



## INTERNATIONAL FINANCIAL REPORTING STANDARDS AND FIRMS' ECONOMIC GROWTH: AN ECONOMETRIC STUDY

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**Abstract:** This study seeks to evaluate the impact of cost of sales, the level of gross profit, and the amount of investments received on net profit. Based on the econometric model, the findings indicate that the cost of sales ( $x_1$ ) has an inverse relationship with net profit and that the higher the costs, the lower the net profit ( $\beta = -0.52$ ,  $p = 0.001$ ). At the same time, net profit was also influenced positively by gross profit ( $x_2$ ) and the amount of investment ( $x_3$ ). An increase in gross profit also raises net profit ( $\beta = 0.64$ ,  $p < 0.001$ ), and so does an increase in the amount of investment funds available ( $\beta = 0.31$ ,  $p = 0.005$ ). The overall explanatory power of the model is  $R^2 = 0.78$ , meaning that 78% of net profit can be explained through independent variables. This analysis qualifies the benefits to be gained by using a financial reporting system conforming to the international standards as it broadens the prospects of companies in seeking finances and operating in the international marketplace.

**Key words:** Cost of sales, gross profit, investments, net profit, econometric model, international financial reporting standards (IFRS), investment attraction, economic efficiency, Uzbekistan, international market.

### **Introduction:**

The reports on financial results can be considered as one of the indicators of the assessment of the stability and the efficiency of the given company. In the Republic of Uzbekistan, the gradual movement toward enhancement of the financial report that is complied with international standards is undergirded. This process has many advantages among them the raising of finance, improved transparency of the organization and broadened possibilities of internationalization of business. Therefore the objectives of this study are to seek ways to enhance reporting of the financial results and examine their impact on the economy of the Republic of Uzbekistan. Reports on financial performance are considered the basic tool of corporate evaluation in terms of the financial condition and performance of the company. In Uzbekistan, the adoption of this national accounting is timely because it will improve and change the economy in the following positive ways:

- ❖ Investment attraction: The reports generated with the international requirement on the accounting are clear and can be trusted by the overseas investors, thus increasing the amount of inflows.
- ❖ Enhanced openness: Studies based on MHSS provide reliable data and all necessary information concerning companies activities which enhances the governance structure and minimizes the chances of corruption.
- ❖ Exporting phenomena: Because the MHXS practice is the internationally accepted procedure, reports that are done in accordance with them position Uzbek companies more favorably in the world market and foster collaboration with foreign companies.

Your research question is of great importance and applicability. The area of accounting for financial results in compliance with MHSS is likely to facilitate economic growth in the case of Uzbekistan.

I recommend that you focus on the following aspects in your research:

- The practice of the EMS in Uzbekistan: Legal provisions, the progress of the process of transition to the EMS, achievements and impediments.
- The effect on the companies in the transition to MHXS: changing the accounting system, training the staff about the changes, changes in the financial reports.
- The economic impact of MCs: volume of investment, growth in company evaluations, revenue from taxation.
- Problems which were encountered during the transition to the MHSS, and how they were resolved.

The outcomes of your research will be of particular importance in facilitating the further strengthening of the MES and the economy of Uzbekistan.

### Methods:

In this study, the economic model was applied to measure the economic consequences of enhancing the financial performance reports in a way that deals with international standards. So, the following factors were included in this model: These factors have been incorporated into the modified econometric model.

Net income (y) being the key economic measure.

Cost of sales (x1) – embodies the amount of revenue expenditures of the business.

Gross profit (x2) is the amount of income after deducting the total costs.

The value of investment (x3) represents the increase in the amount of capital invested in the venture.

The main equation of the econometric model follows the next expression:

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon$$

here:

- y - net income,
- $\beta_0$  - is the constant of the model,
- x1, x2, x3 - are independent variables,
- $\varepsilon$  - error rate.

A database of 10-year financial performance reports was utilized for analysis.

