

Revenue According to IFRS in Banking System

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Abstract

The article describes the role of the National Standards of Accounting of the Republic of Uzbekistan and International Standards of Accounting, we will reveal the definitions of revenue, the revenue recognition steps, its shortcomings, its requirements and its problems.

Keywords: revenue, profit, revenue, contingent asset and contingent liability, identification, buyer, investor, bank.

Introduction. We know that the Decision of the President of the Republic of Uzbekistan "On additional measures for the transition to international standards of financial reporting" was published in the official press in February 2020.

According to it, from January 1, 2021, joint-stock companies, commercial banks, insurance organizations and legal entities included in the category of large taxpayers will organize accounting based on International Financial Reporting Standards (IFRS), and from the end of 2021, prepares the financial report on the basis of IFRS.¹

Commercial banks play a huge role in the functioning of the credit system. They accumulate the bulk of credit resources, provide clients with a full range of financial services, including issuing loans, accepting deposits, settlements, purchasing, selling and storing securities, foreign currency, and so on. The essence of a commercial bank is manifested in its functions, the implementation of which has a huge impact on the country's economy. The leading role of banks in the development of the economy of Uzbekistan is undeniable. By lending to various areas of activity, banks contribute to the radical transformation of the republic's infrastructure, the development of small and medium-sized businesses, as well as the employment of the population. Nine banks of Uzbekistan were included in the annual rating of the 200 largest banks in the CIS, the rating agency RIA Rating said in a statement. The rating is based on data from open sources - public financial statements of banks. Of the 1,100 banks in the CIS countries, the top 200 included banks from 10 countries: Azerbaijan, Armenia, Belarus, Georgia (withdrew from the CIS in 2019), Kazakhstan, Moldova, Russia, Turkmenistan, Uzbekistan and Ukraine. The main goal of a commercial bank is to obtain maximum profit while ensuring sustainable long-term operation and a strong position in the market. The amount of profit or loss received by the bank concentratedly reflects the results of all its active and passive operations. Therefore, the study of profit, its components and factors influencing its dynamics occupies one of the central places in the analysis of the activities of a commercial bank. The amount of profit depends mainly on the amount of income received and the amount of expenses incurred. The efficiency of its functioning and financial position in the market depend on how well the income and

¹March 9, 2020 - "On measures to transition to international standards of financial reporting" President of the Republic of Uzbekistan Sh.M. Mirziyoyev... KUN.UZ

expenses of a commercial bank are managed. The amount of profit or loss received by the bank concentratedly reflects the results of all its active and passive operations. Therefore, the study of profit, its components and factors influencing its dynamics occupies one of the central places in the analysis of the activities of a commercial bank. The amount of profit depends mainly on the amount of income received and the amount of expenses incurred. The profit received is the basis for increasing and updating the bank's fixed assets, increasing its own capital, guaranteeing the stability of the financial position and liquidity of the balance sheet, ensuring an appropriate level of dividends, and developing an improvement in the quality of banking services. This is the relevance of the topic. Accounting and analysis of the performance of banking activities begins with the correct setup of accounting and analysis of income and expenses, and ends with the study of profits. Analysis of a bank's income and expenses makes it possible to study the results of a commercial bank's activities, and, consequently, to assess its effectiveness as a commercial enterprise. An analysis of the bank's financial activities is carried out simultaneously with an analysis of the liquidity of the bank's balance sheet, and based on the results obtained, conclusions are drawn regarding the reliability of the bank as a whole. There are many definitions of the concept of hedging. Most experts debate whether transactions without the use of derivative financial instruments can be considered hedging. International Financial Reporting Standard (IFRS) 9 Financial Instruments defines hedging as "a risk management activity involving the use of financial instruments to manage exposure to specified risks that could affect profit or loss²." In this case, the hedging instrument can be either a derivative instrument measured at fair value through profit or loss, or a non-derivative financial asset or non-derivative financial liability.

To date, the Presidential Decree of the Republic of Uzbekistan dated February 24, 2020 No. PQ-4611 "On additional measures for the transition to international standards of financial reporting" — IFRS) by accelerating the transition to provide foreign investors with the necessary information environment and to expand access to international financial markets, as well as to improve the system of training specialists in accounting and auditing according to international standards³. We would not be wrong to say that the presentation of the report is an important foundational information in attracting external factors of economic development.

We know that the main goal of investors is to obtain low costs and high profits. Today, because the recognition of revenue is not fully defined in the national accounting standards, some types of small enterprises, firms and business entities do not receive any revenue classified as revenue. However, international standards describe revenue and income in detail. According to it, there are 5 stages of revenue recognition, which we will explain in this article.

Literature review. It is necessary to note the opinion of many economists that hedging involves the use of derivative contracts. For example, V. A. Galanov defines hedging as "insurance of the risk of changes in the price of an asset, interest rate or exchange rate using derivative instruments."⁴ There is no consensus on the definition of hedging objectives. Thus, according to A. N. Burenin, hedging operations can be used to minimize risk, maximize expected profitability, or maximize expected utility⁵.

