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MODERNIZING EQUITY ACCOUNTING IN JOINT-STOCK COMPANIES THROUGH THE APPLICATION OF IFRS PRINCIPLES IN UZBEKISTAN

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ABSTRACT
This article analyzes international practices in equity accounting for joint-stock companies and proposes directions for improvement in Uzbekistan based on IFRS standards. By examining advanced approaches to equity structure, dividend policy, and financial reporting transparency in developed countries, the study identifies key reforms needed to enhance corporate governance, investor confidence, and compliance with international financial norms.

KEYWORDS: *Equity Accounting, Joint-Stock Companies, IFRS, Dividend Policy, Corporate Governance, Financial Reporting, International Standards.*

INTRODUCTION

In the evolving landscape of global financial markets, the role of accurate and transparent financial reporting has become more critical than ever. Among the various elements of corporate financial statements, equity accounting holds particular significance for joint-stock companies (JSCs), as it directly reflects ownership interests, capital structure, retained earnings, and the company's capacity to absorb risk and distribute returns. Equity, as presented in financial reports, serves not only as a measure of financial health and stability but also as a key determinant of investor confidence and market valuation.

In joint-stock companies, where ownership is divided among shareholders and capital is frequently raised through the issuance of shares, the accounting treatment of equity requires rigorous standardization and comparability. It affects the way in which stakeholders including shareholders, potential investors, creditors, regulators, and tax authorities interpret financial positions and make strategic decisions. Yet, despite its centrality, the methodological and regulatory framework for equity accounting remains inconsistent across many developing and transition economies, including Uzbekistan.

Uzbekistan has undertaken significant steps toward the modernization of its financial infrastructure, including the phased implementation of International Financial Reporting Standards (IFRS). However, the transition from national accounting standards to IFRS-compliant reporting has revealed systemic gaps, particularly in the classification, measurement, and disclosure of equity instruments. Domestic practices often reflect legacy frameworks inherited from centrally planned accounting models, where equity was treated more as a formal registration of capital rather than a dynamic financial category reflecting economic substance.

Furthermore, the lack of full convergence with IFRS has led to issues such as ambiguous classification of financial instruments as equity or liabilities, insufficient disclosure of share-based transactions, underdeveloped reporting on treasury shares, and inconsistent treatment of non-controlling interests in consolidated statements. These shortcomings undermine financial transparency, hinder cross-border comparability, and reduce the ability of Uzbek joint-stock companies to access international capital markets or comply with listing requirements of global stock exchanges.

The introduction of international standards particularly IAS 1 (Presentation of Financial Statements), IAS 32 (Financial Instruments: Presentation), IFRS 10 (Consolidated Financial Statements), and IFRS 9 (Financial Instruments) provides a coherent and principle-based framework for improving the quality of equity accounting. These standards ensure a clear distinction between equity and liabilities, mandate comprehensive disclosure, and promote consistency in presenting ownership interests and changes in capital over time.

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LITERATURE REVIEW

Equity accounting represents a fundamental pillar of corporate financial reporting, especially for joint-stock companies (JSCs), where shareholder interests, capital integrity, and retained earnings must be presented in a consistent and transparent manner. Academic research and institutional publications emphasize that accurate equity reporting enhances financial decision-making, strengthens investor trust, and supports efficient capital allocation. As the global economy becomes more interconnected, the convergence of national accounting standards with International Financial Reporting Standards (IFRS) has become a critical reform agenda for countries aiming to integrate into international capital markets.

The concept of equity in accounting is grounded in the residual interest framework, as articulated in the IASB Conceptual Framework, where equity represents the residual claim on an entity's assets after deducting liabilities. Equity is not a monolithic concept but rather a composite of components such as paid-in capital, retained earnings, revaluation reserves, other comprehensive income, and non-controlling interests. These elements must be distinguished, measured, and disclosed in accordance with internationally accepted standards.

IAS 1 – Presentation of Financial Statements outlines the structural requirements for presenting equity in the statement of financial position and requires detailed disclosures in the statement of changes in equity. Research by Nobes and Stadler (2015) shows that countries with strong compliance with IAS 1 tend to demonstrate higher quality in their corporate governance and investor protection mechanisms.

One of the more complex areas of equity accounting involves the classification of financial instruments a domain governed by IAS 32 – Financial Instruments: Presentation. This standard introduces a principle-based distinction between liabilities and equity instruments, particularly when contractual obligations are involved. Misclassification in this domain may distort leverage ratios, financial stability assessments, and regulatory capital adequacy evaluations.

Academic literature (Li & Horton, 2016) highlights that in emerging markets, classification errors often arise due to conceptual ambiguity, lack of training, and the persistence of legacy accounting norms. For example, redeemable preference shares, although legally equity, may need to be classified as liabilities if they contain contractual obligations for cash payments. Such nuances are often overlooked in national systems that are not fully IFRS-compliant.

Another critical dimension of equity accounting involves the treatment of non-controlling interests (NCI) and intra-group transactions in consolidated financial statements. IFRS 10 – Consolidated Financial Statements requires that equity ownership in subsidiaries be clearly accounted for, and NCIs presented as part of equity on the consolidated balance sheet. According to research by Christensen et al. (2015), countries that have adopted IFRS 10 experience better transparency in group structures, and more reliable information for minority investors.