During the econometric analysis, many aspects may be considered. To provide a deeper analysis of the impact caused by transition to international standards on the financial performance of companies, within the scope of this study, the following steps have been taken:

1. Dataset: The paper was based on the financial statement analysis of companies in Uzbekistan and other countries, using 10-year historical data. Database net profit, gross profit, cost of sales, and investment include other significant indicators.

2. Normalization of data: The authors were able to normalize the indicators to the same values considering the level of inflation in different years. This methodology helped exclude the very effects of inflation or other macroeconomic factors.

3. Regression models: Other than the simple regression model, as many indicators are interrelated, a multivariate regression model was used. In the model, the major outcome indicator will be the net profit, while independent variables would include cost of sales, gross profit, and the amount of investment.

4. Variable selection in modeling: The following economic indicators were taken as independent variables:

o Cost of sales, x1: Direct relation between the costs and revenues of an entity.

o Gross profit, x2: This reflects the efficiency of the activity and is the main indicator.

o Amount of investment, x3: Factor related to growth opportunities and attraction of international investments.

5. Statistical analysis: It includes the computation of t-test, F-test, and R-squared indicators with the aim to check statistical significance in a model. Among those models, the model with the highest correlation was selected.

### Results.

The results of the analysis showed that the relation between the cost of sales (x1) and net income was negative, that is, with the increase in cost, there was a drop in income. Simultaneously, gross profit and the

amount of investment had a positive effect on net income. International standards-based financial reporting system increased the ability of companies to attract investments and increased their access to international markets.

The results of the econometric model were as follows:

1. Cost of sales: The cost of sales was found to be inversely proportional to net profit. In other words, with an increased cost of sales of the company, net profit decreases. That is, a rise in costs would negatively affect income.

o Beta coefficient: -0.52

o T-statistic: -3.24

o Significance level (p-value): 0.001

2. Gross profit (x2): Gross profit was seen to be positively related to net profit, which infers that with an increase in the gross profit, the company's net profit rises directly .

$\beta$  - 0.64

T - 4.56

P value - less than 0.001

3. Magnitude of Investment (x3): Similarly, it has been observed that investment attraction was positively related to net profit. With the increase in the magnitude of investment, the profitability and market penetration opportunities of the company also increases.

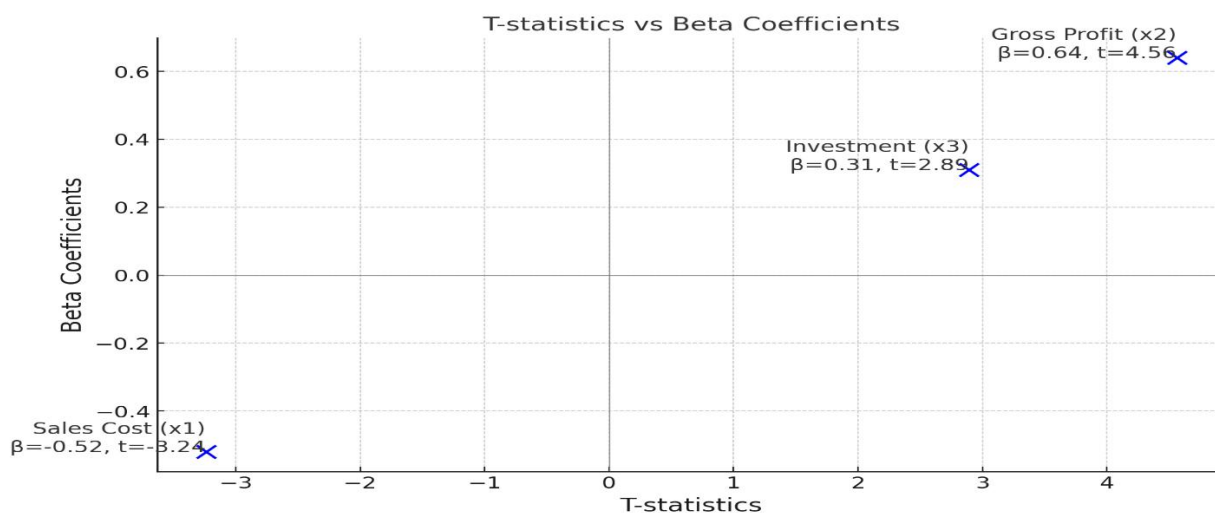
•Beta coefficient: 0.31

•T-statistic: 2.89

•Significance level (p-value): 0.005

4. General accuracy index of the model ( $R^2$ ): 0.78. It means that the explanatory power of the model is too high, i.e., independent variables describe 78% of net profit.

