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Problems of preparing business financial statements according to international standards

Abstract. The importance of the study stemmed from the necessity to identify ways to enhance the quality and harmonise the financial statements of small and medium-sized firms in Azerbaijan so that they met international requirements. The aim of the work was to analyse the reporting of Azerbaijani small and medium-sized enterprises, as well as to identify significant inconsistencies between the basic concepts and principles in certain sections of international standards, the elimination of which will increase the comparability of the financial data of Azerbaijani enterprises at the global level. The methodological approach was based on statistical data analysis, which was used to study the change in the number of small and medium-sized enterprises in Azerbaijan for 2018-2023; and an analogy method for comparing the qualitative characteristics of financial statements specified in the Conceptual Framework for Financial Reporting to international standards. The main results include: a proposal to adopt indicators of the quality of information in the financial statements in accordance with the characteristics specified in the Conceptual Framework for Financial Reporting; justification of the need to use the initial and fair value methods based on the requirements for assessing the possible, current and discounted value of assets, liabilities, income, and expenses, as well as using simpler approaches to reflect them in financial statements; proof of the need for wider disclosure of information presented in the explanatory notes to the financial statements, which would help improve the quality and usefulness of information on the financial condition of business entities. The findings of scientific research, as well as the conclusions drawn from it, are of practical value to small and medium-sized business leaders, national politicians, and financial statement auditors

Keywords: comparability of information; conceptual approaches; display of assets; innovation; harmonization

INTRODUCTION

Modern trends in the domain of internationalization of economic and financial relations have led to the creation of a world market that does not recognize national boundaries. Disclosure of reliable information on the development

of enterprises in Azerbaijan, the creation of an information base that meets modern requirements for accounting and disclosure of financial statements were the main conditions for attracting investors and the interest of creditors,

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whose support contributes to business development. The necessity to reveal information about the financial health of small and medium-sized enterprises (SMEs) in compliance with international standards that govern the presentation of financial statements has been reinforced by the growth of cooperation between Azerbaijani economic entities and European nations.

For instance, J. Hasanova-Vagif (2021) showed that small enterprises provide important flexibility in market conditions and show a good ability to pay off. In addition, the author proved that small firms are more likely to innovate and seek to establish mass production. The research carried out by F. Ganbarov *et al.* (2020) showed that increasing the openness of trade and involvement in worldwide supply chains may enhance a nation's export diversification, attract foreign investment and ensure an annual income growth of 5-10%. At the same time, scientists were studying the detrimental effects of the coronavirus pandemic on SMEs operations and suggesting ways to improve the financial condition of enterprises. N. Gasimova (2022) claimed that as a result of restrictive measures, many enterprises have closed their activities. The author proved that the most stable model of overcoming the crisis for Azerbaijan is the model of European countries. However, changes were required to guarantee the long-term growth of SMEs in Azerbaijan. These included the provision of profitable loans to businesses and the development of innovative activities (Sadikhov, 2024). Studies of Azerbaijan's foreign policy issues in the context of the economic crisis were carried out by the scientists A. Hajiyeva *et al.* (2020), who showed the importance of interaction with international financial institutions. The scientists argued that the expertise in preparing financial statements utilising international standards is positive for Azerbaijan, in particular for increasing the inflow of foreign investment.

The validation of a successful methodology for Azerbaijan's integration of national accounting standards with international standards in their work was done by scientists A. Valiyev *et al.* (2021), who assessed the benefits and barriers to the implementation of international standards depending on the practice models for the consolidation of national and international standards. F. Sultanov (2022) conducted a comparative review of the condition of the accounting systems in Azerbaijan and Turkey, emphasizing that the direct translation of international standards into Azerbaijani is one of the right steps in terms of flexibility. However, the Turkish reporting and auditing system can be taken as a model for Azerbaijan. The issue of translating international standards into languages of different countries was considered by A. Hellmann & C. Patel (2021), who emphasized the importance of observing the comparability of the meaning of the requirements for displaying financial information.

