

IMPORTANT ASPECTS OF PREPARING THE FINANCIAL STATEMENTS OF NON-GOVERNMENTAL NON-PROFIT ORGANIZATIONS IN UZBEKISTAN IN ACCORDANCE WITH INTERNATIONAL STANDARDS

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Abstract: *This article discusses the preparation and coordination of reporting forms prepared by non-governmental non-profit organizations operating in our country and submitted to relevant bodies in accordance with international standards, and international non-governmental non-profit organizations. In particular, the advantages of adapting the reports of non-governmental non-profit organizations to international standards, as well as the current problems and a number of scientific and practical proposals for their elimination are presented.*

Key words: *non-governmental non-profit organization, international standard, report, GAAP (General accepted accounting principles), FASB (Financial Accounting Standards Board), international non-governmental non-profit organization, statement of cash flows, statement of financial position, notes to financial statements, comparability and consistency, global issue.*

Methodology: In order to increase the efficiency of the research work, increase the quality of work, and ensure its effectiveness, several methods of financial and management analysis, philosophy and other sciences were used. In particular, the methods of induction, deduction, comparison, observation, grouping, analysis, and synthesis are among them.

We all know that in the last quarter of the last century we can observe the trend of the non-state sector speeding board. Their number is increasing day by day. According to the data formed as a result of our analysis, today there are more than 10 million non-governmental non-commercial organizations on earth. The number of those who donated and allocated funds to support their activities increased from 1.2 billion in 2011 to 1.4 billion in 2014. By 2030, these numbers are expected to increase to 2.5 billion¹.

If we pay attention to statistical data, the number of non-governmental organizations in the world, which implement many large projects of social importance, and which make their due contribution to the sustainable development of countries, is increasing more and more. As a result of the results of their activities, global problems such as unemployment, poverty, education, health care, nature and environmental protection, and similar urgent issues are finding their positive solutions. For this reason, they have their rightful place at the international level. We can find this out in this analysis table, which presents information about the world's most influential NGOs and their main activities.

¹ <https://www.standardizations.org> official social network information

<https://tiame66.uz>

<https://uz-conference.com>

The most influential NGOs in the world and their main activities 2

№	Name of the organization	Founding of organization	Field of activity
1	BRAC	Established in 1972 in Bangladesh	education, health, livelihoods, environment and disaster preparedness
2	"Doctors Without Borders" (Medecins Sans Frontières)	It was founded in 1972 and is headquartered in Switzerland.	this organization is an international non-profit medical humanitarian organization providing emergency medical care and guidance to victims of armed conflict, violence, epidemics or natural disasters.
3	Open Society Foundations	Established in 1993 in the USA	working for justice, democratic governance and human rights
4	The Danish Refugee Council	Founded in 1956 in Denmark	humanitarian assistance to refugees and internally displaced persons affected by violence, war, political crises and natural disasters
5	Ashoka	Founded in 1980 in the USA	strengthening social leadership, entrepreneurship and innovation
6	Mercy Corps	Founded in 1979 in Portland, USA	alleviating suffering and poverty and helping those in need build safe, productive and just societies
7	A Worldwide	It was founded in 1919	helping young people acquire the professional and entrepreneurial skills they need to succeed

Based on the information in the table, if we comment on the activities of these organizations, most of them carry out their activities in the fields that are considered as a global problem for all countries of the world. The main source of income of these organizations is the targeted funds formed by sponsors. In addition, these organizations have established income-generating activities in addition to their program tasks. These organizations not only work to eliminate the above-mentioned problems, but also show their importance in the issue of employment, which is considered one of the macroeconomic indicators. We consider it appropriate to consider the following important aspects formed in the course of our analytical work regarding the above issues.

The characteristics of accounting in the activities of NGOs differ from other organizations, because we can see in the practice of the countries of the world that most of the NGOs are exempted from a number of obligations under tax legislation. "The activities of NGOs are often aimed at implementing a number of government projects. From this, NGOs focus on reducing overheads

2 <https://www.developmentaid.org/news-stream/post/124777/top-10-largest-ngos-in-the-world> was prepared independently by the author based on official social network information

so that they can only use their funds for the programs or services they provide for the benefit of society”³.

