



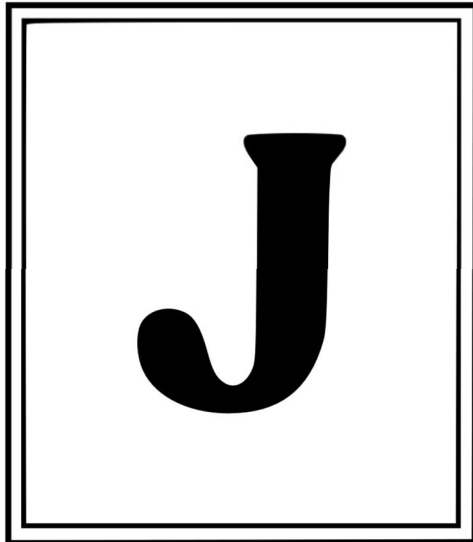
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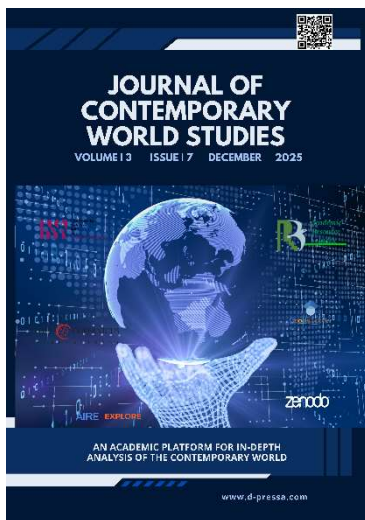
JCWS

## SPECIFIC ASPECTS OF ORGANIZING ACCOUNTING IN JOINT VENTURES

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### ANNOTATION:

The article examines the procedure for establishing accounting policies for organizing accounting in joint ventures based on international standards. It covers aspects of recording relevant accounting transactions, reflecting them in financial statements, as well as preparing reliable information for decision-making by foreign and potential investors.

### KEYWORDS:

*International Financial Reporting Standards, accounting, joint venture, financial reporting, accounting policy, qualitative description of financial statements, foreign and potential investors.*

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## INTRODUCTION.

According to data from the Joint Ventures Agency of Harvard Business School, the establishment of joint ventures allows for a greater degree of profit in entrepreneurial activities. However, more than 80% of joint ventures face problems related to attracting foreign investments"[8]. This necessitates increasing the investment attractiveness of joint ventures by applying international financial reporting standards, forming financial statements in joint ventures at the level required by international standards, and enhancing the transparency of information they provide.

Special attention is being paid to research on organizing and improving financial accounting and reporting in joint ventures based on the requirements of international standards. It is important to harmonize national accounting systems in joint ventures based on international standards, apply global integration models in the formation and presentation of financial accounting information, create a system for monitoring the quality of financial accounting information, assess the elements of financial position statements at fair value, determine the criteria for recognizing income and expenses in the profit and loss statement, account for asset devaluation under inflationary conditions, and improve the accounting of assets and liabilities that are valued based on the requirements of international standards.

For this reason, joint ventures are currently preparing reports based on national standards and then transforming them to comply with international standards. Consequently, it is necessary to directly prepare financial statements based on international standards. This serves to increase the reliability of financial reporting data and enhances the comprehensibility of

financial statements of joint ventures operating in our republic.

## LITERATURE REVIEW ON THE TOPIC.

A joint venture is a commercial organization established on the basis of shares held by legal entities or individuals from Uzbekistan and foreign countries, where each participant has a stake in the authorized capital[4].

According to Michael R. Czinkota, Ilkka A. Ronkainen, and Michael H. Moffett, a joint venture is a form of business where two or more companies agree to establish a new enterprise and share its property, management, and profits[6].

According to Charles W. L. Hill, a joint venture is a form of cooperation in which two or more organizations combine their resources to achieve a specific business objective, often established as a separate legal entity[7].

