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## **IFRS and accounting in small and medium enterprises of the Republic of Kazakhstan**

**Abstract.** The development of the accounting and audit system of small and medium enterprises is an important condition for the creation of a prosperous and dynamically developing state. The reform of the accounting system and improving the quality of financial statements in the Republic of Kazakhstan is given special attention. Of all foreign accounting models, international financial reporting standards have been selected as the basis for domestic accounting.

A comprehensive review of the entire accounting and reporting system of Kazakhstan, assumed its development and improvement in accordance with international rules, combined with the maximum use of many years of experience and the preservation of those methods, tools and methodological solutions that not only do not contradict international practice, but also enrich it.

**Key words:** IFRS, accounting organization, small and medium enterprises, micro-business.

One of the characteristic features of the current economic conditions of economically developed countries is the increase in the number of small and medium enterprises (SMEs).

According to the Entrepreneurial Code, the following are suitable for the definition of micro and small businesses:

- small business: individual entrepreneurs and a legal entity with an average annual number of employees of not more than 100 people and an average annual income of not more than 300 thousand MCI (795.3 million tenge);
- micro -business: small business, but with the number of employees not more than 15 people and income not exceeding 30 thousand MCI (79.53 million tenge).

The main advantages of SMEs include:

– “Mobility” SMEs instantly respond to fluctuations in consumer demand and changes in market conditions, which makes them indispensable in the development of scientific and technological progress;

– “The ability to influence almost all areas of the market”, leading to the diversification of the economic system, which, in turn, is a factor in the country's additional economic stability;

– “Promoting high employment” With minimal use of enterprise funds, this economic sector provides a high rate of resource turnover, while at the same time solving the problem of unemployment.

According to the materials of the European TACIS project “Support for Export-Oriented Innovative Small and Medium-sized Enterprises”, in recent years, a steady tendency has been observed in Western and Eastern European countries to form the gross domestic product (GDP) at the expense of large enterprises. However, the needs of the domestic market in most cases are met exclusively by small and medium enterprises.

The globalization of the global economy, the emergence of new forms of international cooperation, and the intensification of innovative activity have contributed to the fact that in recent years an increasing number of SMEs, both in Russia and around the world, are seriously thinking about the development of foreign economic activity in order to obtain sustainable competitive advantages. It should be noted that a significant obstacle to the entry of Russian SMEs into the global economic arena is the imperfection and significant inconsistency of national legislation regarding the organization and maintenance of accounting and preparation of financial statements, while compliance with the principles and qualitative characteristics of financial statements 4 (transparency, reliability, appropriateness and comparability) cannot be implemented without an effective accounting regulatory system.

In order to minimize differences in national accounting systems of different countries in July 2009 International Financial Reporting Standard (IFRS) has approved a separate set of accounting standards for SMEs International Financial Reporting Standard for Small and Medium-sized Entities.

According to ifrs.com, IFRS for SMEs is intended to be used by SMEs, which are entities that publish general purpose financial statements for external users and do not have public accountability. An entity has public accountability under the

IASB's definition if it files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or it holds assets in a fiduciary capacity for a broad group of outsiders. Examples of entities that hold assets in a fiduciary capacity include banks, insurance companies, brokers and dealers in securities, pension funds and mutual funds. It is not the IASB's intention to exclude entities that hold assets in a fiduciary capacity for reasons incidental to their primary business (for example, travel agents, schools and utilities) from utilizing IFRS for SMEs.

Practically speaking, IFRS for SMEs is viewed as an accounting framework for entities that are not of the size nor have the resources to use full IFRS. In the United States, the term "SME" would encompass many private companies.

Forcing changes in accounting without regard to changes in the economic mechanism and the actual functioning of market institutions can lead to a decrease in the quality of financial information in the economy, discrediting IFRS, as well as weakening financial discipline. So, according to the current legislation, the transition to IFRS affects all organizations, but a more balanced approach is required. Due to the complexity and methodological complexity, IFRS are practically not applicable for small and medium-sized enterprises. Moreover, as you know, recently there has been an active process of improving the standards themselves, which are not yet completed (significant changes are regularly introduced in IFRS, which small companies are simply not able to monitor). In this regard, it is advisable that financial statements in accordance with IFRS be prepared primarily for large businesses and public interest organizations. Public interest organizations are organizations whose activities are of public interest, which include: - financial organizations; - joint - stock companies (with the exception of non-profit); - organizations - subsoil users (except for organizations extracting common minerals); - organizations in the authorized capital of which there is a state share (with the exception of state enterprises based on the right of operational management). In accordance with the tasks set by the Head of State and the Government of the Republic of Kazakhstan, to support small and medium-sized businesses, individual entrepreneurs working under a patent or one-time coupons are completely exempted from accounting, and the division of other business entities into categories has been established with a view to applying them of various orders accounting and financial reporting.

For the preparation of financial statements by small and medium-sized enterprises, the following division is defined:

1. For small businesses, including peasant farms, agricultural producers and organizations operating on the basis of a simplified declaration, the corresponding national financial reporting standard has been developed with the maximum simplification of accounting.

2. For small businesses, with the exception of those specified in the first paragraph, medium-sized businesses and non-profit organizations that are not included in the previous category, as well as for medium-sized businesses (except for public companies) and state-owned enterprises based on the right of operational management, a simplified specialized standard for small and medium-sized businesses, developed on the basis of IFRS.

