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Transparency and Disclosure

Azerbaijan

Gap-analysis of Main Differences between the National Accounting and Financial Reporting Rules and International Accounting Standards (IAS)

(as of 01.06.2000)

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Preamble

The IRFAA Eurasia Accounting Standards Committee has prepared the gap-analysis of 30 main accounting and reporting differences between IAS and standards of new independent member states of Eurasia, former republics of the USSR, in order to assist them in carrying out further reforms of accounting system in accordance with IAS requirements.

IAS are constantly improved by the experienced specialists from different world market economies, who are serving on the International Accounting Standards Committee. Thus, the users of IAS have an access to the invaluable long-term practical experience of IAS application.

Successful experience of IAS application in more than 70 market economies world-wide has showed that the reform of the accounting system in accordance with IAS helped them:

- Make the process of integration into the world economy easier and faster;
- Facilitate the process of attracting foreign investments;
- Receive credits and loans;
- Give a true and fair view of the real financial position of an enterprise.

Financial statements prepared in strict accordance with IAS allows the users to make a true assessment of the enterprise's state of affairs, its position and importance not only in the national economy but in the world economy as well.

That is why the Eurasia member countries have unanimously decided to work towards implementing IAS in their accounting and reporting practice.

The first step in this direction is the preparation of a gap-analysis.

The gap-analysis materials may be used only as a reference manual prepared on the basis of the IAS text.

The objective of The Accounting Standards Committee of IRFAA Eurasia is not to show absolutely all the IAS requirements and rules. The analysis highlights only those accounting principles and rules that are practically different from national rules (standards, instructions) of the Eurasia member countries.

Azerbaijan Republic

Gap-Analysis Outline

1. **Main differences between the contents of the national financial statements and financial statements prepared in accordance with IAS.**
2. **Main differences between IAS rules and national accounting rules.**

1. **Main Differences between the Contents of the National Financial Statements and Financial Statements Prepared in Accordance with IAS:**

- **Main Users of Financial Statements**
- **Main Types of External Financial Statements**
- **Assets**
- **Liabilities**

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- **Contributions of Owners**
- **Equity**
- **Distribution of Equity to Owners**
- **Revenue from Operating Activities of the Enterprise**
- **Revenue from Other Activities of the Enterprise and Events that Occurred**
- **Costs related to Operating Activities of the Enterprise**
- **Costs related to Other Activities of the Enterprise**
- **Economic Profit**
- **Types of Financial Statements**
- **Balance Sheet**
- **Cash Flow Statement**
- **Model Structure Notes to Financial Statements**
- **Financial Statements Consolidation Rules**
- **Impact of Hyperinflation on Financial Statements**

Main Users of Financial Statements

IAS reporting rules	National reporting rules
• Shareholders/Owners • Investors • Goods (services) suppliers and customers • Statistical agencies and rating companies • Organisations that regulate operating procedures on the stock market • Fiscal organs of executive power	• Shareholders/Owners • Investors • Goods (services) suppliers and customers • Statistical agencies and rating companies • Organisations that regulate operating procedures on the stock market • Fiscal organs of executive power

Main Types of External Financial Statements

IAS reporting rules	National reporting rules
• Tax returns that are filed on the basis of tax legislation, rules and instructions of accounting for taxes. • Financial statements that are prepared in accordance with IAS and requirements of organisations that regulate the operating procedures on the stock market	• Tax returns that are filed on the basis of tax legislation, rules and instructions of accounting for taxes. • Financial statements that are prepared in accordance with IAS and requirements of organisations that regulate the operating procedures on the stock market

Assets

IAS reporting rules	National reporting rules
• Resources controlled by an enterprise as a result of past transactions or events, and from which future economic benefits are expected to flow to the enterprise. • Assets show the ability of the enterprise to generate directly or indirectly net cash proceeds and • The ability of a specific enterprise to receive benefits and exercise control over the impact on the state of its assets, • Availability of transactions or events that give the right to enjoy benefits and control the generation of benefits, • Other (optional) characteristics of assets.	• An enterprise's resources consisting of its property, plant and equipment, other long-term investments, current assets and financial assets (including intangible assets). • Assets show the ability of the enterprise to generate directly or indirectly net cash proceeds and • The ability of a specific enterprise to receive benefits and exercise control over the impact on the state of its assets, • Availability of transactions or events that give the right to enjoy benefits and control the generation of benefits, • Other (optional) characteristics of assets.