In the author's opinion, a joint venture is a legally independent business organization created by two or more independent organizations for defined strategic and temporary purposes through joint investment of resources.

**Research Methodology.** The article extensively utilizes experimental research, generalization, grouping, logical and comparative methods of analysis, abstract-logical thinking, comparative analysis, statistical analysis, prospective forecasting, and other methods.

## RESULTS AND DISCUSSION

Several joint ventures are operating in our republic. Among them are joint-stock companies.

Based on this, the number of enterprises with foreign investments is growing year by year. In this regard, the share of joint ventures in our republic is considered significant (Table 1).

Table 1

## Number of operating joint ventures in the republic

Years	Total	of which:	
		Joint	Foreign
2018	5008	2807	2201
2019	5517	3087	2430
2020	7560	4006	3554
2021	10382	5106	5276
2022	11781	5672	6109
2023	13289	5988	7301

Source: <https://stat.uz/ru/>

Maintaining parallel accounting based on International Financial Reporting Standards poses significant challenges, including substantial expenses for retraining personnel, automating accounting processes, and preparing reports in English in accordance with international standards.

Therefore, it is more convenient to transform the financial statements of joint

ventures, compiled based on national standards, into international standards, which serves to ensure investor confidence.

In joint-stock companies operating as "Uzbek Leasing International A.O." JSC and "Ohangaronsement" JSC, the authorized capital is mainly comprised of foreign shareholders' shares, and its organizational aspects are presented in Table 1.