Azerbaijani and other scientists have made significant contributions to studying the comparability of financial reporting and the preparation of statements according to international standards, yet many debatable issues persist, requiring further investigation. Due to the presence of a number of obstacles to the transition of the preparation of financial statements of Azerbaijani enterprises in accordance with international requirements, the need for research was updated to identify factors that make it

difficult for SMEs to prepare statements according to international standards and develop proposals to improve the quality and usefulness of reporting. The main purpose of this scientific work was to study the identification of significant inconsistencies between the main concepts (principles) in certain sections of the International Financial Reporting Standards for small and medium-sized businesses (IFRS for SMEs) on the example of Azerbaijan, which hinder the improvement of the comparability of reporting at the global level and improve its quality and usefulness for stakeholders.

■ MATERIALS AND METHODS

Statistical data analysis method was utilized to examine changes in the number of enterprises. Analogies were drawn to compare the qualitative characteristics of financial statements across various regulatory documents. A graphical method was employed to visually display the obtained data. A generalization method was applied to synthesize and derive conclusive information from the findings. The theoretical foundation for this study was established by the writings of previous authors who had investigated the issues of increasing the quality and harmonising the financial statements of businesses with worldwide standards.

Analysis of statistical data, based on the Entrepreneurship in Azerbaijan (2023), made it possible to study the number of SMEs in Azerbaijan, their structure, and part in the total number of business entities for 2018-2023. To analyse the number of SMEs in 27 countries of the EU and their dynamics for 2018-2022, information from the Statista was used (Number of small and medium-sized enterprises..., 2022). The structure and role of SMEs that they played in the employment rates of the population in Germany, France, Croatia, Spain, and Denmark were analysed based on EU statistics (Number of enterprises..., 2022). The Conceptual Framework for Financial Reporting (also referred to as the Fundamentals) and IFRS for SMEs were compared using the analogy method to determine the qualitative aspects of reporting (International standards..., 2022). The legal framework of Azerbaijan in terms of reporting requirements, including provisions of Law of the Republic of Azerbaijan No. 716-IIQ "On Accounting" (2004), was examined. The utilisation of the graphical approach allowed for the visualisation and trend analysis of the dynamics of increase in the number of SMEs in European countries for 2018-2023.

The use of the generalization method summed up the results of the study regarding: the role of SMEs for the economic growth of Azerbaijan and European countries, the comparability of the reporting quality requirements specified in the IFRS for SMEs and the Conceptual Framework for Financial Reporting, to identify problems that are an obstacle to reporting by enterprises; formulation of conclusions that served as a final reflection of the results of the study. These conclusions aimed to substantiate proposals regarding the simplification of reporting in accordance with international standards, identify areas that should be paid attention to and change approaches to displaying information, improve the quality, comparability, and accessibility of information for potential investors, and determine further directions for studying this issue and improving the preparation of reports for SMEs.

RESULTS

As of the beginning of 2023, SMEs in Azerbaijan accounted for 99.7% of all operating business entities (Entrepreneurship in Azerbaijan, 2023). The first step to attract foreign investors and expand international cooperation was to transform the financial statements of enterprises and bring them closer to international standards, which in turn could contribute to the transparency and attractiveness of

Azerbaijan's business. Companies in more than 100 countries prepared their financial statements on the basis of IFRS, which were an important means of increasing the comparability of information contained in the financial statements of companies from different countries (Entrepreneurship in Azerbaijan, 2023). Azerbaijani enterprises were classified by the number of employees and, accordingly, by their annual income (Table 1).

Table 1. Criteria for business size in Azerbaijan by the number of employees

Business entity categories	Mean number of employees	Annual income (ig)
Micro-enterprises	1-10	ig ≤ 200
Small businesses	11-50	200 < ig ≤ 3,000
Medium enterprises	51-250	3,000 < ig ≤ 30,000
Large enterprises	251 and more	30,000 < ig

Source: made by the authors based on Entrepreneurship in Azerbaijan (2023)

As shown in Table 1, SMEs include enterprises with up to 250 employees, and more are considered large enterprises.

In the structure of the total number of Azerbaijani enterprises, the main part is occupied by SMEs (Table 2).