The shift from national standards to IFRS-based equity accounting entails numerous practical challenges: insufficient human capital, limited institutional capacity, weak regulatory enforcement, and lack of localized IFRS interpretations. As per Al-Shammari et al. (2008), successful IFRS implementation in equity accounting requires not only legal adoption but also sustained investments in training, system modernization, and corporate awareness. Uzbekistan, in its recent economic reforms, has committed to the phased adoption of IFRS across large enterprises and publicly listed companies. However, gaps remain in fully aligning equity accounting practices especially concerning classification consistency, timeliness of reporting, and depth of disclosures.

ANALYSIS AND RESULTS

Effective organization of equity accounting in joint-stock companies, aligned with international standards, is a critical factor in enhancing corporate governance quality, ensuring financial transparency, and protecting the interests of shareholders. This section presents a comparative analysis of advanced international practices regarding equity formation, accounting treatment, and dividend distribution policies in joint-stock companies. The goal is to identify best practices and determine which approaches are most adaptable to Uzbekistan's institutional and economic context.

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Table 1. International practices in structuring equity in joint-stock companies

Country	Key Characteristics of Equity Structure	Applicable International Standards and Regulatory Frameworks
USA	Equity primarily consists of share capital and additional paid-in capital. Share buybacks are common and serve as a tool for managing company value and dividend policy.	U.S. Generally Accepted Accounting Principles (US GAAP); regulated by the U.S. Securities and Exchange Commission (SEC).
Germany	Share capital is issued in both ordinary and preferred forms. Shareholder rights are clearly defined, and part of the profit must be allocated to statutory reserves.	International Financial Reporting Standards (IFRS); German Commercial Code (HGB).
Japan	High emphasis is placed on reserve capital and retained earnings. Dividend policies are designed for long-term stability and strategic development.	IFRS, Japanese GAAP (JGAAP), and regulations of the Tokyo Stock Exchange.

Source: Compiled by the author

As observed in developed economies, equity structuring and accounting are implemented through strict adherence to both international standards and national legal requirements. In the U.S., the widespread use of share repurchase strategies allows firms to enhance shareholder value and maintain flexibility in dividend policies. Germany's requirement to form statutory reserves supports shareholder security and financial sustainability. Japan's dividend policy, grounded in long-term growth strategies, ensures consistent shareholder returns and enhances corporate financial stability. These practices indicate the necessity for Uzbekistan to modernize its approach to equity accounting by aligning it with global standards.

Table 2. Mechanisms of dividend calculation and distribution in joint-stock companies

Country	Key Features of Dividend Policy	Mechanisms for Dividend Calculation and Distribution
Sweden	Dividend policy is formulated with a long-term shareholder interest perspective, emphasizing stability and predictability.	Dividends are distributed through pre-approved mechanisms and confirmed at the general shareholders' meeting.
France	Legal provisions stipulate a minimum dividend distribution from company profits.	Dividend calculation is approved by the board of directors and disclosed in financial reports.
South Korea	Dividend policy is aligned with shareholder interests and corporate development plans.	Distribution is carried out through transparent and predefined mechanisms, with prior disclosure to all shareholders.

Source: Compiled by the author

The experiences of these countries demonstrate that dividend distribution mechanisms based on transparency and predictability are essential for safeguarding shareholder interests. Notably, linking dividend policy to long-term growth goals like in Sweden and South Korea enhances investor confidence and contributes to financial resilience. France's legally mandated minimum dividend ratio reinforces accountability in profit-sharing. These insights reinforce the need for Uzbekistan to institutionalize predictable and transparent dividend policies to promote equity market maturity.

CONCLUSION AND RECOMMENDATIONS

Based on the analysis of international best practices and their relevance to Uzbekistan's corporate landscape, the following scientific and practical recommendations are proposed:

1. Full alignment of equity accounting in joint-stock companies with International Financial Reporting Standards (IFRS) is essential. All equity components including authorized capital, share premium, reserves, and retained earnings must be clearly, systematically, and consistently presented in financial statements.
2. Capital structure disclosures must be enhanced to ensure full financial transparency. Any changes in equity, including share buybacks and decisions related to dividend policies, should be mandatorily disclosed in financial reports, supported by explanatory notes.
3. Dividend calculation and distribution should be governed by predetermined mechanisms, with company boards required to develop dividend strategies consistent with long-term development plans. These processes must be standardized and legally regulated.

4. To improve the quality and reliability of equity accounting, joint-stock companies should regularly retrain their accounting and audit personnel through internationally certified IFRS programs. Ongoing professional development in financial reporting is essential for sustainable compliance.

Throughout this study, both the theoretical-methodological foundations and global practices related to equity accounting in joint-stock companies were critically examined. The research concludes that applying international standards to equity accounting improves corporate transparency, strengthens investor confidence, and enhances the overall effectiveness of corporate governance. In this regard, Uzbekistan must accelerate its convergence with global reporting practices to promote sustainable development in the corporate sector and ensure its successful integration into international financial markets.

The implementation of the policy recommendations developed in this research will significantly support Uzbekistan's broader goal of becoming a competitive, investment-attractive economy with a resilient and well-regulated corporate sector.

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