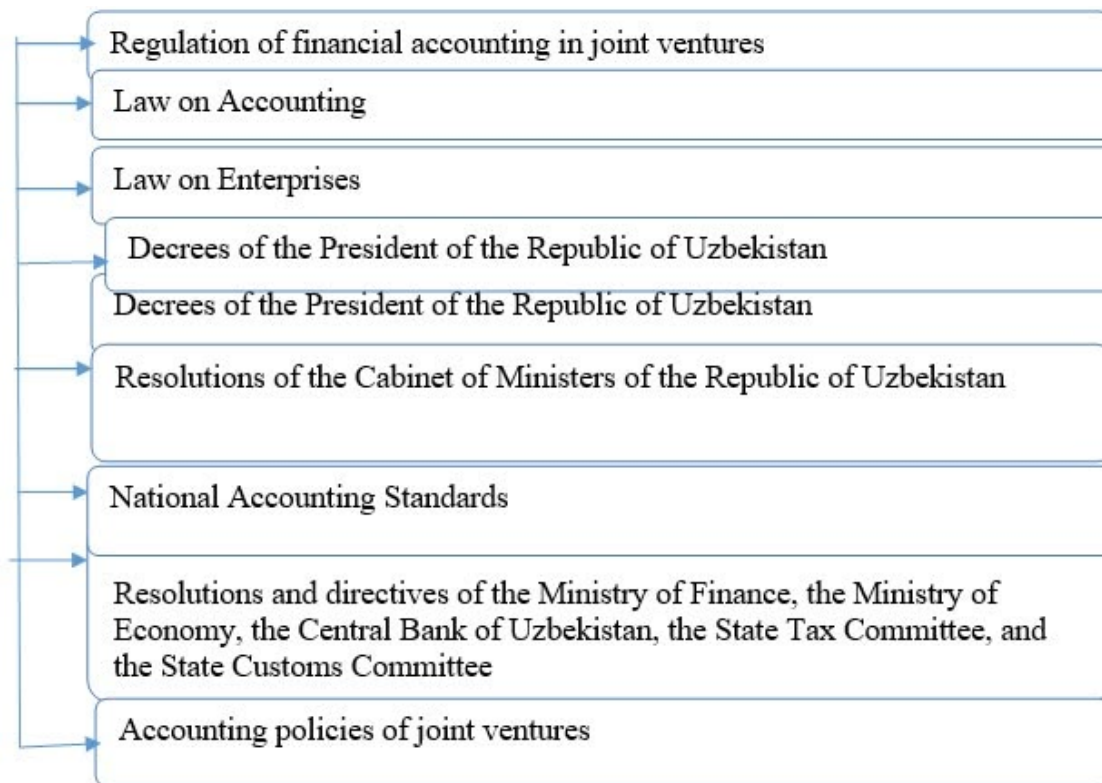
Table 1

## Amount of authorized capital in joint ventures and the share of founders

Joint ventures	Authorized capital, UZS	List of founders	Share, %
"Uzbek Leasing International A.O." JSC	9,113,588,786	CBU	41.56%
		Malayan Banking Berhad	19.70%
		"Uzbek-Oman Investment Company" LLC	38.74%
"Ohangaronsement" JSC	4,918,427,000	Russia Uzbekistan	90% 10%

As we can see from the table above, in the joint ventures of "Uzbek Leasing International A.O." JSC and "Ohangaronsement" JSC, the authorized capital is formed by foreign investors, and they operate as joint-stock companies in our

republic. As a result, the operation of these joint ventures serves to increase the confidence of foreign investors, meet labor demand, and increase the prominence of joint ventures as joint-stock companies.



**Figure 1. Foundations of financial accounting regulation in joint ventures**

An enterprise's accounting policy is a set of specific methods and forms of accounting, published by the enterprise based on generally accepted rules and the specifics of its activities.

Since 2015, joint ventures have been preparing their financial statements based on national standards while implementing them in accordance with international standards. This approach helps joint ventures avoid significant expenses. However, for foreign investors to open a branch of their enterprise in our republic, it is required to maintain financial statements in parallel based on international standards.

However, according to Decree No. 4611 of the President of the Republic of Uzbekistan, starting from 2021, commercial banks, insurance organizations, joint-stock companies, and large taxpayer enterprises are required to prepare financial statements based on international standards. In implementing this decision, one of the major challenges is the requirement for the

accounting department to have at least 3 accountants with DipIFR, ACCA, CPA, IFRS financial reporting and CIPA certificates, the need for personnel to be capable of conducting accounting at an international level, and bringing the tax system up to international standards.

Therefore, in our republic, transformation and parallel accounting methods are being used in the transition of financial statements to international standards. One of the main reasons for this is that the current accounting system uses 1C software based on national standards, but there is no software available for directly maintaining financial statements based on international standards.

The use of internationally recognized software is considered expensive for enterprises.

On the day of transition to IFRS, the joint venture must prepare and submit an initial statement of financial position in accordance with IFRS. This is the starting

point for preparing the joint venture's financial statements in accordance with IFRS.

Financial statements prepared for the first time on the basis of IFRS include:

- statement of financial position;
- statement of profit and loss and comprehensive income;
- statement of cash flows (direct and indirect method);
- statement of changes in equity;
- explanation of accounting policies and other information.

In accordance with the Decree of the President of the Republic of Uzbekistan No. 4720 "On Measures for Implementing Modern Corporate Governance Methods in Joint-Stock Companies from 2015," when large entities are transitioning to international standards for the first time, they must carry out the transformation process as of December 31, 2013, December 31, 2014, and December 31, 2015, based on IFRS 1 "First-time Adoption of International Financial Reporting Standards." This will allow investors to be assured for the first time that the joint venture's statement of financial position is prepared for 3 periods.

In this regard, it is advisable for the management of the joint venture to identify the following stages of work for transforming the financial statements.

Stage 1. Preparation of the opening balance sheet of the joint venture as of January 1, 2020.

Stage 2. Preparation of reporting indicators for 2020

Stage 3. Report for the first reporting period - 2021.

The essence of the reporting transformation is as follows:

Converting Uzbekistan's financial statements into reports prepared in accordance with IFRS is the process of preparing IFRS financial statements based

on reporting data prepared according to national accounting standards. This is done by modifying the recognition (classification and valuation) and disclosure of information about accounting objects in accordance with IFRS requirements.