Table 2. The structure of SMEs in Azerbaijan and its dynamics

Indicators	2018	2019	2020	2021	2022	2023
Total number of enterprises	245,800	272,295	317,299	356,910	378,726	415,763
The total number of SMEs, including:	244,883	271,304	316,370	355,998	377,842	414,832
▪ micro-enterprises	237,815	262,622	307,717	346,171	366,944	403,062
▪ small businesses	4,930	5,956	5,943	6,856	7,760	8,735
▪ medium enterprises	2,138	2,726	2,710	2,879	3,138	3,304
Part of SMEs in total	99.6%	99.6%	99.7%	99.7%	99.6%	99.7%

Source: made by the authors based on Entrepreneurship in Azerbaijan (2023)

As can be seen from Table 2, during 2018-2023, the share of SMEs in the total number of Azerbaijani enterprises remained above 99%, indicating their advantage in the structure of economic entities in the country. The largest growth in the number was shown by SMEs in 2019 – 21% and 27% but the COVID-19 pandemic's economic crisis in 2020 resulted in a slight decrease (Entrepreneurship in Azerbaijan, 2023). In 2022 and 2023, the total number of enterprises continued to grow. Similarly, the number of SMEs increased, maintaining their

dominant share in the economy. Micro-enterprises, small businesses, and medium enterprises saw significant growth. The involvement of SMEs was crucial to maintaining the smooth operation of the economy in the setting of the globalization of economic connections. Foreign experience shows that in modern conditions, SMEs are the basis of the European economy and a potential source of employment and economic growth in the country. According to a statistical estimate, there are about 22 million SMEs in the EU (Fig. 1).

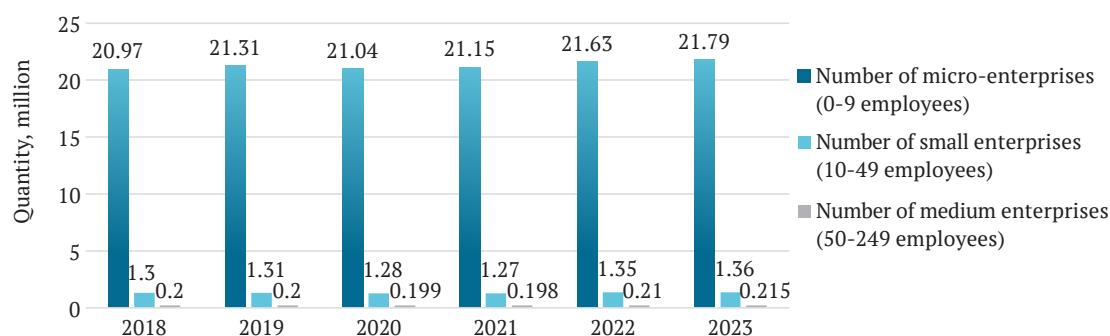


Figure 1. Dynamics of the SMEs increase in European countries

Source: made by the authors based on Number of small and medium-sized enterprises (SMEs) in the European Union from 2008 to 2023, by number of enterprises (2022)

The data in Figure 1 indicate a significant predominance of micro-enterprises in the total number of SMEs

(about 98%) and a low proportion of medium-sized enterprises (less than 1%). As of 2023, 1.36 million enterprises

are small, and about 215 thousand are medium-sized firms. At the same time, non-financial sector workers in Italy owned around 3.56 million SMEs. By analysing the

distribution of SMEs in European nations, it was possible to examine their structure and involvement in the employment rates of the population of states (Table 3).

Table 3. Share of enterprises and employed employees in European countries for 2022

Country	Part of enterprises, %			Part of employed employees at enterprises, %		
	small	medium	large	small	medium	large
Germany	97.4	2.1	0.5	40.6	17.2	42.2
France	99.4	0.5	0.1	44.5	11.3	42.2
Croatia	98.9	0.9	0.2	53.6	17	29.4
Spain	99.2	0.7	0.1	53.8	13.9	33.4
Denmark	98.5	1.2	0.2	43.3	21.2	35.5

Source: made by the authors based on Number of enterprises by enterprise size class, 2022 (2022)

The data in Table 3 shows that SMEs occupied a significant share in the total number of enterprises, averaging around 98.7% across the listed European countries in 2022. This accounted for an average of approximately 47.66% of all employed employees. In some countries, medium enterprises reached up to 2.1%, but small enterprises dominated. In 2023, SMEs in Azerbaijan increased their nominal value added by 30% compared to the previous year, comprising 18% of the national economy's total value added. Additionally, medium-sized enterprises employed up to 55% of the workforce found in small enterprises, with approximately 35-55% of employees being in large business entities (World Intellectual Property Organization, 2023). For the development of SMEs in Azerbaijan, it was expedient to use the experience of European countries. In addition, the development of close cooperation between Azerbaijan and the EU, the main focus of which was the oil and gas industry and the transport sector, contributed to the formation of a favourable business environment for the functioning of SMEs. In turn, the transparency of the activities of SMEs would contribute to the interest of foreign investors to invest in their development. One of the tools to ensure the transparency of the activities of SMEs was to improve the quality of their financial statements and bring them closer to the requirements established by international standards.