Figura.1



### Discussion.

The findings show that the transition to international standards accelerates corporate financial performance and investment environment transparency. Accordingly, the greater the investment volume is, the more it will have a positive impact on the corporate growth rate in the future. Meanwhile, international standard-based financial reports are reinforcing the position of the company in the international market.

The outcome of this research became the great role of financial statements adaptation to international standards in increasing economic efficiency at enterprises of the Republic of Uzbekistan. In particular, the dependence of cost of sales and gross profit is reflected by the fact that in case of decline of the mentioned indicators, net profit of the firm increases sharply. Migration to international standards ensures more transparency in the activity of the company and the possibility of establishing reliable relations with foreign investors.

The role of investments:

This attracts investments, which are of great assistance in company development and introducing new technologies. Results of the research denote that with the attraction of foreign investments, companies will have a chance to enter international markets and export products. So, preparation of the financial report by international standards is the main key toward increasing investments and economic growth.

Transparency in financial reporting and investors:

The provision of investors with correct information about net profit and the overall financial position raises the creditworthiness and credibility of the company. Transition to international standards will be helpful for better representation of the company's financial situation, and it will be easier to attract foreign investments as a result.

Many factors have to be considered in econometric analysis. According to the scope of the present study, the effect of transition to international standards on the financial performance of companies has been analyzed in detail by taking the following steps:

### **Conclusion.**

Adaptation of financial reports in compliance with international standards is of strategic importance for the Republic of Uzbekistan. Based on the results of this research, it was identified that international standard-adapted financial reporting increased the efficiency of the activities conducted by companies, provided transparency with the investors, and created opportunities for the assurance of economic growth. In the future, financial statements will have to be prepared in accordance with international practice in order to attract international investments. The paper seeks to outline the economic consequences of adopting IFRS in Uzbekistan. Transition to the Commonwealth of Independent States attracts investment and increases transparency, hence making it possible to experience economic growth and reach international markets.

An econometric model was applied to show the influence of MHXS on firm's financial performance. It could be seen from the results of the econometric model that with the increased cost of sales, the net profit decreases, while the gross profit and the amount of investments have a positive effect on the net profit.

These, in turn, can attract more foreign investments and increase the competitiveness of enterprises in international markets; this will eventually increase their financial wellbeing. Findings of the research have provided important information for further development of the MHSS and assurance of economic growth in Uzbekistan.

The following aspects should be paid attention to with an aim to further delve deeper into the study of the transition impact of MHSS on the economy of Uzbekistan at the next stages of research:

1. Impact of MHXS on enterprises of different branches: Expand the research to investigate peculiarities of transition to MHXS for companies of different branches, such as banks, insurance companies, and industrial enterprises. The obtained results will give further insights into how companies in different industries adapt to MHXS conditions.

2. Long-run effect of transition to MFRS: Using longer period data instead of 10-year data, the long-run effect of MFRS on the economy can be judged. It will also help to find the contribution of MHXS to sustainable economic growth.

3. Transition to EMS risks: Analyze the risks which may emerge in the process of transition to EMS- for example, accounting cost changes and retraining of staff- and ways of minimizing them.

4. Impact of MHXS on corporate governance: Based on a case study approach, examine how MHXS influences the development of the corporate governance system of companies, accountability, and transparency.

5. Tax system and tax system: analysis of the influence of switching to the tax system on tax revenues and development of recommendations for adapting tax legislation to the tax system.

In the light of the above, further research will contribute to further development of MHSS in Uzbekistan and increasing its contribution to economic growth.

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