The essence of transforming financial statements is to identify discrepancies between national accounting standards and IFRS, and to make appropriate adjustments to the reports prepared under national accounting standards to meet IFRS requirements.

Thus, to convert reports generated under national accounting standards into reports that comply with IFRS requirements, the following is necessary:

Knowledge of the regulatory legal provisions governing national accounting, as well as the specific financial and economic activities of the joint venture whose reporting is being transformed;

Understanding of the IFRS system documents (IAS and IFRS standards themselves), their interpretations, and principles of preparing and presenting financial statements;

Possession of analytical skills and technical capabilities to account for objects and transactions, and to identify discrepancies in reporting between national accounting standards and IFRS, in order to make appropriate adjustments to the reports.

The process of modifying the report can be divided into preparatory and working stages.

At the preparatory stage, the following issues are addressed:

- the purpose of the transformation is determined;
- it is determined whether the transformation process requires auditor support or not;
- the characteristic industrial features of the joint venture are identified and the

data necessary for calculating the transformation adjustments are collected;

- the company's accounting policy is being analyzed or developed;
- the currency for the transformation report is specified;

An additional IFRS calculation table and tables showing its compliance with the national calculation table are being developed;

- a system of transformation tables is being created.

The purpose of the working stage is to identify the main differences between accounting according to NAS and

accounting according to IFRS. Simultaneously, the financial and economic activities of the joint venture and the accounting system in accordance with national standards are analyzed: the working chart of accounts, standard operations, and others.

Data for compiling transformation entries is collected sufficiently to carry out the conversion of national reporting into reporting in accordance with IFRS requirements.

### Main indicators of the statement of financial position of JSC "Uzbek leasing international A.O." for 2019-2023

Table 3

Indicator names	2019	2020	2021	2022	2023
<b>Assets</b>					
Cash and cash equivalents	29,933,688	13,292,618	93,049,725	60,013,380	2,918,914
Lease receivables	392,492,694	387,415,333	471,654,767	642,655,598	694,999,474
Equipment for leasing	28,534,277	62,156,469	40,858,231	22,191,633	146,171,627
Advances paid	12,811,311	32,350,033	63,665,096	76,040,237	159,235,367
Deferred income tax asset	1,913,365	3,558,026	5,041,638	6,587,279	6,869,030
Fixed assets	1,323,632	1,096,730	1,324,253	10,503,191	8,592,992
Other assets	14,247,443	10,677,435	20,528,474	13,928,692	61,868,538
<b>Total assets</b>	<b>484,256,410</b>	<b>510,546,643</b>	<b>696,122,184</b>	<b>831,920,010</b>	<b>1,080,655,942</b>
<b>Liabilities</b>					
Debts	344,306,998	371,700,201	542,428,855	552,098,943	707,077,332
Advances from lessees	5,615,455	4,489,752	2,382,313	17,297,741	55,517,025
Trade and other accounts payable	19,207,331	19,079,756	25,918,096	1,394,893	29,625,064
Other liabilities	2,995,647	1,623,051	1,719,066	10,366,447	10,156,497
<b>Total liabilities</b>	<b>372,125,431</b>	<b>396,892,760</b>	<b>572,448,330</b>	<b>581,158,024</b>	<b>802,375,918</b>
<b>CAPITAL</b>					
Shareholders' (charter) capital	9,113,589	9,113,589	9,113,589	17,259,944	17,259,944

Additional paid-in capital	25,714,969	25,714,969	25,714,969	127,568,637	127,568,637
Reserve capital					
Retained earnings	77,302,421	78,825,325	88,845,296	105,933,405	133,451,443
<b>Total capital</b>	<b>112,130,979</b>	<b>113,553,883</b>	<b>123,673,854</b>	<b>250,761,986</b>	<b>278,280,024</b>
<b>Total equity and liabilities</b>	<b>484,256,410</b>	<b>510,546,643</b>	<b>696,122,184</b>	<b>831,920,010</b>	<b>1,080,655,942</b>