Azerbaijan's financial reporting requirements were established and regulated by the Law of the Republic of Azerbaijan No. 716-IIQ "On Accounting" (2004) (as amended in June 2018), which also established financial reporting requirements. According to it, The Ministry of Finance of Azerbaijan is responsible for the use of IFRS for SMEs, the correctness of their translation into Azerbaijani, and ensuring their availability to the public. However, it should be noted that the practical implementation of reporting requirements in accordance with IFRS for SMEs in Azerbaijan is still formal. The main obstacles to a full transition to the preparation of financial statements in accordance with IFRS for SMEs are the quality of the translation of this standard from English into Azerbaijani as well as in some cases this is also a discrepancy with the original English

text. In addition, one of the main challenges in transitioning to comply with IFRS for SMEs is the inadequate professional expertise among accounting service representatives at enterprises, compounded by an ineffective mechanism to monitor audit firms responsible for ensuring the quality of these reports (Berest & Sablina, 2024). This has led to the fact that accounting is mainly reduced to calculations without sufficient analysis, which could show the presence of problematic issues in the accounting of the enterprise. These factors are disruptive to the transition process of preparing financial statements in accordance with IFRS for SMEs. According to the Law of the Republic of Azerbaijan No. 716-IIQ "On Accounting" (2004), business entities are required to prepare reports based on their status. Either the complete version of IFRS or the IFRS for SMEs must be followed by large businesses. Medium-sized businesses can choose to use the full version of IFRS or the IFRS for SMEs. Small enterprises, on the other hand, are mandated to comply with either the rules for micro and small enterprises established by the Ministry of Finance of Azerbaijan, the IFRS for SMEs, or the full version of IFRS. The study also identified several factors that negatively affected SME activities in Azerbaijan. These included the inadequate knowledge and competence of company managers regarding market economics, ineffective marketing strategies, burdensome tax expenses, high fixed costs leading to reduced profits, and a shortage of financial resources for SME development.

In order for business leaders to be aware of these problems and be able to make the right management decisions in time, it is necessary to increase the transparency and quality of reporting (Mehdiyev, 2024). One of the main characteristics, the observance of which increases the usefulness of financial statements, is its quality. The IFRS for SMEs contains a list of qualitative characteristics that SME reporting must comply with (International standards..., 2022). Also, similar characteristics are defined by IFRS, which describes the criteria for information in reporting, according to which such information will be useful for investors and creditors when making decisions about an enterprise based on information in its financial statements (Table 4).

Table 4. Comparison of the qualitative characteristics specified in the Fundamentals and the IFRS for SMEs

Qualitative characteristics	Conceptual framework IFRS, paragraph "Qualitative characteristics of useful financial information"	Qualitative characteristics	IFRS for SMEs, "Basic concepts and principles"
Fundamental qualitative characteristics	(QC5)	1. Understandability	2.4
1. Relevance	(QC6-QC10)	2. Relevance	2.5

Table 4. Continued

Qualitative characteristics	Conceptual framework IFRS, paragraph “Qualitative characteristics of useful financial information”	Qualitative characteristics	IFRS for SMEs, “Basic concepts and principles”
1.1. Materiality	(QC11)	3. Materiality	2.6
2. Faithful representation	(QC12)	4. Reliability	2.7
2.1. Complete	(QC13)	5. Substance over form	2.8
2.2. Neutral	(QC14)	6. Prudence	2.9
2.3. Free from error	(QC15)	7. Completeness	2.10
3. Enhancing qualitative characteristics	(QC19)	8. Comparability	2.11
3.1. Comparability	(QC20-25)	9. Timeliness	2.12
3.2. Verifiability	(QC26-QC28)	10. Balance between benefit and cost	2.13-2.14
3.3. Timeliness	(QC29)	11. Undue cost or effort	2.14A-2.14C
3.4. Understandability	(QC30-QC32)		
4. Applying the enhancing qualitative characteristics	(QC33-QC34)		
5. The cost constraint on useful financial reporting	(QC35-QC39)		

