

METHODOLOGICAL APPROACHES TO ACCOUNTING IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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ABSTRACT

Over the past several years, Armenia has faced notable changes in its public debt trends, influenced by the consequences of the COVID-19 crisis, regional geopolitical tensions, and global economic disturbances. The level of government debt rose to over 63% of GDP during 2020–2021, subsequently falling to approximately 50% by 2023, primarily due to a robust economic recovery. The management of public debt in Armenia is carried out within an institutional setup that involves the Ministry of Finance, the Central Bank, and parliamentary supervision, though the country still does not have an autonomous debt management authority. External loans continue to constitute the largest share of Armenia's debt portfolio, which increases exposure to currency fluctuations and reliance on foreign lenders. To ensure debt sustainability, it is essential to adopt a medium-term debt strategy, broaden the domestic government securities market, and implement advanced tools for risk assessment and control. Enhancing the institutional system and harmonizing national practices with international standards will be vital for transforming the state debt policy into a framework that promotes long-term macroeconomic resilience and development.

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1. INTRODUCTION

In theory, accounting as an instrument of economic statistics always presupposes a balance of economic activity indicators expressed in financial terms (Guenther & Young, 2000). However, in practice, this balance can be achieved in various ways, depending on the accounting methodology applied by business entities, which determines their specific characteristics (Norreklit, 2000). First, this concerns the level of detail in accounting records and the resulting financial reports (i.e., the degree of granularity) (Popkova & Ergasheva, 2024a).

In some cases, highly detailed accounting is required, which is labor-intensive but offers far greater opportunities for analyzing the causal relationships

within business activities. In other cases, it is preferable to consolidate economic indicators and maintain aggregated accounting records (Bergmann et al., 2016). Second, it concerns the composition of accounting objects. The set of indicators subject to accounting can vary significantly depending on the methodological approach adopted (Ergasheva et al., 2024).

Third, it involves the measurement of accounting indicators (Otley, 2002). The methodological approach to accounting determines which aspects of business activity and its outcomes are attributed to specific accounting indicators (Popkova et al., 2024b). It is also worth noting that when converting economic indicators from one currency to another (e.g., from Uzbek soms to Russian rubles or US dollars), discrepancies may arise due to exchange rate fluctuations. This complicates the comparability of financial statements across different

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time periods. Fourth, it pertains to the style and format of financial reporting (Ergasheva et al., 2023b).

2. METHODOLOGY

The methodological approach to accounting determines the structure of financial reporting, the manner of

presentation, and the way economic information is conveyed within it. These factors primarily influence the ease of analysis and the accuracy of interpretation. Each conceptual approach to understanding the nature and essence of accounting for business entities corresponds to specific methodological approaches, which are systematized in Table 1.

Table 1. Methodological approaches to accounting for business entities.

Conceptual approach	Methodological approach to accounting			
	Purpose of accounting	Key areas of economic activity subject to accounting and reflected in financial statements	The view of financial statements as the main result of accounting	
Management approach	identifying the break-even point of a business, managing financial risks	<ul style="list-style-type: none"> – cost (expenses); – revenue (income); – profit; – profitability (basis for its calculation). 	financial	management (internal) reporting
	determination of production capabilities and production efficiency	<ul style="list-style-type: none"> – company resources; – resource efficiency; – depreciation and renewal of fixed assets; – productivity; – inventories. 	non-financial (production)	
Fiscal approach	correct calculation and timely payment of taxes	<ul style="list-style-type: none"> – taxable items; – tax base; – tax burden; – taxes paid; – tax and fee arrears. 	tax reporting	
Investment approach	attracting foreign investment, reporting to investors	<ul style="list-style-type: none"> – market value of shares; – market capitalization of assets; – volume of investments attracted; – goodwill. 	IFRS reporting	
	Support for SDGs and their demonstration, financial measurement of corporate responsibility returns	<ul style="list-style-type: none"> – environmental investments; – green jobs; – social investments. 	sustainability reporting	

Source: Developed by the authors.

