

ECONOMIC ESSENCE AND SIGNIFICANCE OF FINANCIAL STATEMENT

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Abstract

This article sets out the essence of the financial statement. The article also discloses the importance of the information contained in the financial statements for making reasonable decisions by external users.

Keywords: financial statements, external user statement, statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flowsment.

INTRODUCTION

The modern state of economic development imposes new requirements on the importance and necessity of information resources in the form of a system of economic indicators of joint-stock companies. Interrelated information on the dynamics of processes is used for the effective management of socio-economic systems. This information is required to be reliable and provide the necessary information for the management process. Accounting and statistical statements, data on operational activities and other undocumented information play an important role in providing information for the management process of economic entities. Financial and statistical statements are used for effective operational and strategic management. They are an important component of providing management processes with general information. The information system includes indicators of the financial and economic activities of an economic entity.

The statement of business entities is an important element of accounting, the final procedure of the entire accounting process, and consists of summarizing accounting data on the property and financial condition and financial results of business entities, compiled in established forms for a certain period, usually the statement period.

Financial statement is a set of interrelated accounting indicators reflecting aspects of the economic activity of a business entity for a month, quarter,

year. The information reflected in the financial statement system is used by external users to assess the activities of the business entity. Based on the data of the financial statement, economic analysis is carried out and management functions - planning, forecasting, monitoring - are performed.

When forming financial statements, data is collected, systematized, summarized, and the most important and reliable information is selected to describe various aspects of the activity.

Financial statement indicators are grouped according to various criteria that facilitate their understanding, analysis, and use in the management process. That is, financial statement is a set of information about the activities of an enterprise for a certain period, grouped in a certain order. The structure of financial statement usually includes a set of tables of various levels of generalization, compiled on the basis of accounting data.

Financial statement is a unified system of information about the property and financial condition of an economic entity, its results. It is compiled on the basis of accounting data in accordance with certain rules and in a prescribed form, and serves as the main source of information for assessing the activities and financial condition. Based on the indicators of financial statements, an accurate assessment of the state of property, balance and liquidity of the enterprise as a whole, capital sources is carried out, financial stability, solvency and profitability, as well as development trends are determined.

LITERATURE REVIEW

The essence of the financial statement is explained in detail in normative legal documents and economists.

According to IAS 1 “General purpose financial statements are those intended to serve users who are not in a position to require financial statements tailored to their particular information needs” [1].

A group of scientists said that “financial statement quality refers to the quality of the information contained in financial statements, including note disclosures. High-quality statement, which provides relevant and decision-useful information, objectively represents the economic reality of a company’s activities during its statement period. Investors and stakeholders benefit from high-quality financial statement statement by having greater

confidence, improving liquidity, reducing capital costs, and building fair market prices” [2].

U. Singh conducted research on financial statements and concluded that “the accounting process involves recording, classifying, and summarizing various business transactions. Financial statements are the result of this process, which provide various information related to profitability and financial position” [3].

R. Bhuvaneswari and S. Lakshmi emphasize, “financial statement is an official document on the financial activities of an enterprise or organization, which must be prepared based on the concepts and principles of accounting” [4].

According to other scientists “there is limited evidence on the quality of financial statement statement from an audit point ofview, with the main focus on the combination of financial statement fraud and audit reports tomeasure the quality of financial statements” [5].

Another group of economists concluded that “in the context of globalization, financial statement data and other information, information about the financial position, financial indicators, and cash flows of entities, will be very useful for users of information to make economic decisions” [6].

According to the results of the study, the following definition was formed: financial statement is a set of systematized and generalized information about the financial position, financial results and cash flows of an economic entity at a given date, which is necessary for internal and external users to make rational economic decisions.

The purpose of financial statement is to provide all interested users of this information with information in the necessary form, which will help solve a number of complex and important tasks of effective management of an economic entity.

The user of financial statement is any legal entity or individual interested in information about an economic entity. The range of users of financial statement information is very wide and there are varying degrees of requirements for this information. Some are interested in the return on capital invested in this entity, others are interested in information on taxes, and still others are interested in the completeness and timeliness of payment for labor expended, etc.

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External users are users of information located outside the enterprise. External users interested in financial statement are interested in the following (Figure 1).

