

Improvement of Financial Results Accounting in Insurance Companies in Reliance Upon International Standards

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Abstract. This article is devoted to the consideration of the issues related to the formation of income and expenses in insurance companies in our country and improving their recognition in accounting. The necessity to formulate financial results of insurance companies in the form of a “Profit and Loss account” based on international financial reporting standards has been substantiated.

Keywords: Income, expenses, profit, loss, financial results.

1. INTRODUCTION.

Currently many researches aimed at organizing the accounting of financial results based on international standard, are being conducted under conditions of the global economy. These researches are devoted to the issues of recognition of income and expenses, formation of financial results in different balance sheet theories, reflection of financial results in accounting according to different concepts, improvement of accounting information supply on financial results, as well as improvement of the analysis of profitability indicators. It should be noted that improvement of classification of income and expenses, formation of reporting indicators on gross income, increase of reliability of accounting information on financial results, determination of profitability indicators has been achieved in the focus areas of the research. However, essential issues related to the organization of accounting and reporting of financial results at the level of international standards have not yet been adequately resolved.

In particular, it is crucially important to ensure transparency of financial reports of economic entities, to develop the indicators of financial results in reliance upon the requirements of international standards, and to confirm the reliability of information about financial results. Development Strategy of New Uzbekistan for 2022-2026 has set such precise Aim 2 as “By ensuring stable high growth rates in economic sectors achieve 1.6 times increase of the GDP per capita in the next five years and by 2030 the increase of the income per capita must account for 4 thousand USD”, as well as “creating the ground for joining the ranks of countries with higher than average income”, improvement of income accounting in organizations based on international experiences. Elimination of problems related to accounting and reporting of financial results requires formation of information on financial results at the level of international standards.[1]

In particular, such statutory acts have been adopted as the Resolutions of the President of the Republic of Uzbekistan №PR-4412 “On the measures to reform the insurance market of the Republic of Uzbekistan and ensure its rapid development”, №PR-5265 “On additional measures to digitize the insurance market and develop the life insurance sector”, №PR-4611 dated February 24, 2020 “On additional measures of transition to international financial reporting standards” and they serve as an essential methodological foundation in the implementation of tasks determined in a number of other normative legal documents related to this field.[2]

2. LITERATURE REVIEW.

Development of information on financial results is significant for all users. In the scientific and theoretical literary sources on accounting, the financial result often implies as the final economic outcome of the activity of an economic entity expressed in the form of profit or loss.

Avlokhlov A.Z. has developed the following definition: “Financial results are completed with the calculation of profit and loss and also reflect the increase or decrease of the assets of the economic entity in a certain period”. [4]

According to F. Gulomov, “Accountants can specialize in many focus areas in the conditions of transition to market relations. Accountants dealing with financial results prepare the information required for external users, that is, creation of external reports of the enterprise is the final product of their performance.”

From the point of view of A.A. Karimov, “Financial results are the increase or decrease of the funds owned by an economic entity in the process of its business activity during a certain reporting period. In accounting, the result of such activity is determined by calculating all profits and losses during the reporting period.”

In the opinion of I.S. Vinnikova, “The financial result is the outcome of the difference between the income received from insurance and other activities carried out by insurers in compliance with the current legislation and the expenses included in the price of insurance services and other work, adjusted for the amount of directly financially related income and expenses”. [5]

Taking into consideration the specific peculiarities of the insurance industry, I.K. Ochilov stated that the financial results “The financial result of insurance companies is the increase (decrease) in the capital expressed in the form of profit or loss during the reporting period as the difference between the insurance premiums earned under the concluded contracts and the recognized expenses with other recognized income.” [6]

In our opinion, the financial result of insurance companies is the difference between premiums earned under insurance contracts and other income and expenses recognized, as well as the result of changes in reserves.

The financial result of insurance companies is determined like the financial result of all other economic entities, but it is necessary to take into consideration the specific nature of the industry. In reliance upon the research results we interpret the financial result in the form of income, expenses, profit and loss.

The final result of the activity is determined by the traditional form of profit or loss calculation according to the following formula:

$$\text{Profit (loss)} = \text{income} - \text{expenses}$$

3. RESEARCH METHODOLOGY.

In this research paper such methods as observation, data collection, summarization, grouping, comparison have been widely applied. In addition, the author has developed relevant proposals and recommendations based on the investigations of domestic and foreign scholars on economic relations in the service sector and the pandemic and its impact on the insurance sector, as well as the problems and their solutions.

4. ANALYSIS AND RESULTS DISCUSSION

In the financial statements of an insurance company, the profit or loss is usually reflected in the income statement, also known as the profit and loss account. This statement summarizes the company’s revenues, expenses, and resulting net income or loss for a specific period.

The income statement for calculating profit or loss includes the following components:

Table 1. Income structure of insurance companies [7]

Income structure	Essence
1. Income from insurance premiums:	It represents the income earned on insurance premiums paid for insurance coverage.
2. Income on investments:	This includes income from the company’s investment portfolio, such as interest, dividends and capital gains.
3. Income and expenses on underwriting:	This is the difference between the premiums received and the claims and expenses incurred by the company. A positive underwriting income indicates a profit, while a negative underwriting income indicates a loss.
4. Operational expenses:	These are the expenses incurred to perform insurance operations such as wages, marketing costs, rent and administrative costs.
5. Other income and expenses:	This category includes any non-operating income or expenses that are not directly related to insurance operations, such as gains or losses on the sale of assets or changes in exchange rates.

By subtracting total expenses from total revenue, the income statement calculates net income or loss for the period. A positive net income indicates profitability, while a negative net income indicates a loss.

It should be noted that insurance companies often have uniform accounting requirements and special rules governing financial statements.