Source: made by the authors based on IFRS Foundation (2018), International standards of financial reporting and other pronouncements (2022)

The information provided in Table 4 indicates that there are differences in approaches to determining the characteristics of the reporting information defined in IFRS. The characteristics are subdivided according to the criteria of importance: into basic and improving, which allows to pay attention when preparing reports in accordance with its main characteristics. It should be noted that between the conditional indicators of accounting information, which are given in the relevant paragraphs of section 2 “Basic concepts and principles” of the IFRS for SMEs, and the quality of this information, which is indicated in section 3 “Qualitative characteristics of useful financial information”, completely different approaches were taken. Arbitrary indicators for the data in the financial statements are displayed in paragraphs 2.4-2.14D of section 2 of this IFRS for SMEs are presented in paragraphs 24-43 of the Framework for the preparation and presentation of financial statements (2001), in accordance with the qualitative characteristics of the financial statements in the form in which they are, and in the specified sequence.

The section 3, discussion of the qualitative aspects of valuable financial information, is presented with different approaches. According to the criteria for recognizing qualitative characteristics of financial information outlined in relevant documents, the full disclosure of financial data, both collectively and individually, is required in the

preparation of enterprise financial statements. However, despite financial statements being issued with favourable opinions from professional auditors based on IFRS for SMEs requirements, the quality of this information may not be presented clearly, transparently, and reliably due to subjective management decisions influenced by adverse events within enterprise operations. It should be emphasized that grouping the financial statements primarily by the qualitative characteristics of the relevant financial information – which were defined in the IFRS for SMEs – should be preferred in order to reflect relatively high-quality financial information in accordance with the specified criteria. This approach is also reflected in the section 3 “Qualitative characteristics of useful financial information” of the Fundamentals. In addition to applying the qualitative characteristics of financial statements, a problematic issue in the preparation of financial statements in accordance with the IFRS for SMEs is the valuation of assets, liabilities, income, and expenses. The IFRS for SMEs provides various approaches and methods for measuring assets, liabilities, income, and expenses. According to the content of paragraph 2.34 of the section 2 of the IFRS for SMEs, it is indicated that the valuation of assets, liabilities, income, and expenses should be carried out on the basis of two general methods – initial cost and fair value. However, other measurement methods are also used (Table 5).

Table 5. Methods for measuring assets, liabilities, income, and expenses in accordance with the IFRS for SMEs

Chapter		Items	Assessment methods		
No.	Name		possible selling price	present value	discounted value
11	Basic financial instruments	11.20, 11.25		+	
12	Other issues with financial instruments	12.11, 12.12			+
15	Investments in joint ventures	15.16, 15.17	+		
16	Investment property	16.5		+	
		16.6			+
20	Leases	20.9, 20.10, 20.21, 20.23		+	
21	Provisions and contingencies	21.7, 21.11		+	+
23	Income	23.5		+	+

Table 5. Continued

Chapter		Items	Assessment methods		
No.	Name		possible selling price	present value	discounted value
27	Impairment of assets	27.9			+
		27.15, 27.20		+	+
28	Employee benefits	28.7			+
		28.15, 28.16, 28.30, 28.37		+	
		28.17		+	+
29	Income tax	29.32			+
34	Specialized activity	34.6		+	

Source: made by the authors based on The IFRS for SMEs standard (2015), International standards of financial reporting and other pronouncements (2022)

The data in Table 5 shows that in addition to measuring assets, liabilities, income, and expenses at initial and fair value, the relevant sections of the IFRS for SMEs use valuation methods based on possible selling price, present value, and present value. At the same time, it should be noted that such an approach to assessment does not provide high-quality preparation and presentation of information in financial statements, which is advisable for auditors, investors, and creditors to use when making decisions. Taking into account the requirement to apply valuation methods to measure the elements of financial statements on the basis of the possible sale value, current and present value, there is a need to amend paragraph 2.34 of the section 2 of the IFRS for SMEs, namely: to specify that for the valuation of assets, liabilities, income and expenses, the methods of initial and fair value are used, taking into account the requirements for applying valuation at: possible, current and present value. This can improve the valuation of assets, liabilities, income, and expenses of SMEs and improve the efficiency and quality of their financial information.