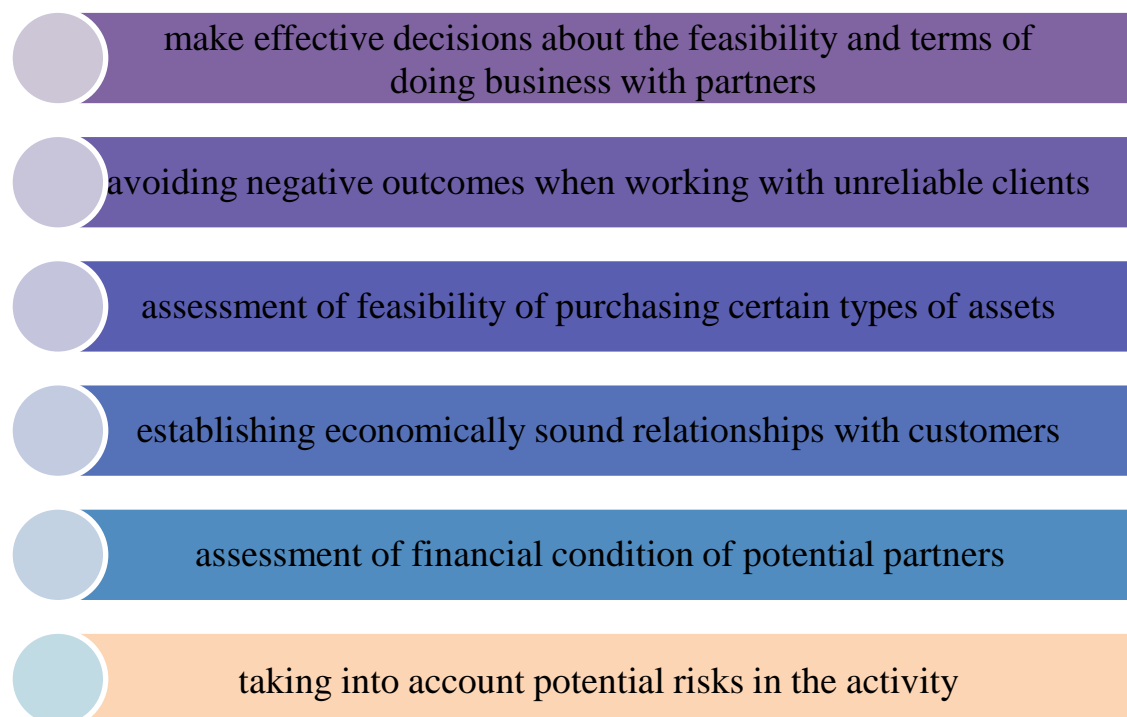


Figure 1. Scope of interest of external users interested in financial statement¹

Owners should assess the current and projected financial and economic condition of the enterprise and the effectiveness of its development strategy from the point of view of income from invested capital and financial stability.

Investors and creditors see the purpose of financial analysis in assessing liquidity, solvency and the formation of cash flows.

State bodies evaluate financial statement for the timely and correct calculation and payment of taxes, fees, payments, etc. to the state budget.

Tax authorities are interested in the correct formation of the tax base based on financial statement data. The tax service checks compliance with tax legislation and the correctness of tax benefits, assesses the tax potential of the enterprise. Based on this data, forecasts of state fiscal policy are formed.

¹ Made by author.



This, in turn, affects the development of state social programs.

Partners (suppliers, buyers, etc.) evaluate the solvency and stability of the economic entity. Financial market participants collect, analyze and evaluate information about their customers in terms of creditworthiness, liquidity and investment attractiveness.

In addition to official financial statements, these users can access other public information documents. For example, information about property, the amount and stability of cash flows (according to the bank's current accounts), types of economic operations, the composition of the securities portfolio. Also, for example, the following information is of interest to banks: about the size and stability of cash flow; on the types of economic operations; on the composition of the securities portfolio, etc.

CONCLUSION

1. Accounting information is summarized in the form of financial statements. In our country, there are strict requirements for the preparation of financial statements, and their timely preparation and proper submission are among the main tasks of accounting service employees.
2. The financial statement is an open document prepared in a unified manner and intended for internal and external users. The use of financial statement information is of particular importance for stakeholders in making important economic decisions.
3. It is considered appropriate to use international standards of financial statement and auditing in joint-stock companies to increase the efficiency of their activities and ensure the reliability of the information provided by them to external users. International standards of financial statement and audit serve to form information that is understandable and clear for external users.

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