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The Essence of the Accounting Policy and its Role in Accounting

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Abstract: This article describes the essence of accounting policy and its role in accounting. As a result of the research, suggestions for improving the accounting policy were developed.

Key words: financial statement, accounting policy, national accounting standards, international financial reporting standards, working chart of accounts, financial position, financial result

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The Introduction

In the process of globalization, the importance of accounting policy is increasing due to the economic situation in the countries of the world, cases of non-payment, insolvency of debtor enterprises, and the decrease in the level of financial independence, which directly affects the financial condition of economic entities. Depending on how the accounting policy is formed, the economic activity of the enterprise develops at a modern level.

The accounting policy is the most important document that determines the rules of accounting in business entities. The accounting policy of economic entities includes the development of a plan of working accounts, the organization of the initial account, the selection of the method of cost accounting and product cost calculation, the preparation of internal reporting forms, etc.

The role of accounting policy is to organize the most optimal direction of its activity and ensure

reflection in accounting. Forming an accounting policy is necessary for making the right management decisions, because a rationally developed accounting policy is one of the important means of managing the activities of an economic entity and achieving its goals in its activities.

There are many views on revealing the essence of accounting policy in regulatory legal documents and economic literature.

S. Alaemi stated that "the accounting policy is very important for the correct understanding of the information presented in the financial statements. An entity must clearly state the accounting policies it uses in preparing financial statements. Disclosure of accounting policies is important because many accounting standards allow the use of alternative methods for the same transaction or entity. If accounting policies are not clearly stated, users of financial statements cannot compare financial data with other organizations" [1].

In his thesis, R.Edward concluded that "accounting policy information covers the main accounting choices made by firms, which affect the ability of users of financial statements to compare accounting information across firms over a period of time and for a given firm" [2]

D. Lugovsky and M. Kuter stated that "the choice of accounting policy is subjective and requires the use of professional accounting judgment" [3].

According to the report of KPMG audit organization, "accounting policies used by the management play an important role in ensuring the formation of a fair and accurate opinion on the financial status and results of the company's activities for the benefit of shareholders" [4].

According to B. Elliott and J. Elliott, "the amount of changes in the accounting policy depends on the scope of the enterprise's activities and the events that occurred during the financial year" [5].

As it can be seen from the points mentioned above, the research focuses mainly on the essence of accounting policy. However, not enough attention has been paid to the structural structure of the accounting policy.

Accounting policies can include financial, tax and management accounting aspects. It should be noted that the accounting policy drawn up by any entity should be based on the requirements of the current regulatory legal documents of the country. The accounting policy for tax accounting purposes reflects the rights granted by tax legislation in terms of choosing possible options for calculating the tax base.

Accounting policies, changes in accounting estimates and errors in IAS No. 8 does not consider concepts such as "assumptions" and "requirements" in the development of accounting policies, as analogs of these categories, in the absence of a specific IAS applied to an operation, event or condition, accounting policies may specify that he must use his judgment in the development.

Both national and international standards indicate that the application of accounting policies by economic entities should be consistently implemented, but in practice there may be a number of cases where its change may occur due to a specific need.

NSA No. 1 entitled "Accounting Policy and financial statement" provides four reasons for making changes to accounting policies, while IAS No. 8 entitled "Accounting Policy, Changes in Accounting Estimates and Errors" specifies only two reasons. Despite these differences in standards, the conditions under which changes are made are generally comparable, but at the same time, the main difference is that NSA indicates the cases of changes in accounting policies, while the international standard focuses on mandatory changes that lead to providing users of financial statements with more current and reliable information about the financial position of the entity. If changes are made to the accounting policy during the reporting period, these circumstances will certainly lead to changes in indicators reflecting the financial stability of the economic entity and its financial status. Therefore, economic entities should follow the requirements of national and

international standards that reflect the requirements of accounting policies.

Figure 1 shows that all three types of accounting have their own purpose of accounting policy. The purpose of the accounting policy is to provide the necessary information for interested parties from accounting information.

In the field of management accounting, accounting policy covers a large number of alternatives. Calculation of product cost, determination of inventory valuation methods occupy a central place in management accounting. The purpose of accounting policies for financial, tax and management accounting is reflected in Figure 1.

