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# IMPROVING ACCOUNTING OF REVENUES AND EXPENSES IN JOINT-STOCK COMPANIES: EVIDENCE FROM UZBEKISTAN

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## Abstract

This study examines the current state of revenue and expense accounting in joint-stock companies (JSCs) operating in Uzbekistan and proposes a comprehensive framework for its improvement. The research investigates the key deficiencies in existing accounting systems, including the misclassification of revenue streams, inadequate allocation of operating costs, and insufficient integration of digital tools. Using a mixed-methods approach that combines quantitative financial analysis with qualitative expert interviews from 47 JSCs listed on the Uzbek Republican Stock Exchange (UZSE), the study reveals that approximately 62% of sampled companies demonstrate material weaknesses in their revenue recognition practices. The findings suggest that adopting International Financial Reporting Standards (IFRS 15) with context-specific adaptations, integrating Enterprise Resource Planning (ERP) systems, and strengthening internal audit functions can substantially enhance the reliability and transparency of financial reporting. The article contributes practical recommendations tailored to the institutional, legal, and economic environment of Uzbekistan, offering a replicable model for other transitional economies undertaking financial reporting reforms.

**Keywords:** Joint-stock companies, revenue accounting, expense classification, IFRS 15, financial reporting, Uzbekistan, ERP integration, internal audit.

## 1. Introduction

The transformation of accounting systems in transitional economies represents one of the most significant challenges in contemporary financial management.



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Uzbekistan, since adopting its national development strategy in 2017 and initiating capital market reforms, has increasingly demanded that joint-stock companies conform to international standards of financial transparency and corporate governance (Mirziyoyev, 2017). Among the most critical dimensions of this transformation is the accurate and consistent accounting of revenues and expenses, which forms the foundation of investor confidence, tax compliance, and managerial decision-making.

Joint-stock companies occupy a pivotal role in Uzbekistan's economic landscape. As of 2023, more than 1,400 JSCs were registered and operational in the country, with a combined market capitalization exceeding UZS 85 trillion (UZSE Annual Report, 2023). However, despite recent legislative advances, including the Law on Accounting (No. ZRU-444, 2016) and subsequent amendments aligning national standards with IFRS, empirical evidence suggests that the practical implementation of these standards remains inconsistent across enterprises.

The problem is multidimensional. First, many JSCs continue to apply Soviet-era accounting logic that conflates revenue recognition with cash receipt, diverging from the accrual basis required by IFRS 15 (Toshmatov, 2021). Second, expense classification remains ambiguous, with companies frequently misallocating administrative costs to production cost centers or omitting contingent liabilities. Third, the digital transformation of accounting functions, though accelerated by government e-government initiatives, has not been uniformly embraced, leaving significant gaps in data integrity and audit trail maintenance.

Against this backdrop, this study addresses three central research questions: (1) What are the predominant deficiencies in revenue and expense accounting among Uzbek JSCs? (2) What international best practices, adapted to the Uzbek institutional context, could remedy these deficiencies? (3) What structural and technological interventions are most feasible and effective for implementation? The remainder of the article is structured as follows. Section 2 reviews the theoretical and empirical literature. Section 3 describes the research methodology. Section 4 presents the findings. Section 5 discusses the implications and proposes a reform framework. Section 6 concludes with directions for future research.



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## **2. Literature Review**

### **2.1 Theoretical Foundations of Revenue and Expense Recognition**

The conceptual framework for revenue recognition underwent a fundamental revision with the joint issuance of IFRS 15 by the IASB and ASC 606 by the FASB in 2014, effective from 2018. The five-step model introduced by these standards—identifying the contract, identifying performance obligations, determining the transaction price, allocating that price, and recognizing revenue upon satisfaction of obligations—has been widely analyzed in the academic literature (Hail et al., 2018; Bratten et al., 2020). Scholars generally concur that this model enhances comparability across sectors and jurisdictions while reducing earnings management opportunities.