It should also be noted that the presentation of these financial elements in accordance with the IFRS for SMEs in financial statements was carried out with relatively simpler approaches compared to the requirements of IFRS. According to clause 5.1 of section 5 "Comprehensive income statement and profit and loss statement" of IFRS for SMEs, an enterprise must show its total income for the period in the statements, that is, the financial results of its activities in one financial statement. In accordance with paragraph 7.7 of section 7 of "Statement of cash flows", an entity's statement of cash flows for the period must solely display cash flows from operational operations using the direct method. In addition, in comparison with IFRS, it is necessary to disclose more widely the information presented in the explanatory notes to the financial statements in the relevant sections of the IFRS for SMEs according to the specific features of their activities, namely: on the business characteristics of SMEs.

To accelerate the harmonization of financial reporting of SMEs in Azerbaijan, one of the necessary requirements is to increase the use of innovative solutions that help improve the activities of SMEs. The analysis of the global innovation index for 2019 showed that Azerbaijan ranked 84th out of 129 countries, which is two positions lower than in 2018, and in 2023, 89th out of 132 countries (World Intellectual Property Organization, 2023). Such data indicates that the country continues to face problems in the development

of innovative activities and the application of its results in practice. In order to develop an effective policy aimed at the development of innovation activity, the Government of Azerbaijan needs to collect information from the financial statements on the innovation activity of companies in order to be able to manage the development of this area.

As a result, it should be highlighted that Azerbaijan's SMEs played a significant role in the growth of the national economy. For the further successful development of SMEs in the context of globalization, a necessary condition is the harmonization of their financial statements to international standards. The study revealed significant inconsistencies between the basic concepts and principles of individual sections of IFRS for SMEs, which make it more difficult for SMEs to prepare financial statements in compliance with IFRS, namely: different approaches to presenting useful financial information to the qualitative characteristics; shortcomings in the definition of methods for valuation of assets, liabilities, income, and expenses in IFRS for SMEs; the need to use simpler approaches for SMEs in terms of presenting assets, liabilities, income, and expenses in financial statements; inadequate broad disclosure of the data in the financial statements' explanatory notes. These problems and shortcomings have become the basis for developing proposals for improving approaches to the preparation of SME financial statements, which will improve its quality and bring it closer to the requirements of international standards.

■ DISCUSSION

The findings obtained as a result of the study allowed to assert that the developed proposals were aimed at increasing the requirements for the quality of reporting compiled by SMEs and its harmonization with international standards. As a result of the study, it was proved that the existing differences in approaches to describing the characteristics of financial reporting information, which are specified in section 3 of the Fundamentals and section 2 of the IFRS for SMEs, require improvement in the grouping of qualitative characteristics and, in general, an increase in the requirements for the quality of SME reporting.

Other scientists who have investigated the significance of the quality of reporting information backed a similar position. Indonesian scientists T. Rahayuningsih & W. Utami (2022) looked at what factors determine how well SMEs disclose their financial information. The authors assessed the impact on the quality of financial reports of

SMEs of information technologies used for accounting, the competence of SME accountants, as well as their understanding of accounting and reporting standards for SMEs. The study's findings demonstrated to the authors that the aforementioned elements significantly improved the calibre of financial reports for SMEs. In turn, the Romanian scientists E. Budai *et al.* (2021) in their studies systematized various approaches to the quality of financial reporting, considered the relevance of the identified aspects of the quality of reporting by SMEs, as well as the adaptability of methods for testing the quality of financial reporting before applying them in practice. Another area that requires improvement in order to eliminate difficulties in preparing financial statements in accordance with IFRS for SMEs is the difference in approaches to the valuation of assets, liabilities, income, and expenses, on the basis of which it is proposed to take into account the requirements for valuation at a possible, current and present value when using the cost and fair value methods (Kalyuzhna *et al.*, 2024). On this occasion, also was conducted the research by the Hungarian scientists Z. Széles *et al.* (2019), who highlighted the potential and difficulties in applying the fair value approach practically to SMEs' financial statements. The authors emphasized that the fair value model was often used as a more appropriate valuation method compared to the cost model for a specific group of business entities, namely: SMEs. The paper compared the use of valuation methods for SMEs and large enterprises and showed the advantages of using the fair value model.