Normative frameworks for accounting of NGO activities have been created. Among them, the standard number 117 called “Financial Statements of Not-for-Profit Organizations” is one of the main documents.

According to the international standard “Financial Statements of Not-for-Profit Organizations” No. 117, it is stated that the set of financial statements in the accounting of NGOs should include the following reporting forms⁴.

1. statement of financial position
2. activity report (statement)
3. statement of cash flows
4. explanations to financial statements

In the report on the financial position, information about the assets, liabilities, net assets of NGOs, as well as the relationships between them, and through these indicators, primary information can be obtained about the indicators that help the users of the information of NGOs to provide transparent, reliable information and perform analysis. In this case, the financial reporting information of the organization is presented in the same groups according to the economic content and liquidity of the items.

The presentation of reports on the financial status of NGOs in a comparative form, that is, for several periods, the comparison of information within the financial statements, also meets the principle of *comparability and consistency* of accounting⁵

This information, together with the notes to the financial statements, allows donor organizations, creditors and other users to evaluate the activity of the NGO during the reporting period, in particular, the classification of the costs of the implementation of its program tasks and the ability to continue this activity, as well as the results of the financial statements.

The second form of financial reporting for NGOs is called the activity statement (or statement) and shows the NGO’s income and expenses during the reporting period. The main focus is information on the management and spending of funds raised through donations. It also shows compliance of the type of activity with financial regulations. The Financial Accounting Standards Board (FASB Financial Accounting Standards Board) requires NGOs to provide information (statements) on changes in the composition of their net assets in a prescribed manner. This statement helps financial leaders understand where funding is going, the NGO’s current programs and long-term financial sustainability, and helps management determine what programs are working and where to invest future resources.

³ <https://corpbiz.io/ngo-accounting> official site information

⁴ Statement of Financial Accounting Standards No. 117, “Financial Statements of Not-for-Profit Organizations”

⁵ Statement of Financial Accounting Standards No. 117, “Financial Statements of Not-for-Profit Organizations”

This report form is defined as consisting of 3 parts:

Title part;

The main part;

The lower part.

It is composed of columns showing primary indicators in the header, information on income and expenses in the main part, and the increase or decrease in net assets in the bottom part⁶.

NGOs also prepare cash flow statements for their activities and submit them to relevant organizations. According to international standards, the statement of cash flows for NGOs is almost the same as the report prepared by commercial organizations and other economic entities. It is also possible to easily analyze and obtain information on changes in funds and their equivalents for operational, investment and financial activities of NGOs⁷.

The cash flow statement provides users with information on cash inflows and outflows by their NGOs for the reporting period. The FASB has recommended that entities using the direct method of accounting be used for reporting cash flows. An indirect method is also allowed, but its use is not recommended⁸.

These report forms are submitted to the relevant organizations within the terms established by law. After the reports on the activities of the organization are formed, the financial manager of the NGO is compared with the data of the approved budget of the organization, which serves as a quick analysis to achieve its budget goals⁹.

According to the FASB (Financial Accounting Standards Board) standard No. 117, non-governmental non-profit organizations specify information about their functional costs in the notes to their financial statements. However, it is established that information about these expenses can be shown on the face of the report forms¹⁰.

Before the introduction of standard 117, non-governmental organizations used the reporting forms adopted for commercial enterprises (for operational and non-core activities).

It can be seen that this procedure is still used in countries that do not have special rules for financial accounting and reporting for NGOs.

⁶ <https://www.mip.com>

⁷ Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations" and https://www.jitasagroup.com/jitasa_nonprofit_blog/nonprofit-statement-of-cash-flows/ official social network information

⁸ Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations". When using the direct method of preparing the statement of cash flows, the main receipts and payments of - ca

⁹ Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations"

¹⁰ Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations"

We would like to emphasize that there are a number of disadvantages of using reporting forms adopted by NGOs for commercial enterprises. If the financial and accounting reports of NGO activities are not prepared according to the same procedure and methodology, following the principle of content over form, the economy of the country will show its negative results in the social sphere.