Based on the foregoing, through the procedure for transforming the 5-year financial statements of the joint-stock company "Uzbek leasing international A.O.," selected by us, international forms of the joint venture are compiled: "Statement of Financial Position," "Statement of Profit and Loss and Comprehensive Income," "Statement of Cash Flows," and "Statement of Changes in Equity." According to the Regulation "On the Deadlines for Submitting Financial Statements, as well as their Composition and Content," developed by the Ministry of Economy and Finance

and in accordance with Appendix No. 1 to Order No. 181 dated October 8, 2024, the form of the statement of financial position is presented in Table 3.

Consequently, if the financial statements of joint ventures are analyzed based on international standards, it serves, firstly, to assess the activities of the executive body, and secondly, to evaluate the financial performance of this enterprise by foreign investors, as well as to facilitate the inflow of foreign direct investment into the activities of joint ventures.

**"Uzbek Leasing International A.O." JSC Form "Statement of Profit or Loss and Other Comprehensive Income" (according to IFRS)**

**Table 4**

<b>Profit (loss)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Interest income under lease agreements	73,108,089	84,648,957	89,899,151	120,846,551	143,396,067
Interest expenses under lease agreements	(1,229,518)	(1,408,112)	(2,893,518)	(3,638,386)	(9,294,813)
Net interest income	71,878,571	83,240,845	87,005,633	117,208,165	134,101,254
Loan loss provisions	(4,261,893)	6,384,946	1,825,004	4,502,074	(69,477)
Net interest income after loan loss provisions	67,616,678	89,625,791	88,830,637	121,710,239	134,031,777

Other interest expenses	(31,171,812)	(38,484,330)	(44,381,064)	(66,165,194)	(71,253,074)
Other operating income	19,280,666	2,448,852	7,900,240	9,628,851	12,090,950
Administrative and other operating expenses	(34,620,504)	(18,685,489)	(27,643,408)	(36,599,741)	(41,028,311)
Provisions for impairment of other assets	(66,467)	569,556	734,863	(23,032)	56,967
Foreign exchange gains (losses)	3,589,046	(7,688,234)	273,208	(475,408)	17,969,174
Profit (loss) before tax	24,627,607	15,016,254	25,714,476	28,075,715	51,867,483
Income tax expense	(2,866,077)	(3,193,127)	(3,888,402)	(4,434,014)	(6,610,375)
Net profit (loss)	21,761,530	11,823,127	21,826,074	23,641,701	45,257,108
Other comprehensive income					
Total comprehensive income for the year	21,761,530	11,823,127	21,826,074	23,641,701	45,257,108

Based on Table 4 above, the indicators in the "Profit and Loss and Total Income Statement" of the joint-stock company "Uzbek Leasing International A.O." for 2019-2023 show that net profit in 2023 increased by 23,495,578 thousand soums compared to 2019.

#### **Conclusion.**

1. The author developed the following definition: "A joint venture is a legally independent business organization created for strategic and temporary purposes by two or more independent organizations through joint contribution of resources."

2. To transition from national to international financial accounting standards in joint ventures, it is necessary to implement the transformation method proposed in this dissertation through the

following forms: "Statement of Financial Position," "Statement of Profit and Loss and Total Income," "Statement of Cash Flows," and "Statement of Changes in Equity."

3. Currently, the transformation method is widely used for transitioning to international financial reporting standards. However, if financial statements prepared based on national standards are maintained in parallel with those prepared based on international standards, the transparency of financial reporting will increase.

4. The use of modern software tools for accounting in joint ventures is widespread. Therefore, it is advisable to develop and widely implement such programs in accordance with international financial reporting standards.

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