ISSN: 2181-4341, IMPACT FACTOR (RESEARCH BIB) – 9.145, SJIF – 5,431

Samarkand Institute of Economics and Service

Assistant Teacher: **Urozova Nigora Toshmurodovna**

Mohiraziyadullayeva045@gmail.com

Tel: +998976152196,

Banking and Finance Facultety, Finance,

Student: **Qayumov Yodgorbek**

Banking and Finance Facultety, Finance,

Student: **Abduraxmonov Hasan**

INTERPRETING INTERNATIONAL FINANCIAL REPORTS (IFRS-BASED)

Annotation: This article explores the interpretation of financial statements prepared in accordance with International Financial Reporting Standards (IFRS), emphasizing their role in enhancing transparency, comparability, and reliability in global financial reporting. The study analyzes the structure and key components of IFRS-based reports, including the statement of financial position, statement of profit or loss, cash flow statement, and statement of changes in equity. Particular attention is given to the analytical techniques used to interpret financial data, assess company performance, and support decision-making processes for investors, creditors, and other stakeholders. The paper also highlights the challenges associated with IFRS implementation and interpretation, especially in emerging economies, and proposes approaches to improve financial literacy and analytical accuracy in this field.

Keywords: IFRS, financial reporting, financial statement analysis, international standards, transparency, comparability, financial performance, cash flow, accounting, global economy

Introduction

In the context of increasing globalization and the integration of financial markets, the need for a unified system of financial reporting has become more critical than ever. International Financial Reporting Standards (IFRS) have emerged as a globally recognized framework that ensures consistency, transparency, and comparability in financial statements across different countries and industries. As businesses expand beyond national borders and attract international investors, the ability to interpret IFRS-based financial reports has become an essential skill for economists, financial analysts, accountants, and decision-makers.

The interpretation of financial statements prepared under IFRS is not merely a technical exercise but a comprehensive analytical process that involves understanding the economic substance of transactions, evaluating financial performance, and assessing the financial position of an entity. IFRS emphasizes principles-based reporting, which requires professional judgment and a deeper understanding of accounting concepts compared to rule-based systems. This makes the interpretation process more complex but also more informative and relevant.

Moreover, IFRS-based financial reports provide a wide range of information that supports strategic decision-making. Investors rely on these reports to evaluate profitability and risk, creditors assess the entity's solvency and liquidity, while managers use them to improve operational efficiency and long-term planning. Therefore, the ability to accurately analyze and interpret such reports plays a vital role in ensuring sound financial management and sustainable economic growth.

This article aims to examine the key aspects of interpreting IFRS-based financial statements, identify common challenges in their analysis, and highlight the importance of developing strong analytical skills in the field of international financial reporting.

Main body. The interpretation of financial statements prepared under International Financial Reporting Standards (IFRS) requires a systematic and analytical approach that combines theoretical knowledge with practical evaluation skills. IFRS is based on principles rather than strict rules, which allows flexibility but also demands professional judgment in both preparation and interpretation of financial data. Therefore, understanding the conceptual framework of IFRS is the first step toward accurate analysis of financial reports.

One of the primary components of IFRS-based financial reporting is the Statement of Financial Position (Balance Sheet). This statement provides information about an entity's assets, liabilities, and equity at a specific point in time. Under IFRS, assets are often measured using fair value, which reflects current market conditions rather than historical cost. This approach improves the relevance of financial information but may introduce volatility. When interpreting the balance sheet, analysts focus on liquidity, solvency, and capital structure. For example, a higher proportion of current assets relative to current liabilities indicates strong short-term liquidity, while a high level of debt may signal financial risk[1].

Another essential component is the Statement of Profit or Loss and Other Comprehensive Income. This report presents the financial performance of an entity over a specific period. IFRS requires clear classification of revenues and expenses, allowing users to distinguish between operating and non-operating activities. The interpretation process involves evaluating key indicators such as gross profit, operating profit, and net profit. Analysts also examine trends over time to assess the sustainability of earnings. A consistent increase in operating income suggests efficient core business operations, whereas irregular fluctuations may indicate instability or external influences[2].

The Statement of Cash Flows is particularly important for assessing an entity's liquidity and financial flexibility. IFRS divides cash flows into three categories: operating, investing, and financing activities. Unlike profit-based measures, cash flow analysis provides a more realistic picture of an entity's ability to generate cash and meet its obligations. For instance, a company may report high profits but still face liquidity issues if its cash inflows are insufficient. Therefore, positive and stable cash flows from operating activities are considered a strong indicator of financial health [3].

In addition, the Statement of Changes in Equity explains movements in shareholders' equity over a reporting period. This includes retained earnings, dividends, and other comprehensive income. Interpreting this statement helps stakeholders understand how profits are utilized and how the company finances its growth. A consistent increase in retained earnings may reflect a company's strategy to reinvest profits, while frequent dividend payments may indicate a focus on shareholder returns.

A crucial aspect of IFRS interpretation is the use of financial ratios and analytical tools. Ratios such as liquidity ratios (current ratio, quick ratio), profitability ratios (return on assets, return on equity), and leverage ratios (debt-to-equity ratio) are widely used to evaluate performance. These indicators allow for comparison across periods and between companies operating in different jurisdictions. However, analysts must consider the context, including industry standards and economic conditions, to avoid misleading conclusions.

Despite its advantages, the interpretation of IFRS-based financial statements presents several challenges. One major issue is the reliance on professional judgment, which may lead to differences in reporting practices among companies. For example, the estimation of fair value or impairment losses can vary significantly depending on management assumptions [4]. Additionally, the complexity of IFRS standards may create difficulties for users who lack sufficient expertise in accounting and finance.

Furthermore, the adoption of IFRS in emerging economies often faces obstacles such as limited professional training, lack of regulatory support, and differences in economic environments. These factors can affect the quality and reliability of financial reporting, making interpretation more challenging. To address these issues, continuous education, improved regulatory frameworks, and the development of analytical skills are essential.

In conclusion, the interpretation of IFRS-based financial statements is a multidimensional process that requires a deep understanding of accounting principles, analytical techniques, and economic context. By effectively analyzing financial reports, stakeholders can make informed decisions, reduce risks, and enhance overall financial performance in a globalized economy.

References

1. International Accounting Standards Board (IASB). Conceptual Framework for Financial Reporting.
2. Kieso, D.E., Weygandt, J.J., Warfield, T.D. Intermediate Accounting.
3. Brigham, E.F., Ehrhardt, M.C. Financial Management: Theory & Practice.
4. Mirza, A.A. Interpretation and Application of IFRS Standards.
5. file:///C:/Users/UseR/Downloads/Telegram%20Desktop/2024-6-4%20(3).pdf
6. https://inscience.uz/index.php/foreign-linguistics