As a result of our analysis, we consider it appropriate to consider these shortcomings as follows.

Deficiencies in the application of approved reporting forms for commercial organizations to NGOs¹¹

№	Disadvantages	Reason
1	The impossibility of developing a single definition of the content of “operational activity” for NGOs	For each NGO, there are operational activities based on their type of activity and they are very different from each other.
2	Loss of comparability of NGO financial reporting forms with other entities	NGOs reflect various income and expenses of their activities as they wish. As a result, the ability to compare these reports between entities is lost
3	Loss of transparency in NGO reporting	It creates a favorable environment for hiding all kinds of abuses

From the data in the table, we can see and propose the following, which requires the development of important standards for reflecting the results of their activities by NGOs, dividing their activities into “operational” and “non-operational” types. The division according to these two types is usually kept in the cash flow statement, which reflects cash received from operating activities. In addition, the non-availability of non-existent financial reporting forms leads to false reflection of indicators in reporting forms prepared by NGOs in approved forms for commercial organizations. This causes a number of problems. In particular, it undermines the quality and reliability of the financial reporting process, reduces the level of accuracy for the report and conclusion of the auditor’s activity.

Based on the above, both the generally accepted principles of accounting and the state are considered an important normative document for accounting of the activities of the non-state sector. Based on **GAAP (General Accepted Accounting Principles)**, the following separate standards are the basis for organizing and preparing reports and other important aspects of NGO activities. Based on **US GAAP (Generally accepted accounting principles)**, we found it necessary to quote the standards as follows.

¹¹ Statement of Financial Accounting Standards No. 117, “Financial Statements of Not-for-Profit Organizations”, author’s proposal.

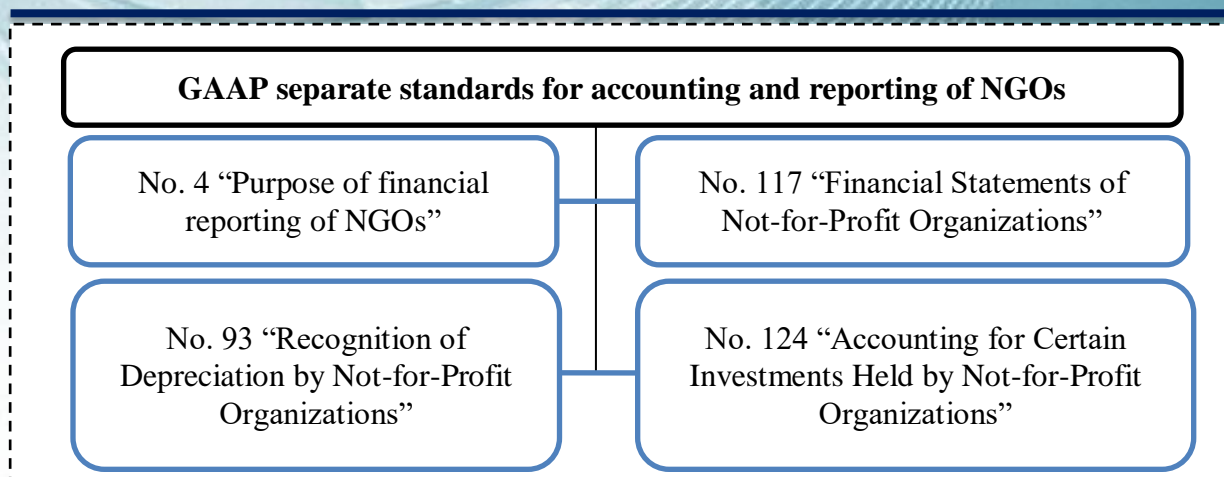


Figure 1. GAAP separate standards for accounting and reporting of NGOs¹²

We see that these 4 standards are widely used in accounting for NGO activities. However, these standards do not fully cover NGO accounting. For this reason, the answers to the existing questions in this regard apply the general financial accounting standards of the United States for all enterprises and organizations in relation to the types of activities that are not regulated by special rules for NGOs. In particular, they include:

Regulation "On Financial Accounting Standards" entitled "Accounting for Contributions Received and Contributions Made"¹³ No. 116;

Regulation "On Financial Accounting Standards" No. 136 entitled "Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others"¹⁴;

Regulation "On Financial Accounting Standards" entitled "Related Party Disclosures"¹⁵ No. 57.