Liabilities

IAS reporting rules	National reporting rules
• Possible future economic costs that will be incurred by an enterprise if there are real circumstances arising as a result of past transactions or events relating to the	• Liabilities consist of debts including accounts payable (except for subventions, subsidies, etc.)

transfer of assets or provision of services. • Debt to one or several enterprises (persons). • Liabilities that will lead to expenses in the future. • Transactions or events that lead to a liability. • Other (optional) characteristics.	• Debt to one or several enterprises (persons). • Liabilities that will lead to expenses in the future. • Transactions or events that lead to a liability. • Other (optional) characteristics.

Contributions of Owners

IAS reporting rules	National reporting rules
• Increase in the amount of net assets of an enterprise as a result of its coming into possession of assets, in other words, an increase in equity.	• Increase in the amount of net assets of an enterprise as a result of its coming into possession of assets, in other words, an increase in equity.

Equity

IAS reporting rules	National reporting rules
• Difference between total assets and total liabilities.	• The residual part in the assets of the enterprise after deducting all its liabilities.

Distribution of Equity to Owners

IAS reporting rules	National reporting rules
• Decrease in net assets as a result of the transfer of assets, provision of services or for the reason of increasing liabilities to owners of the enterprise.	• Decrease in net assets as a result of the transfer of assets, provision of services or for the reason of increasing liabilities to owners of the enterprise.

Revenue from Operating Activities of the Enterprise

IAS reporting rules	National reporting rules
• Proceeds and other types of an increase in assets, decrease in liabilities during the reporting period at the moment of shipping products, providing services or carrying out transactions that are operating activities of the enterprise, i.e. the activities for the purpose of which the enterprise was established.	• Sales revenue is determined on the basis of peculiar features of an enterprise's business and conditions of contracts entered into by this organisation (i.e. in case of cashless settlements - based on amounts supported by payment documents and transferred to the enterprise's current bank account, in case of cash settlements – based on amounts received by the enterprise's cash desk), or on the basis of goods and services sold and paid for, or on the basis of goods shipped, work performed and accepted, services provided as the invoices (not paid yet) are issued to the customer.

Revenue from Other Activities of the Enterprise and Events that Occurred

IAS reporting rules	National reporting rules
• Increases in net assets of an enterprise at the moment of carrying out secondary activities, in other words, transactions that were not anticipated, other transactions and events during the reporting period, other transactions relating to operating activities of the enterprise and contributions of owners.	• Increases in net assets of an enterprise at the moment of carrying out secondary activities, in other words, transactions that were not anticipated, other transactions and events during the reporting period, other transactions relating to operating activities of the enterprise and contributions of owners.

Costs Related to Operating Activities of the Enterprise

IAS reporting rules	National reporting rules
• Costs or other use of assets or an increase in liabilities during the reporting period at the moment of shipment of goods, provision of services or as a result of other transactions relating to operating activities.	• Costs are recognised as expenses of a certain period simultaneously with the recognition of the revenues, for generation of which they were incurred. Revenues, in their turn, are recognised on the cash basis (as cash for goods shipped and services performed is received), or on the accrual basis (as goods are shipped and services are performed). If an enterprise applies the cash basis of accounting to recognise its revenue, costs incurred to generate this revenue should also be recognised on the cash basis; if an enterprise applies the accrual basis of accounting to recognise its revenue, costs incurred to generate this revenue should be recognise on the accrual basis (Tax Code, Articles 130 –134).