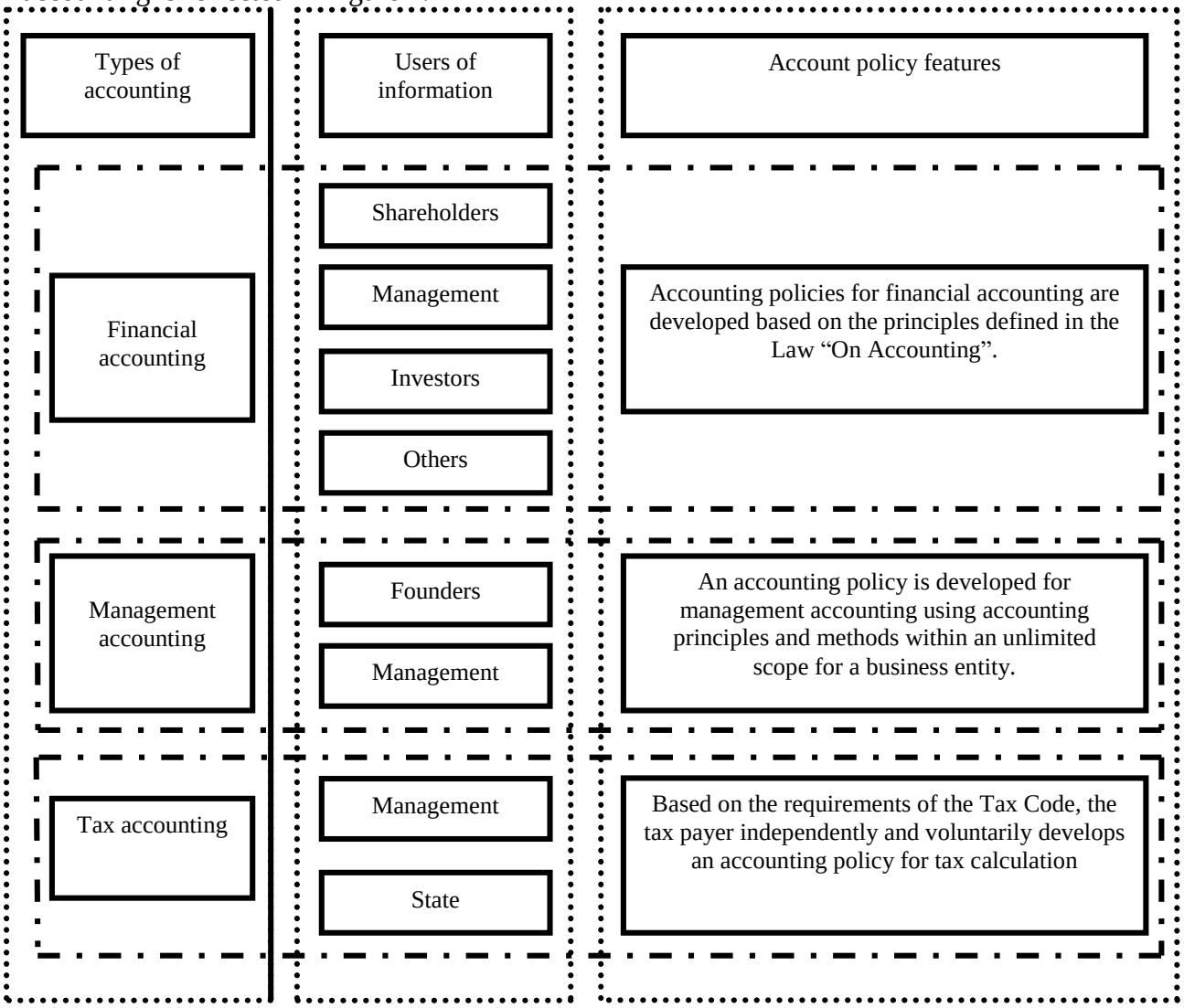

Figure 1. The purpose of accounting policies for financial, tax and management accounting [1]

As a result of the above comparative analysis of the requirements of national and international standards, the following conclusions were reached:

1. In the Republic of Uzbekistan, a lot of work is being done to adapt accounting to international standards. In particular, the official publication of the international financial reporting standards in the national language is being prepared, in addition, other methodological documents on the application of the standards are being developed. However, in accounting, first of all, careful development of the accounting policy is the demand of the times. Therefore, the requirements

[1] Made by author

of NSA No. 1 “Accounting policy and financial reporting” in force in our country should be brought closer to international standards.

2. If changes are made in regulatory legal documents or departmental documents during the reporting period, these changes should be reflected in the accounting policy of the economic entity. It is desirable that the accounting policy be compact and flexible.

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