However, this definition does not allow us to unambiguously distinguish hedging operations from the general list of banking operations, because all operations of a commercial organization are in one way or another aimed at maximizing expected utility. Most scientists still agree that the essence of hedging comes down to opening a position on the market that is opposite to an existing one, in order to minimize the risk associated with having an open position. For example,

² International Financial Reporting Standard (IFRS) 9 Financial Instruments

³ PQ-4611 of the President of the Republic of Uzbekistan dated February 24, 2020 "On additional measures for the transition to international standards of financial reporting" by accelerating the transition, providing foreign investors with the necessary information environment and expanding access to international financial markets, as well as improving the system of training accounting and auditing specialists according to international standards. Lex.uz

⁴ Галанов В. А. Производные инструменты срочного рынка. М.: Финансы и статистика, 2002. 463 с.

⁵ Буренин А. Н. Хеджирование фьючерсными контрактами фондовой биржи РТС. М.: Изд-во «НТО им. Вавилова», 2009. 29 с.

for an enterprise with a significant debt burden in foreign currency, it makes sense to enter into transactions that bring it profit if the currency of the debt increases. Thus, the enterprise will compensate for additional costs associated with the increase in the cost of payments on borrowed funds due to the increase in the debt currency exchange rate. If the company does not use hedging instruments, the currency risk is uninsured and can lead to significant losses that are not offset by profits from other transactions.

Having determined the essence of hedging, as well as outlining its boundaries, the following hedging instruments can be distinguished:

- attraction/placement of borrowed funds and funds in a certain currency for a certain period at a fixed or floating interest rate (the terms of the loan are determined taking into account the current position of the hedger);
- opening a long/short position on a specific security or a specific group of securities;
- concluding spot contracts, including for the purchase or sale of foreign currency;
- conclusion of futures contracts, including forwards, swaps, options, agreements on future interest rates;
- concluding direct and reverse repo transactions;
- securitization of existing assets or liabilities and sale of related securities;
- concluding contracts that directly provide for the transfer of risks on a particular financial instrument, including credit default swaps.

All of these instruments are financial instruments and thus may qualify as a hedging instrument under IFRS 9 if they are used “to manage positions in specified risks that could affect profit or loss⁶. ” One of the features of the banking business is “a high level of risk. “Management errors often lead to loss of liquidity and solvency of banks, and sometimes to bankruptcy⁷. ” The effectiveness of measures aimed at minimizing risks is a key factor in credit institutions achieving their goals. The list of operations carried out by the bank may vary depending on the specific organization, but it is customary to distinguish the following typical types of activities for credit organizations:

1. Lending to legal entities and individuals.
2. Maintaining and servicing current and special accounts of legal entities and individuals.
3. Attracting time deposits from legal entities and individuals.
4. Providing bank guarantees and guarantees to legal entities.
5. Operations in the interbank lending market.
6. Transactions on the securities market.
7. Transactions on the derivatives market.
8. Operations on the foreign exchange market. Some credit institutions also carry out other types of operations (for example, leasing real estate for financial or operating lease), but these types of activities are not typical for banks and, therefore, are not included in the list presented above.

First, relying on the literature, if we distinguish revenue, profit and income from each other;

Revenue is money received from the sale of manufactured goods of the enterprise

Profit is the excess of the income received from the sale of goods and services over the costs incurred for the production of these goods

⁶ IFRS 9 Financial instruments

⁷ Панова Г. С. Банки в условиях международных санкций: стратегия и тактика [Электронный ресурс] // Сайт МГИМО МИД России, 2016.

Income is profit in the broad sense of any money or material assets with monetary value, money and goods-material income that an economic entity can receive as a result of its activities⁸.

The term revenue is defined as follows in the National Accounting Standard of the Republic of Uzbekistan No. 2 (Revenues from Basic Economic Activities).

An increase in economic value during the reporting period in the form of an increase in assets or a decrease in liabilities that leads to an increase in private capital, in addition to an increase related to investment by owners of private capital during the reporting period.

Based on international financial report standards, the terms revenue and income are defined as follows in IFRS No. 15. According to him;

Revenue - income from the usual activities of the organization.

Revenue should reflect the reimbursement that the entity expects to be entitled to receive in lieu of the goods and services provided.

An increase in economic benefits during the reporting period in the form of an improvement in the quality of income or assets or a decrease in the size of liabilities, which leads to an increase in private capital that is not related to the contributions of owners.

Now let's analyze the 5 stages of its recognition in international standards, 15th (IFRS) standard called Revenue from contracts with customers.

To recognise revenue under IFRS 15, an entity applies the following five steps:

identify the contract(s) with a customer.

identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.

determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.

allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.

recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied

As we analyze these stages, new terms begin to appear. Of these;

A contractual asset is the right of the organization to receive payment in exchange for the goods or services provided to the buyer, and except for the evidence of the passage of a certain time, such a right arises when it depends on another condition.