Costs Related to Other Activities of the Enterprise

IAS reporting rules	National reporting rules
• Decrease in net assets as a result of secondary transactions or transactions which were not anticipated, other transactions and events during the reporting period, including other transactions relating to operating activities and expenses relating to the distributions to owners.	• Decrease in net assets as a result of secondary transactions or transactions which were not anticipated, other transactions and events during the reporting period, including other transactions relating to operating activities and expenses relating to the distributions to owners.

Economic Profit

IAS reporting rules	National reporting rules
• Changes in the composition of equity (net assets) during the reporting period as a result of carrying out transactions or arising events which do not concern the owners. In other words, any changes in the composition of equity other than those relating to contributions of owners or distributions to owners.	• Reported accounting profit (loss) includes profit (loss) from the sale of an enterprise's property, plant and equipment, other assets, products (goods and services) as a final financial result of business transactions and assessment of balance sheet items as well as income from non-selling transactions (less total expenses related to these transactions). • Profit (loss) from the sale of products (goods and services) is determined in accordance with current prices as a difference between the revenue from the sale of products (goods and services) and their production and selling costs without deducting taxes and other mandatory charges required by Azerbaijan law.

Types of Financial Statements

IAS reporting rules	National reporting rules
• Balance Sheet (for at least two previous years).	• Balance Sheet (indicating the data as of the beginning and end of the reporting year).
• Income Statement	• Income Statement
• Cash Flow Statement	• There is no such statement.
• Statement of Changes in Equity	• Appendix to the balance sheet on movements in property, plant and equipment, current assets, equity, cash, intangible assets, financial and capital investments and other assets and liabilities (Accounting Law Art.

• Notes to Financial Statements	31). • Notes to the annual balance sheet of a legal entity.

Balance Sheet

IAS reporting rules	National reporting rules
• It is allowed to prepare the balance sheet in any of the forms listed below: – Vertical form – Horizontal form – Financial position form .	• It is allowed to prepare the balance sheet only in a vertical form.

Cash Flow Statement

IAS reporting rules	National reporting rules
• It is allowed to prepare the statement using any of the two methods: – Direct method. – Indirect method.	• This statement has not been implemented in accounting and reporting practices of Azerbaijan.

Model Structure of Notes to Financial Statements

IAS reporting rules	National reporting rules
• Accounting policies.	• Balance sheet and assessment methods used in preparing the annual balance sheet are explained to the extent necessary for receiving accurate information on the status and profitability of a legal entity.
• Structural and organisational changes.	• Deviation from balance sheet and assessment methods used in previous balance sheets is disclosed and explained; their impact on the status, financial position and profitability of a legal entity is described.
• Contingent and future liabilities.	• Payment or non-payment of interest on borrowed capital
• Borrowed funds.	• Total amount of other financial liabilities not reported in the balance sheet, including also long-term liabilities relations with the indication of a legal entity's expenses before the contract expiry date.
• Terminated transactions.	• Unplanned depreciation charges are explained and substantiated.
• Unexpected and non-standard transactions and events.	• Total amount (salary, sharing in profits, payment of expenses, commission fee and other additional charges), administrative expenses.
• Changes in accounting, accounting estimates and correction of previously made mistakes.	• Existence of share contribution to a legal entity's capital.
• Financial instruments.	• Legal and business relations with legal entities based in this country and economically related, and also commercial transactions being carried out with these legal entities that may significantly influence the status of this legal entity
• Enterprises in financial difficulty.	• Last names and at least one full name of all those

• Foreign exchange transactions. • Income tax. • Inventories. • Investments. • Leasing and leases. • Retirement benefits plan. • Property, plant and equipment. • Financial reporting in hyperinflation economies. • Research and development. • Accounts payable and loans granted. • Transactions with related parties.	responsible for managing the legal entity, names of all the Supervisory Board members and of all those who resigned during the fiscal year and later • Names of the Chairman of the legal entity's Management Board and Chairman of the Supervisory Board