The development of a universal standard is a very difficult job, as the policy with respect to small enterprises and, accordingly, the requirements for them vary significantly in different countries. The development of the accounting and financial reporting regulation system should be aimed at building such a model that takes into account the interests of all interested parties, ensures cost reduction and enhances regulatory efficiency. The basis of this model is a reasonable combination of the activities of public authorities and the professional community. The main problem in Kazakhstan's accounting sphere is the lack of qualified personnel, the lack of a developed "institute of accounting" with established traditions, a strong professional community, an established system of accumulation and dissemination of specialized knowledge, and generally recognized certificates.

The professional community in Kazakhstan is taking certain steps to solve these problems, but it lacks comprehensiveness, of a nationwide scale. Given the current inertia of the accounting community, one can hardly expect that the development of a similar Western system will quickly occur in itself. Therefore, in order to resolve this issue, it is necessary to create legislative prerequisites, push this process, focusing on strengthening the role of professional organizations, which should become the core of the whole system and have a well-formed structure in the future.

The transformation of accounting and financial reporting in Kazakhstan should be carried out according to the following trends:

- making changes to the current system of regulation of accounting and financial reporting;
- coordination of actions of state bodies in the framework of the reform of the accounting system;
- increasing the role of the professional community in the field of accounting;
- introduction of an accreditation system by the authorized body for accounting and financial reporting of professional organizations and organizations for the professional certification of accountants.

Orientation of Kazakhstan to international standards makes us study and, therefore, borrow good international practice. The geographical proximity of continents and countries, close economic ties, the active participation of foreign companies in the investment activities of Kazakhstan make us take a fresh look at the accounting system as a whole. The practice of accounting in different countries is different, but it has common sources and a common philosophy, and this confirms the need to study the key features and new areas of accounting and auditing in order to introduce positive experience in the practice of accounting in Kazakhstan.

In a message to the people, Kazakh President Kassym-Zhomart Tokayev stated the need to exempt micro and small businesses from income tax for three years. The necessary legislative amendments should come into force in 2020 and become support for entrepreneurs.

Small businesses - individual entrepreneurs and legal entities - can now work not only according to the generally established taxation regime, but also according to special ones - a patent, a simplified declaration or using a fixed deduction.

Of these, the income tax of the enterprise itself appears only in the generally established mode (CIT) and when using a fixed deduction (income taxation - the difference between income and certain types of expenses). In other cases, we are talking about individual income tax. In other words, now part of the IP and micro and small business companies do not pay corporate income tax.

The world experience in applying IFRS and ISA from the perspective of international research will allow accountants, auditors and other categories of employees to correctly evaluate a particular operation of a modern business and accordingly make an optimal and effective decision.

In order to solve existing problems in financial organizations, the National Bank of the Republic of Kazakhstan carried out a set of sequential measures. First

of all, it should be noted that the development of accounting and financial reporting is impossible without ensuring the availability of education in this area and its improvement. On the one hand, the task is to prepare accountants who have modern accounting skills in accordance with IFRS, and on the other hand, a high-quality accounting system requires users who could make decisions on the basis of financial statements prepared in accordance with IFRS. In this connection, the main work was aimed at implementing professional development programs for accountants of financial organizations by holding conferences, seminars and trainings on the topic: “International Financial Reporting Standards”, as well as encouraging and supporting specialists with regard to their professional certification both in the territory Republic of Kazakhstan and abroad by international organizations (CPA, ACCA, CMA). The National Bank, in turn, directed its efforts to developing approaches consistent with the relevant state bodies in the field of harmonization of qualification requirements for the profession of accountant in financial organizations. The next direction in development for the coming years is the further adaptation of IFRS to the conditions of the Kazakhstan financial system.

Today, the dynamic development of the domestic financial system has led to the emergence of a number of institutions with specifics based on the characteristics of the Kazakhstani economy and legislation. One example is Kazakhstan’s pension funds, built on the principles of the Chilean system, and, accordingly, requiring the development of special accounting procedures, since IFRS, representing a set of flexible conceptual frameworks for preparing financial statements, cannot be used without appropriate adaptation to the conditions of domestic economics.

Also a particularly important issue is the process of automation of information systems in terms of accounting and financial reporting. Full implementation of IFRS is impossible without comprehensive automation of business processes of companies, which will maximize the processing of primary documents, the main labor-intensive functions in an automated mode and eliminate the possibility of risks associated with the presence of the human factor.

Automation of accounting will have a significant impact on the formulation of accounting work in organizations, the principles of information processing will change, while accounting employees will directly participate in the processing of data. The issue of accounting automation in organizations is one of the most

important, since the consumers of their services are mainly the population of the Republic of Kazakhstan.

In order to implement the process of accounting automation in organizations, it is planned to improve the requirements for maintaining auxiliary accounting and the General Ledger, implemented in automated information systems of organizations. Today, the need to ensure the competitiveness of the economy of Kazakhstan within the framework of the tasks set by the Head of State to join Kazakhstan among the 50 most competitive countries in the world is becoming increasingly important. To implement the planned strategy, the necessary measures are being taken to ensure the accelerated transition of the real sector of the economy to international standards of financial reporting and auditing.

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