Correctly reflecting or recognizing the income and expenses calculated from the elements of the financial statement in the reports is currently relevant.

Before considering the practice of accounting of income and expenses of insurance organizations, we think that it is necessary to analyze the concepts of income and expenses. In the economic literature, the concepts of income and

expenses are interpreted in different ways.

International Financial Reporting Standards (IFRS) defines “Income as an increase in economic value during the reporting period, in the form of an increase in capital that is not related to the contributions of equity participants, through the outflow or growth of assets, or through the reduction of liabilities”. On the other hand, according to the IFRS “Expenses are a decrease in economic value in the form of a decrease in capital that is not related to the distribution of equity capital by participants in the reporting period, through the outflow or decrease of assets, or through the increase of liabilities”.

It should be noted that the purpose of recognizing income and expenses in insurance companies is their correct reflection in the financial statements and accurate determination of the final financial result.

Currently, income and expenses are reflected (recognized) in accounting using the accrual method. There is also a cash method of recognizing income and expenses in international practice

If we consider these two methods of recognition, they have their own peculiarities. In the cash method of accounting, revenues are recorded when funds are received, and expenses are recorded when payments are made. It is designated to formulate the information about the funds available in the financial statements prepared in the activities of economic entities. It provides an economic entity with the opportunity to pay taxes from the income, but does not create conditions for making economic decisions.

The accrual method recognizes income and expenses in accounting and reflects them in financial statements based on the period in which they occur or arise, rather than on the basis of receipt or payment of funds.

Incomes and expenses are reflected in accordance with accounting standards in the reporting period, regardless of the time of payment and the date of money receipt [2].

The accrual method not only informs the users of financial statements about the funds received and paid in the past period, but also provides information about the occurrence of the obligation to pay funds in the future or the possibility of receiving funds. Thus, it provides users with information about past transactions and events that are necessary for making economic decisions.

In our opinion, recognition of income and expenses by the accrual method has the following advantages:

1. Income and expenses are not tied to a specific time, but to the reporting period, because the economic process is a continuous process;
2. Each expense is made to obtain a certain amount of income, and the relationship between them can only be observed by the accrual method;
3. The distribution of expenses over time is related to the receipt of income, the reason for the relationship between income and expenses is the equal distribution of financial results during the reporting period;
4. Calculation of income and expenses enables to determine the time of occurrence of demands and obligations.

Under the accrual method, income is recognized in the statement of financial results when there is an increase in future economic value associated with an increase in assets or a decrease in liabilities. In this case, it should be able to accurately measure. This actually occurs at the same time as an increase in assets or a decrease in liabilities is recognized.

In addition, expenses are recognized in the statement of financial results if there is a decrease in future economic value associated with a decrease in assets or an increase in liabilities under the accrual method. In this case, expenses should also be able to be accurately measured.[9]

The expense is recognized in the statement of financial results by comparing the expenses incurred and the income received.

In our opinion, in the recognition of income and expenses in insurance companies the main focus should be on the correct determination of the time of activity and strict adherence to the recognition criteria.

The following aspects are admitted as the criteria for recognition of income and expenses in the applicable statutory acts:

- a) when any economic benefit associated with them is likely to be received or spent by the entity; and
- b) an item should be recognized in the balance sheet when it has a reliably measurable value or price.

If these two criteria are met, income and expenses should be recognized in insurance companies. The significance of these criteria in accounting is that if one of them is not met, the recognition of income or expense is postponed until these criteria are fully met. Thereafter, income is measured at the value of cash received and expense at the amount paid.

The correct determination of the economic indicators of economic entities is directly related to the accurate

classification of income and expenses. [8]

In compliance with the Regulation on the structure of expenses, the income of insurance companies as a result of economic activity is grouped according to the following main sections:

1. net proceeds from the sale of insurance services;
2. other income from the core business (operational income);
3. income from financial activities.

This grouping of income is justified by the necessity to separately show the income from various activities in reporting in insurance companies. This fact enables to work out the information required for the parties interested in the activities of insurance companies.

In order to determine the net financial result of the insurance activity, all costs and expenses made during the reporting period should be correctly distributed.

All expenses must be divided into the expenses that are included in the prime-cost of insurance services sold and expenses that are not included in the prime-cost, but are included in the period expenses. The extraordinary profit indicator is shown separately in the presentation of financial results, but in international practice, it is not demonstrated separately in order not to be unclear or misleading to investors. International Financial Reporting Standard (IAS) 1 does not recommend the separate presentation of extraordinary revenue or losses.

In the financial result statement expenses related to obtaining income can be shown according to the following groups:

1. expenses included in the production prime-cost of the product;
2. periodic expenses;
3. expenses on financial activities.

The above-mentioned items of income and expenses are crucially important in determining the results of the activities of insurance companies because accurate accounting of these incomes and expenses during the reporting period allows accurate calculation of the results of the business.

5. CONCLUSION AND PROPOSALS

It is essential to ensure transparency of financial reports of insurance companies, to develop the indicators of financial results based on the requirements of international standards, to confirm the reliability of information about financial results.

In reliance upon the International Financial Reporting Standards, it is appropriate to formulate the financial results in insurance companies in the form of the report on “Profits or losses and other comprehensive income”. Compliance of the financial results of insurance compliance with the form of the “Profit or losses and other comprehensive income” report in reliance upon the requirements of international standards is ensured and it serves to develop the information required for foreign investors.

In our opinion, it is necessary to take into account the extraordinary profit (income) of insurance companies in accounts 9391 -“Extraordinary profit (income) and” 9440 - “Extraordinary loss”. This allows the report to be clear and understandable for foreign investors.

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