Contractual obligation - the organization's obligation to provide goods or services for which it has received a fee from the customer (or a fee is paid to the organization)

The customer is a counterparty who has entered into an agreement with the organization for the purchase of goods and services that are the result of the organization's normal activities.

⁸ 15th (IFRS) standard called Revenue from contracts with customers

First stage: Identification of the contract with the customer. At this stage, we look at whether the contract is actually concluded with the counterparty, whether we can determine the exact measure and the contract from it.

Second stage: Identification of contractual obligations. We define the responsibilities that we have to fulfill at this stage.

Executable responsibility is a promise to deliver differentiated goods or services to the buyer.

First of all, we need to determine the units of accounting in which the transaction price should be allocated and revenue should be recognized.

Two criteria must be met for goods and services to be separated:

1. The customer can use the goods or services independently
2. The obligation to deliver goods or services to the buyer must be identified separately from other obligations in the contract.

The organization can be charged with 2 types of responsibility.



Third stage: The transaction price is the reward/payment amount, which the organization will be entitled to receive in exchange for the goods and services provided to the buyer, as expected.

The transaction price may include a fixed or variable amount, and third party benefits are deducted from the price.

If the period between the payment of the price for the delivery of the goods or services to the buyer is expected to be no more than one year at the time of the conclusion of the contract on the transaction price, no adjustment to the promised compensation amount is required.

To make an adjustment to the amount of the fee, the discount rate that can be used for a separate financing operation between the organization and its buyer during the conclusion of the contract is used.

The calculated discount value is fixed and does not change even when interest rates change and other conditions change.

The fourth stage: Distribution of the price of the operation. If the contract includes several obligations, the price must be divided into separate obligations. The separate price is determined when the contract comes into effect.

The distribution of the price of the operation between the separate obligations for the performance of the contract will be in the following sequence.

1. Determining individual sales prices.
2. As the products are sold separately, on the basis of the relative individual sales prices, the distribution of the transaction price specified in the contract.

Discounts are distributed proportionally between the fulfilled obligations.

Separate sales price is also determined in two ways:

- A) Actual - observed value.
- B) If there is no evaluated-observable evaluation.

Fifth stage: Revenue recognition. Revenue should be recognized when the responsibilities performed by transferring control over the promised goods or services to the buyer are fulfilled (or depending on their fulfillment).

Control over an asset—the ability to determine how it will be used and obtain substantially all of the remaining benefits from the asset.

We may have the following questions:

1. Is the revenue recognized during the period?
2. Is revenue recognized at a specific point in time?

First of all, let's analyze whether it is necessary to recognize the income during the period. There are 3 criteria for this.

- A) The buyer receives and consumes benefits from the results of the organization's activities at the same time depending on its implementation.
- B) The activity creates and improves an asset that the buyer controls.
- C) An irreplaceable asset is created (that is, it can only be used by the buyer) and the organization has a legally protected right to payment for the results of activities completed up to the current date.

Once the contract is concluded, the organization cannot change the price.

Let's analyze the second question. Is the revenue recognized at a certain point in time? If the obligation is not fulfilled during the period, the organization fulfills the obligation to be fulfilled at a certain time. In order to determine the moment when the entity that acquires control over the promised asset of the buyer fulfills the obligation under the contract:

- Taking into account control requirements
- It is necessary to take into account the indicators of giving control.

Control, i.e. control over the asset, must be within the requirements of the following criteria.

- Determining how to use it.
- The ability to receive almost all other benefits from the asset

Control handover indicator:

1. The organization has the right to receive fees.
2. The buyer must have received a certificate of ownership of the asset
3. The asset is physically given.
4. The buyer assumes all serious risks and has the right to receive all benefits from the asset.
5. The buyer must have accepted the asset.

We can classify any amount that meets the above requirements as income based on the international standard. If we look at No. 2 of the national accounting standards "Income from the main activity", it is written that "The main issue in accounting for the income from the main economic activity" is to determine the time of revenue recognition. Income from the main economic activity is reflected when it is probable that future economic benefits will flow to the economic entity, and when this benefit can be reliably and precisely measured. This standard defines the situation in which the requirements of these criteria are met and, consequently, income from the main economic activity is recognized. It also provides practical guidance on the

application of these criteria." So, in the process of analysis, we need to classify income as income, and income as income.

To sum up, first of all, income and income are considered similar concepts, and we can conclude that income is broader than income. For example, we consider that an enterprise or organization has income, but on the other hand, it is not an income for an organization or enterprise, it has 100 c.u. He spent in b, but for some reasons he received 40 c.u. the inability of representatives to distinguish the terms of income and receipts and do not know how to recognize them will cause some deficits in their future reports. Next, it is not wrong to say that the adoption of the new IFRS No. 15 has clearly demonstrated the need for further improvement of our national standards.

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