Financial Statements Consolidation Rules

IAS reporting rules	National reporting rules
• A parent company that prepares consolidated financial statements should consolidate all its subsidiaries (branches, joint ventures, affiliated companies, business entities in which the parent company has a controlling interest or the majority of votes in the board of directors, or has such influence on the decision-making process that can make the further work of the controlled business entity impossible) located both within and outside the country. • Subsidiaries (business entities) are not subject to consolidation if the control of the parent company is considered temporary, or such subsidiary is operating under conditions that significantly reduce its ability to reallocate resources in favour of a parent company.	• As of the date of this analysis, Azerbaijan has no rules for the consolidation of financial statements.

Impact of Hyperinflation on Financial Statements

IAS reporting rules	National reporting rules
• The financial statements reported in a hyperinflationary economy, regardless of the approach used (a historical cost approach or a current cost approach), should be expressed in terms of the measuring unit current at the balance sheet date. • The relevant information of the preceding period and any information relating to preceding periods should	• As of the date of this analysis, Azerbaijan has no rules that take into account the impact of hyperinflation on the financial statements.

also be expressed in terms of the measuring unit current at the balance sheet date. • *Balance Sheet.* Balance Sheet amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated applying a general price index. • *Income Statement*. It is required that all items in the income statement are expressed in terms of the measuring unit current at the balance sheet date. Therefore all amounts need to be restated by applying the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.	

Main Differences between IAS Rules and National Accounting Rules:

- **Property, Plant and Equipment**
- **Investments**
- **Intangible Assets**
- **Inventories**
- **Low Value Items**
- **Accounts Receivable**
- **Advances Paid**
- **Equity**
- **Liabilities**
- **Contingent Liabilities**
- **Expenses**
- **Deferred Taxes**

Property, Plant and Equipment

IAS accounting rules	National accounting rules
• The amount of acquired items of property, plant and equipment do not change the total assets. • Revaluation of property, plant and equipment is allowed only in extraordinary cases. • There are no limitations as for the minimal value of such an asset as an item of property, plant and equipment. • Freedom to choose a depreciation method. • Different depreciation methods for financial and tax reporting. • The depreciation period is determined by an enterprise based on the useful life and obsolescence of an item of property, plant and equipment. • The depreciation starting date is determined by an enterprise. • The depreciation of the idle equipment (the equipment that do not attribute its cost to the production costs) is not allowed.	• Property, plant and equipment and intangible assets are recorded at their full historical cost. • An enterprise revalues its property, plant and equipment in cases provided by Azerbaijan law. • Minimal value of such an asset as an item of property, plant and equipment is determined by law. • Depreciation methods are determined by law. • Different depreciation methods for financial and tax reporting. • The depreciation period is determined by an enterprise based on the useful life and obsolescence of an item of property, plant and equipment. • The depreciation starting date is determined by law – it begins from the first day of the month following the one in which equipment is put into operation. • All items of property, plant and equipment reported in the balance sheet are depreciated, except for those that are in temporary conservation.

Investments

IAS accounting rules	National accounting rules
• Investments are accounted for at the lower of : - cost and - market value • The following consolidation methods are used: - method of acquisition - method of uniting of interests.	• For investors, financial investments are included in the total amount of actual expenses.