Based on the above, according to US GAAP (*Generally accepted accounting principles*), NGOs must meet the following characteristics.

Attracts most of the resources from those who do not expect economic benefits;

Performs activities that generate additional income;

The rights to the resources of this organization do not have a specific owner that can be sold or transferred to other persons. Therefore, in the event of

¹² Statement of Financial Accounting Concepts №4 "Objectives of Financial Reporting by Nonbusiness Organizations", FASB, 1980; Statement of Financial Accounting Standards №117 "Financial Statements of Not-for-Profit Organizations", FASB, 1993; Statement of Financial Accounting Standards №93 "Recognition of Depreciation by Not-for-Profit Organizations", FASB, 1987; Statement of Financial Accounting Standards №124 "Accounting for Certain Investments Held by Not-for-Profit Organizations", FASB, 1995.

¹³ Statement of Financial Accounting Standards № 116 "Accounting for Contributions Received and Contributions Made", FASB, 1993.

¹⁴ Statement of Financial Accounting Standards № 136 "Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others", FASB, 1999.

¹⁵ Statement of Financial Accounting Standards № 57 "Related Party Disclosures", FASB, 1982.

liquidation of this organization, its residual resources cannot be distributed¹⁶.

According to US GAAP (*Generally accepted accounting principles*), the financial reports of NGOs are aimed at the primary external users of information.

From our analysis, we can see that the US states Vermont and Maine have the highest employment shares, that is, 48,014 of Vermont's employed population work in NGOs, or 18.8% of total employment. Accordingly, in Maine, 91,369 or 18.0% of the state's total employment is accounted for by citizens employed in NGOs. The lowest rate corresponds to the state of Nevada. Non-governmental non-profit organizations account for 2.7 percent of the total employed population.

Based on the above analysis, we consider it necessary to emphasize the following point. The result of preparation of accounting and programmatic reporting forms prepared by non-governmental non-profit organizations in accordance with international standards and presented to the relevant organizations is the reason for *a number of advantages*.

First of all, it is a basis for establishing effective continuous activities with representatives of large businesses operating in developed countries. Because they, as a donor organization, will be able to use the report information related to the implementation of programmatic tasks in addition to the financial reporting forms in order to enter the donation funds. Because the preparation of reporting forms by non-governmental non-commercial organizations in accordance with international standards is understandable, relevant and important for everyone.

Secondly, compliance with international standards of accounting and reporting forms by non-governmental non-profit organizations on their activities related to the implementation of programmatic tasks ensures its transparency. This shows that the principle of openness and transparency of accounting and financial accounting is relevant again. As a result, it is ensured that the numbers in the data are only accurate.

Thirdly, the emergence of international non-governmental non-profit organizations will be achieved in place of local non-governmental non-profit organizations. This will increase the prestige of the country in the international arena.

To achieve these results, we consider it appropriate to put forward a number of proposals:

- due to the fact that the issue of improving the qualifications of the employees responsible for accounting in non-governmental non-profit organizations is considered urgent, we consider it expedient to cover the expenses related to this from the state budget funds;
- Since it is considered an important lever to expand the activities of non-

¹⁶ Statement of Financial Accounting Concepts №4 "Objectives of Financial Reporting by Nonbusiness Organizations". FASB, 1980

governmental non-commercial organizations and strengthen relations with developed countries, strengthening them with regulatory and legal norms for the effective establishment of international activities will increase the country's prestige in the international arena;

- the improvement of the relevant standards by the government on establishing the activities of commercial organizations under the management of non-governmental non-profit organizations will in some sense eliminate the financing problems of the 3rd sector organizations in the future.

We believe that paying attention to the above-mentioned aspects will lead to the expansion of the activities of non-governmental non-commercial organizations and, as a result, to the elimination of a number of current problems. In particular, as a result of the creation of new jobs, unemployment will be reduced, and active participation of society members in social life will be ensured. In addition, the country's prestige in the international arena will be increased.

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