The importance of assessing the assets of enterprises, which are the main component of economic relations, was shown in the research of the Ukrainian scientist I. Kalynichenko (2020), who aimed to investigate theoretical and methodological requirements and create practical suggestions for estimating the value of firm assets for management choices. The author proved that for the pricing mechanism of such an asset as real estate, it is important to evaluate these objects by the owners themselves, and also advised utilising the owner's rate of return rather than the market rate. One should agree with the point of view of many scientists who focus on the difficulties faced by SMEs in many countries during the transition to international standards (Petrenko *et al.*, 2023). For example, Tunisian scientists H. Khlif *et al.* (2020) emphasized that the main problems include: ignorance of the features of accounting systems based on IFRS principles by professional SME accountants, as well as difficulties in assessing fair value for SMEs.

Approaches with which one can fully agree are emphasized by Qatari scientists A. Al-Bakri *et al.* (2014), who revealed the nature and requirements for displaying financial information on SMEs compared to large corporations in Jordan. The authors, using a questionnaire, collected data on the information required for disclosure, prepared in accordance with IFRS. According to the data, the proportion of critical things that should be revealed in SMEs' reporting was 40%, whereas large firms reported 90%. The form and degree of disclosure in SMEs' financial statements received increased attention. Confirming the authors' point of view, SME workers should be encouraged to improve the effectiveness of accounting and control systems, which improves the efficiency of their financial reports and assures more transparency and disclosure of their financial data.

Valuable research was carried out by Brazilian scientists F.J.A. Gonçalves *et al.* (2022), who studied the elements that influence the application of the IFRS for SMEs in Brazil and showed that the main factor is the discrepancy between the perception of difficulties by accountants and the nature of the difficulties themselves that arise in reporting. In this regard, the position of the authors on the necessity to expand the availability of educational programmes for accountants and encourage the adoption of worldwide standards warranted consideration. A similar study was conducted by the Swedish scientist M.M. Bengtsson (2021), who considered the obstacles to the complete or partial non-acceptance of IFRS. The author classified the factors into three significant categories. The paper logically emphasized the importance of the country's government showing caution when interpreting the results of the implementation of IFRS.

Egyptian scientists M. El-Helaly *et al.* (2020) investigated the connection between cultural factors and policy decisions on the adoption of IFRS. It has been demonstrated that the adoption of IFRS depends on how little these standards are used. Fully concurring with the authors, it is important to emphasize that variations in national culture significantly influenced how countries reacted to the implementation of IFRS as a means to standardize accounting and reporting practices globally. American scientists M. Rykaczewski *et al.* (2022) highlighted that tax-based accounting predominates in financial reporting in Eastern European countries. This circumstance has led to diminished interest among potential shareholders and creditors. The leaders of most SMEs continue to struggle with the outdated mind-sets of accountants and the poor performance of local auditors (Wolff & Liñeira, 2023).

Alongside this study the affirmations of the German scientist A.H. Güngörmüş (2020), who also considered the issues of the independent audit of SMEs and demonstrated that, in order for SMEs to achieve meaningful outcomes, shared objectives in the fields of accounting and audit are required, and they merit consideration. In addition to the difficulties that SMEs face in preparing financial statements under IFRS, as other authors argue, there are factors that negatively affect the usefulness of SME financial reporting. One of these factors, according to the results of a study by Estonian scientists O. Lukason & M.D.M. Camacho-Minano (2021), is a violation of the deadlines for the submission of annual reports of SMEs. The following categories of variables were identified by the authors as contributing factors to this phenomenon: the incidence of financial challenges, corporate governance features, and management conduct.

Georgian scientists V. Charaia *et al.* (2021) studied digitalization trends in the Central Caucasus countries (Georgia, Azerbaijan, and Armenia) and the Baltic countries in order to reduce the financial gap for SMEs in the Central Caucasus countries. Scientists in their work proved that the SME sector continues to face significant credit constraints. Modern digital technologies, which are already widely used in the Baltic countries, should be applied in Georgia, Azerbaijan, and Armenia to improve the system of accounting and reporting of SMEs in these countries (Manachynska *et al.*, 2024). Despite a number of difficulties that arise in the preparation of SME reporting in accordance with international standards, one cannot

fail to say about the usefulness of these standards. Australian scientists D. Perera *et al.* (2022) demonstrated that ensuring users' input in the creation of accounting and reporting standards was essential to meeting their genuine demands for financial information.