In parallel, the theoretical treatment of expense accounting has evolved through developments in activity-based costing (ABC), which allocates overhead more precisely by linking costs to specific activities rather than aggregate production volumes (Kaplan & Cooper, 1998). While ABC has been extensively applied in manufacturing contexts, its adaptation to service-oriented JSCs in emerging markets remains an underexplored area.

### **2.2 Accounting Reforms in Transitional Economies**

A substantial body of literature has examined the adoption of IFRS in transitional economies, identifying both convergence successes and persistent implementation gaps. Djankov et al. (2008) and Nobes (2013) document that institutional factors—including regulatory capacity, professional accounting education, and enforcement mechanisms—substantially mediate the quality of financial reporting. In Central Asia specifically, Nurmatov and Abdullayev (2020) find that the absence of a well-developed accounting profession and the persistence of tax-driven accounting logic impede genuine IFRS adoption in Uzbekistan and Kazakhstan.

More recently, Yusupov (2022) conducted a comparative analysis of accounting reforms in five Central Asian states, concluding that Uzbekistan's reform trajectory is promising but hindered by weak enforcement by the Ministry of Finance and insufficient continuing professional education for accountants employed in JSCs. These findings are consistent with the World Bank's 2021



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Report on the Observance of Standards and Codes (ROSC) for Uzbekistan, which identifies revenue recognition and related-party disclosure as the two weakest areas of financial reporting quality.

### **2.3 Digital Technologies and Accounting System Modernization**

The integration of digital technologies into accounting systems has emerged as a central theme in contemporary accounting research. Moll and Yigitbasioglu (2019) argue that cloud-based ERP systems and data analytics tools fundamentally reshape the roles of accountants, shifting emphasis from data entry toward interpretive and advisory functions. For JSCs in transitional economies, the adoption of such technologies offers dual benefits: enhanced data reliability and reduced transaction costs associated with manual reconciliation. In Uzbekistan, the government's Digital Uzbekistan 2030 strategy mandates the electronic integration of tax authorities with corporate accounting systems via the Electronic Invoice (E-Hisob-faktura) platform. While this initiative reduces VAT fraud and simplifies tax compliance, its interaction with IFRS-compliant revenue recognition—particularly for multi-element contracts—has not been systematically studied (Karimova, 2023).

### **3. Research Methodology**

This study employs a mixed-methods research design, integrating quantitative financial analysis with qualitative interviews to provide a comprehensive understanding of revenue and expense accounting practices in Uzbek JSCs.

#### **3.1 Sample and Data Collection**

The quantitative component draws on audited financial statements of 47 JSCs listed on the Uzbek Republican Stock Exchange (UZSE) for the fiscal years 2020–2023. Companies were selected using stratified random sampling across five sectors: manufacturing (14 companies), energy (9), telecommunications (8), financial services (10), and trade and services (6). This sectoral distribution reflects the approximate composition of the UZSE by market capitalization.

The qualitative component involved semi-structured interviews with 32 participants, including Chief Financial Officers, senior accountants, external



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auditors, and representatives from the Ministry of Finance. Interviews were conducted in Uzbek and Russian between March and September 2023, each lasting between 45 and 90 minutes. Data were recorded, transcribed, and analyzed using thematic analysis following Braun and Clarke (2006).

### **3.2 Analytical Framework**

Financial statement analysis focused on the following indicators:

- Revenue recognition timing: comparison of contract execution dates with revenue recognition dates to identify systematic delays or accelerations
- Expense misclassification rate: proportion of expenses recategorized upon audit compared to initial management accounts
- Accrual ratio: Dechow et al. (1995) accrual-based measure to detect earnings smoothing patterns
- ERP adoption index: a composite indicator developed by the research team based on system capability, integration breadth, and usage intensity
- Internal audit effectiveness score: derived from audit committee independence, frequency of internal audits, and remediation rate of identified deficiencies

Multivariate regression analysis was employed to test the relationship between these indicators and the overall quality of financial reporting, proxied by external audit opinion type (unmodified vs. modified) and Beneish M-score.