Intangible Assets

IAS accounting rules	National accounting rules
• The depreciation period is determined on the basis of useful life and obsolescence.	• The depreciation period is determined on the basis of useful life of intangible assets. If it is impossible to determine the useful life of intangible assets depreciation rates are determined for a period of ten years (but not more than the expected life of the enterprise) (Accounting Law, Art. 19.11).
• Goodwill is amortised.	• Goodwill is amortised during the following four years. Goodwill is allowed to be amortised on the basis of its useful life (Civil Code Art. 121.13)

Inventories

IAS accounting rules	National accounting rules
• Inventories are reported at the lower of: - cost and - fair market value.	• Raw materials, basic and auxiliary materials, fuel, purchased semi-finished goods, components, spare parts, packaging materials and other materials used for packing and transporting goods are recorded at net cost.
• Cost includes only direct variable costs and production overhead costs (equivalent of general production costs in Soviet accounting)	• Costs include cost of raw materials and supplies, production costs, specific production costs. Manufacturing costs may include, to a reasonable extent, general material costs, general production costs and depreciation of capital providing they could be attributed to manufacturing costs. (Civil Code, Art. 121.11).
• Revaluation is possible only to decrease the value	• Assets, the value of which decreased over the year, or which became obsolete and partially lost their quality, are recorded at the year-end at realisable value.
	• Inventories cost measurement methods (it is important to use the selected method consistently): 1. LIFO; 2. FIFO; 3. Weighted average cost.
• Revaluation decrease is recognised as an expense of the accounting period	
• General production costs are included in the product (service) cost only on the conditions of the normal work of production facilities.	
• Inventories cost measurement methods (it is important to use the selected method consistently): 1. LIFO 2. FIFO 3. Weighted average cost 4. Special.	

Law Value Items

IAS accounting rules	National accounting rules
• They are written off and included in the expenses of the reporting period at the moment of purchase.	• They are written off and included in the expenses of the reporting period at the moment of their transfer from

• They completely disappear from accounting.	warehouse into operation in the amount of 50% of their cost, the remaining 50% is written off and included in the expenses of the period when these inventories are liquidated as unusable. • They are recorded at cost less accrued depreciation of 50%.

Accounts Receivable

IAS accounting rules	National accounting rules
• Provision for doubtful accounts receivable is based on the accounting estimates.	• Uncollectible accounts receivable are allowed to be written off if these amounts were earlier included in revenue from operating activities as a debt without price. Enterprises that carry out bank transactions provide for doubtful accounts receivable on the basis of accounting estimates.
• It is allowed to form both special and general provisions.	• The concept of the general provision does not exist.
• To show the part of the assets' value, assets are decreased by the amount of provisions accrued.	• Assets are recorded at net realisable value of accounts receivable.

Advances Paid

IAS accounting rules	National accounting rules
• They are recorded as an asset, for which a prepayment has been made.	• They are recorded as an asset (advances) provided to other enterprises as part of future mutual payments.

Equity

IAS accounting rules	National accounting rules
• Equity is a difference between assets and liabilities. In other words, equity is everything that belongs to the owners of the enterprise. • Equity comprises: - Share capital - Share premium - Non-current assets revaluation surplus - Reserves - Retained earnings	• Equity is a difference between assets and liabilities. In other words, equity is everything that belongs to the owners of the enterprise. • Equity comprises: - Share capital - Share premium - Non-current assets revaluation surplus - Reserves - Retained earnings

Liabilities

IAS accounting rules	National accounting rules
• Liabilities are recorded according to the accrual method on the basis of accounting estimates, even if there are no supporting documents.	• Liabilities are recorded according to the accrual method on the basis of accounting estimates, even if there are no supporting documents.

Contingent Liabilities

IAS accounting rules	National accounting rules
• They are recorded according to the accrual method and debited to expenses or credited to accrued liabilities if the probability of their occurrence is more than 50%.	• There is no such rule.

Expenses

IAS accounting rules	National accounting rules
• All changes in net assets, other than those relating to owners, are attributed to income or expenses of the accounting period.	• All changes in net assets, other than those relating to owners, are attributed to income or expenses of the accounting period.

Deferred taxes

IAS accounting rules	National accounting rules
Deferred taxes are calculated to show the difference between financial and tax accounting.	• There is no such rule.

Note:
At present, the Law of Azerbaijan "On Accounting" is under development.