], D.E. Norbekov, A.N. To'rayev, Sh.Sh. Rahmonov [32] address issues related to the implementation of international financial reporting Standards (IFRS) in Uzbekistan. These works are mainly devoted to practical aspects, such as the analysis of legislation, the mandatory procedure for the application of standards and changes in auditing activities.

The scientific literature and publications consider the differences between International Financial Reporting Standards (IFRS) and US accounting principles (US GAAP). However, there is a lack of research on the impact of these differences on the transitional economy of Uzbekistan and their practical application.

There are many studies related to the implementation of IFRS in developing countries, but they tend to focus on legislation and institutional aspects. At the same time, there is a lack of knowledge in Uzbekistan on how to properly account for financial assets, determine their value and calculate expected losses.

In the Uzbek scientific literature, the transition to international financial reporting standards is considered primarily from the point of view of legislation and regulations. However, there are no studies that would show the impact of this transition on economics and governance.

Currently, there is a lack of information about how companies in Uzbekistan apply American GAAP standards, especially those seeking to enter the American market or work with American investors.

This research is a valuable contribution to the development of science. The study provides a comparative analysis of International Financial Reporting Standards (IFRS) and American Accounting Standards (US GAAP). The results of the study are important for the development of the financial asset accounting system in Uzbekistan.

## **METHODOLOGY**

Various scientific methods have been applied in the preparation of this article. In particular, a comparison was made between the IFRS and US GAAP standards in the field of accounting for financial assets. The principles of classification, assessment and recognition of income and expenses were studied. The financial asset accounting system was reviewed in a comprehensive manner, taking into account patterns, economic structure, organizational factors and international requirements. The works of international

and domestic economists, scientific publications and reports of audit companies were used as a theoretical basis.

## **RESULTS**

At a time when the economic system is undergoing changes, and social and market relations are becoming increasingly important, the process of formation and development of the accounting system for financial assets is becoming particularly relevant.

In this regard, there is an increasing need for highly qualified specialists who are able to effectively organize and keep records of financial assets.

When considering the possibility of using International Financial Reporting Standards (IFRS) and generally accepted accounting principles in the United States (US GAAP) to account for financial assets in Uzbekistan, the following key issues are discussed:

1. How the accounting system in Uzbekistan has developed and how it integrates into the international system.

In the context of the integration of Uzbek companies into international financial markets, it is important to understand the key differences between IFRS and US GAAP. These differences relate to the classification, valuation, and recognition criteria of financial assets.

The study revealed that differences in accounting methods for financial assets, which are provided for by international financial reporting standards (IFRS) and generally accepted accounting principles of the United States (US GAAP), have a significant impact on the financial statements of enterprises in Uzbekistan.

In particular, IFRS uses a different classification system for financial assets compared to US GAAP. In IFRS, assets are classified based on the contractor's business model and asset characteristics, whereas in US GAAP, classification is based on asset characteristics.

In addition, the "expected losses" model is used in IFRS, while the "lost loans" model is used in US GAAP. This may lead to differences in the valuation of reserves in case of losses.

Also, in US GAAP, there are restrictions on the transfer of securities by their value, while in IFRS such an opportunity is provided.

For companies in Uzbekistan, this means the need to adapt to new accounting requirements for financial assets and review existing approaches to their classification and valuation.

Companies face a number of challenges in the process of implementing International Financial Reporting Standards (IFRS) or generally accepted accounting Principles (US GAAP):

1. Lack of qualified specialists.
2. High costs of updating accounting systems.
3. The need to align with the requirements of national legislation.
4. Difficulties in applying standards for small and medium-sized companies.

In addition, there are regional and network features that may also create difficulties in the implementation of IFRS or US GAAP.

The structure of Uzbekistan's economy, which includes industries such as agriculture, mining, and banking, places special requirements on accounting for financial assets.

In particular, when using international financial reporting Standards (IFRS), special attention should be paid to the development of the banking system and the relatively young securities market.

If we trace the history of the development of financial asset categories in the context of IFRS, we can see that before the introduction of the standard, which defines the principles of their recognition, valuation and disclosure, there was a broader category — investments.

Investments were assets that a company, including financial institutions, held for the purpose of generating income in the form of interest, dividends, or rent, as well as to increase the cost of capital or achieve other benefits such as long-term cooperation.

The investments included various types of investments: loans, shares, investments in land and buildings, as well as tangible and intangible assets. However, after the introduction of standards governing financial assets, the term "investment" became primarily used to refer to investments in land and buildings.

Investments have become part of financial assets, which are a category of held-to-maturity investments. They have become a kind of vector that determines the object of investment and the direction of movement of funds from the lender (investor) to the borrower (debtor).

## DISCUSSION

The concept of financial assets must be understood within the broader framework of finance, which can be delineated from other banking domains that have yet to be fully explored. Financial assets are intricately linked to the allocation and distribution of financial resources, which in turn influences their cost.

Within this context, a financial asset refers to resources managed and owned by a financial institution that should be both profitable and contribute to capital growth. Resources are understood as economic

instruments or entitlements to assets, embedded in a system of economic relations between participants, expressed through prices that reflect their comparative value relative to other financial instruments. The term "resource" in the definition of financial assets highlights their objective attributes that contribute to their worth for the financial institution.

Resources represent the assets of an entity, which can be considered as financial assets insofar as their availability impacts the financial standing of the entity. Depending on their perceptibility by the senses, resources may be categorized into three types: tangible, intangible, and financial.

Tangible assets comprise physical objects that are visible and tangible, such as property, materials, and inventory. Intangible assets, on the other hand, are the outcomes of intellectual endeavors, encompassing trademarks, brand identity elements, and software programs. Financial assets, meanwhile, are highly liquid resources, including cash, securities, and receivables.

These definitions lack a uniform interpretation in legal frameworks, and the inventory of financial assets continues to expand as financial interactions become increasingly intricate and novel instruments and products emerge.

International Financial Reporting Standards (IFRS) are the preferred choice for companies in Uzbekistan that operate in Europe, the Commonwealth of Independent States (CIS), and other international markets. IFRS 9 provides a cutting-edge approach to managing financial assets, making it an ideal choice for businesses seeking to stay competitive in today's global economy.

In contrast, US Generally Accepted Accounting Principles (US GAAP) are primarily suited for companies operating in the United States capital markets or subsidiaries of multinational corporations. The study findings suggest several potential integration paths for Uzbekistan, including:

- Full adoption of IFRS by major corporations and banks by 2025;
- Parallel use of IFRS alongside national standards for state-owned enterprises;
- Simplified version of IFRS for small and medium-sized businesses.

A strategy aligned with Uzbekistan's long-term development goals would be the most appropriate course of action for the country.

## CONCLUSION

In light of Uzbekistan's strategic approach to economic development and the plans for the evolution of financial markets, it is prudent to consider a phased

transition to IFRS. This process can be facilitated by integrating certain elements of US Generally Accepted Accounting Principles (US GAAP), such as internal controls and audit regulations.

Practical recommendations:

- Developing a comprehensive roadmap to align domestic accounting standards with IFRS;
- Launching training programs for accounting professionals and auditors;
- Expanding initiatives aimed at encouraging government entities to adopt IFRS;
- Promoting the adoption of information technology solutions for managing financial assets.

To conclude, it is recommended to prioritize IFRS as the fundamental framework for harmonizing Uzbekistan's financial reporting with international standards. Nonetheless, there is scope to explore specific aspects of US GAAP and tailor them to the local context. Implementing international accounting practices for financial assets would enhance the competitiveness of Uzbek enterprises and attract foreign investments.

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