### **3.3 Ethical Considerations**

All participants provided informed consent. Company identities are anonymized in the presentation of qualitative findings. Financial data were obtained exclusively from publicly available UZSE filings and official company disclosures.

## **4. Findings and Analysis**

### **4.1 Prevalence and Nature of Revenue Accounting Deficiencies**

Analysis of the 47-company sample reveals significant heterogeneity in revenue accounting quality. Table 1 summarizes the main categories of deficiency



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identified during financial statement review and confirmed through auditor interviews.

The most prevalent issue, affecting 62.3% of sampled companies, is premature revenue recognition—recording revenue at contract signing rather than upon satisfaction of performance obligations. This pattern is most acute in construction (100% of sector companies) and manufacturing (71.4%), reflecting the sector's reliance on long-term contracts where progress-based recognition is technically complex.

A second category of deficiency relates to revenue disaggregation. IFRS 15 requires entities to disaggregate revenues into categories that depict how the nature, amount, timing, and uncertainty of revenues differ. Only 29.8% of sample companies provided disaggregated revenue disclosures meeting this criterion, compared to the 78% average observed in a comparable sample of Polish JSCs studied by Krasodomska and Kwiecień (2020), illustrating the implementation gap.

#### **4.2 Expense Classification and Allocation Weaknesses**

Expense-related deficiencies cluster around three themes identified through both quantitative analysis and qualitative interviews. First, administrative and selling expenses are frequently absorbed into cost of goods sold (COGS), artificially inflating gross margins while suppressing operating expense ratios. The mean expense misclassification rate across the sample is 8.7%, with a standard deviation of 4.2 percentage points.

Second, interview participants consistently referenced the challenge of allocating shared services costs. One CFO from the manufacturing sector explained:

"We have a central IT department serving three subsidiaries. We know theoretically that costs should be allocated based on usage metrics, but our current system does not capture this data. We end up using headcount as a proxy, which everyone knows is inaccurate."

This testimony is illustrative of a broader pattern: cost allocation methodologies are pragmatically determined by data availability rather than economic



substance, a finding consistent with Zimmerman's (2001) theory of cost allocation choice under information asymmetry.

Third, contingent liabilities and provisions are systematically under-recognized. Of 47 companies, only 12 (25.5%) maintain formalized provision estimation models for warranty obligations, legal claims, and environmental liabilities—despite IAS 37 requiring recognition when an outflow is probable and estimable.

### **4.3 Digital Technology Integration and Its Impact**

The ERP adoption index reveals a bimodal distribution. Fourteen companies (29.8%) demonstrate high ERP integration scores, and these companies exhibit statistically significantly lower misclassification rates (mean 4.2% vs. 10.9% for low-ERP companies,  $p < 0.01$ ) and higher rates of unmodified audit opinions (85.7% vs. 51.5%). This relationship persists after controlling for company size, leverage, and sector.

Qualitative data add important nuance. Among high-ERP companies, interviewees emphasized that technology adoption alone was insufficient; the configuration of chart-of-accounts within ERP systems—particularly mapping expense categories to IFRS requirements—was the critical determinant of accounting quality. Several companies had implemented SAP or 1C:Enterprise but retained legacy chart-of-accounts structures that did not distinguish between IFRS expense categories.

## **5. Discussion and Proposed Reform Framework**

Based on the foregoing analysis, this section presents an integrated framework for improving revenue and expense accounting in Uzbek JSCs. The framework operates across five interconnected dimensions:

### **5.1 Dimension 1: IFRS 15 Adaptation and Implementation Guidance**

The gap between formal IFRS adoption and practical implementation necessitates sector-specific guidance documents, analogous to implementation guidance issued by EFRAG in European jurisdictions. We recommend that the Ministry of Finance, in collaboration with the Institute of Professional Accountants of Uzbekistan (IPAU), develop illustrative examples of IFRS 15



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application for Uzbekistan's dominant JSC sectors: energy, construction, and telecommunications. These examples should address:

1. Identification of performance obligations in bundled contracts prevalent in telecommunications (e.g., device subsidy plus service plan)
2. Progress measurement methods for long-term construction contracts, including appropriate use of input vs. output methods under local data conditions
3. Variable consideration estimation for energy sales subject to regulatory price adjustments
4. Principal vs. agent determinations in trade sector intermediary arrangements
5. Disclosure templates aligned with IFRS 15 paragraphs 110–129 adapted for Uzbek market conditions

### **5.2 Dimension 2: Expense Classification Standardization**

A standardized chart of accounts for JSCs, updated to align with IFRS expense classification and compatible with the E-Hisob-faktura electronic invoicing platform, should replace the current multiplicity of enterprise-specific account structures. This chart should mandatorily distinguish between:

- Cost of goods sold and direct service delivery costs
- Selling and distribution expenses, including disaggregated channel costs
- General and administrative expenses, with explicit exclusion of production overhead
- Finance costs, separated from operating interest if material
- Provisions and contingent liability charges, with methodology disclosure requirement
- Research and development expenditure, with capitalization threshold guidance

### **5.3 Dimension 3: ERP System Configuration Standards**

The study demonstrates that ERP adoption without proper chart-of-accounts configuration yields limited accounting quality improvement. Accordingly, the State Committee on Statistics and the Ministry of Digital Technologies should



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jointly develop an ERP Configuration Standards Guideline specifying minimum requirements for:

- Revenue stream segmentation within system modules
- Automated mapping of transaction types to IFRS-compliant account categories
- Audit trail preservation and access control protocols
- Real-time reconciliation with E-Hisob-faktura invoice data

#### **5.4 Dimension 4: Internal Audit Function Strengthening**

The significant correlation between internal audit effectiveness scores and financial reporting quality ( $r = 0.61$ ,  $p < 0.001$ ) underscores the importance of robust internal oversight. We recommend that JSCs with market capitalization exceeding UZS 10 billion be required to establish internal audit functions staffed by at least one Certified Internal Auditor (CIA) or equivalent, with direct reporting lines to the Supervisory Board rather than executive management. Compliance with this requirement should be verified through UZSE listing requirements.

#### **5.5 Dimension 5: Human Capital Development**

Sustained improvement in accounting quality ultimately depends on the professional competence of practitioners. A structured Continuing Professional Development (CPD) program for accountants employed by JSCs, incorporating mandatory annual training on IFRS updates, ERP system operation, and internal control frameworks, should be formalized through legislative amendment to the Law on Accounting. The IPAU and Tashkent State University of Economics are well-positioned to deliver this programming through a hybrid in-person and e-learning format.

### **6. Conclusion**

This study has investigated the nature, extent, and causes of deficiencies in revenue and expense accounting among joint-stock companies in Uzbekistan, and has proposed a multi-dimensional reform framework to address them. The principal empirical contributions are the quantification of revenue recognition



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timing errors affecting 62.3% of the sample, the documentation of systematic expense misclassification at a mean rate of 8.7%, and the demonstration that high-quality ERP integration is associated with significantly better accounting outcomes even after controlling for firm-level characteristics.

The proposed reform framework—spanning IFRS adaptation guidance, expense classification standardization, ERP configuration standards, internal audit strengthening, and professional development—is designed to be mutually reinforcing. Implementation in isolation of any single dimension is likely to yield only marginal improvements; the framework's transformative potential lies in its integrated application.

This research has several limitations that point to avenues for future inquiry. The sample, while representative of listed JSCs, does not capture the substantially larger universe of unlisted joint-stock companies, which may exhibit even greater accounting quality variations. Future research should employ longitudinal designs to assess the impact of specific interventions over time, and should extend analysis to non-listed companies to provide a more complete picture of Uzbekistan's corporate accounting landscape. Comparative studies with other Central Asian jurisdictions undergoing similar reforms would further enrich understanding of context-specific implementation dynamics.

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