Thus, the examination of other scientists' research findings on the difficulties of creating financial statements for SMEs validated the conclusions and ideas offered in this paper. The proposed ways to reduce the difficulties and discrepancies in the preparation of financial statements in accordance with IFRS for SMEs are mainly in the need to eliminate discrepancies in approaches to the assessment of assets, liabilities, income, and expenses and their reflection in the statements, compliance with the requirements for the qualitative characteristics of statements in accordance with IFRS, and the use of simpler approaches to the presentation of these financial elements in the financial statements. This will improve the quality and utility of financial data in SMEs' reporting, as well as investor interest in their future development.

■ CONCLUSIONS

The conducted scientific research showed that the compliance of the financial statements of SMEs with international requirements is the main condition for increasing the comparability of the results of doing business for SMEs at the global level. The goal formulated in this work and the analysis of the preparation of SME financial statements allowed the development of the following proposals. It was proposed to adopt the information quality indicators in the financial statements given in paragraphs of section 2 "Basic concepts and principles" of the IFRS for SMEs in accordance with the quality characteristics included in section 3 "Qualitative characteristics of useful financial information" of Fundamentals in order to eliminate discrepancies

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in approaches before determining the qualitative characteristics of the financial statements of SMEs in Azerbaijan in accordance with IFRS for SMEs and the Fundamentals. The necessity of making changes to paragraph 2.34 of the section 2 of the IFRS for SMEs in terms of using the initial and fair value methods based on the requirements for applying valuation at: possible, current, and present value for the valuation of assets, liabilities, income, and expenses was justified, which can improve the valuation of assets, liabilities, income, and expenses of SMEs in Azerbaijan.

The importance of using simpler approaches to reflect assets, liabilities, income, and expenses in financial statements was proved, which consist in: displaying, in accordance with article 5.1 of section 5 of the IFRS for SMEs, the financial results of an enterprise for a period in one financial statement; presentation of information on cash flows from operations, in accordance with clause 7.7 of section 7, only on the basis of the direct method in the statement of cash flows for the period for the enterprise. This will simplify the perception of financial information by users. The necessity of providing a more comprehensive disclosure of the data included in the financial statements' explanatory notes was emphasised, taking into account the unique aspects of business operations. The main directions for further research in this direction will be an in-depth study of the shortcomings in the requirements of the IFRS for SMEs, which are the reason for the insufficient reflection of the real state of SMEs in a constantly changing economic environment both within the country and at the global level.

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■ CONFLICT OF INTEREST

None.

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Проблеми підготовки фінансової звітності бізнесу за міжнародними стандартами

■ **Анотація.** Актуальність дослідження зумовлена необхідністю пошуку шляхів підвищення якості та гармонізації фінансової звітності суб'єктів малого та середнього бізнесу в Азербайджані згідно з міжнародними вимогами. Метою роботи був аналіз звітності азербайджанських малих і середніх підприємств, а також виявлення суттєвих невідповідностей між основними поняттями та принципами в окремих розділах міжнародних стандартів, усунення яких дозволить підвищити співставність фінансових даних азербайджанських підприємств на глобальному рівні. Основу методологічного підходу склали: аналіз статистичних даних, за допомогою якого було досліджено зміну кількості малих та середніх підприємств в Азербайджані за 2018-2023 роки; метод аналогії для порівняння якісних характеристик фінансової звітності, зазначених у «Концептуальній основі фінансової звітності» та міжнародних стандартах. До основних результатів необхідно віднести пропозицію щодо прийняття показників якості інформації у фінансовій звітності відповідно до характеристик, визначених «Концептуальною основою фінансової звітності»; обґрунтування необхідності використання методів первісної та справедливої вартості, з огляду на оцінку можливої, теперішньої та дисконтованої вартості активів, зобов'язання, доходи і витрати, а також використання простіших підходів до їх відображення у фінансовій звітності; доведення необхідності ширшого розкриття інформації, представленої у пояснювальних записках фінансової звітності, що сприятиме підвищенню якості та корисності інформації про фінансовий стан суб'єктів господарювання. Результати наукової роботи, а також сформульовані на їх основі висновки матимуть практичне значення для керівників підприємств малого та середнього бізнесу, керівництва країни, аудиторів фінансової звітності

■ **Ключові слова:** співставність інформації; концептуальні підходи; відображення активів; інновації; гармонізація