The research examines in detail each of the methodological approaches to accounting for economic entities highlighted in Table 1.

3. RESULTS

Within the framework of the managerial conceptual approach (Ergasheva et al., 2023a), two methodological approaches to accounting are distinguished, both of which involve the preparation of management (internal) reports.

The first approach assumes that accounting is intended to identify a company's break-even point and manage its financial risks. In this methodological framework, accounting records capture the key financial indicators of a company's operations, such as cost (total expenses), revenue (income), profit, and profitability (its calculation base). The methodological features of accounting in this approach include the following:

- A detailed recording of various categories of income (core and circulating funds, current and non-current assets) and expenses (own and borrowed funds), with

thorough classification to explain the causal relationships and structure of these categories;

- A detailed breakdown of the factors shaping the net financial result of the entity's operations, allowing for highly accurate financial analysis;
- financial measurement of a company's assets based on the actual costs incurred for their acquisition, demonstrating their book value.

The primary outcome of accounting in this methodological approach is financial reporting, which provides insights into the following:

- The financial stability of the enterprise;
- The financial leverage of the enterprise;
- Trends in the company's financial performance, enabling identification of development cycles and potential crises;
- The financial risks faced by the entity;
- The company's sufficiency of internal financial resources and its debt burden.

In theory, accounting as a tool of economic statistics always implies a balance of economic indicators expressed in financial terms. In practice, however, this balance can be achieved in different ways, depending on

the accounting methodology applied by business entities, which defines its specific characteristics.

First, this concerns the level of detail in accounting records and the resulting reports (i.e., the degree of granularity). In some cases, highly detailed accounting is required, which is labor-intensive but offers broader opportunities for analyzing causal relationships in business activities. In other cases, it is preferable to aggregate economic indicators and maintain consolidated accounting records. Second, it concerns the composition of accounting objects. The set of indicators subject to accounting may vary considerably depending on the methodological approach applied. Accounting information under this approach serves shareholders, creditors, and investors as a decision-support tool for financing the company's activities.

The strengths of this methodological approach lie in its strong alignment with the accounting needs of managers and owners of local and national businesses. By relying on national accounting standards, this approach ensures that accounting practices and resulting reports are:

1. Standardized, which simplifies automation and staff training in accounting;
2. Easy to interpret, as the reports follow a uniform structure that accelerates information retrieval;
3. Comparable across enterprises and over different reporting periods.

However, the weaknesses of this approach include the existence of separate national accounting standards in each country, which complicates investment decision-making and hinders the attraction of foreign investment. Moreover, the relatively narrow range of indicators recorded and reflected in financial statements limits the scope of financial and economic analysis based on accounting reports within this approach.

In the second methodological approach to accounting, within the framework of the managerial conceptual approach, accounting is intended to determine the production capacity and efficiency of an enterprise. This methodological approach involves recording the company's key non-financial performance indicators, such as resources, resource efficiency, production capacity and utilization, depreciation and renewal of fixed assets, productivity, as well as inventories of raw materials, supplies, and unsold goods. The methodological characteristics of accounting within this approach include the following:

- Detailed recording of various types of production resources (material, financial, human, and others) belonging to the business entity;
- Emphasis on classifying resources by distinguishing between fixed and variable costs to provide analytical support for managerial decisions on scaling the enterprise and assessing the "economies of scale" achieved;
- Determining the degree of fixed asset depreciation based on their useful life and amortization — that is, accounting for physical but not moral depreciation.

The primary outcome of accounting in this methodological approach is non-financial (production) reporting, which provides insight into the following:

- The adequacy of production resources for the normal operation of the enterprise — identifying both resource shortages that need to be addressed and surpluses that could be reduced to lower costs and, consequently, production expenses;
- The risk of product spoilage in cases of prolonged market stagnation (overproduction crises);
- The company's innovative activity and its effectiveness.

Non-financial reporting is valuable for production managers, as it serves as an informational tool for decision-making regarding the company's resource supply, modernization, and particularly the automation of various business processes, as well as restructuring its branch network and organizational structure.

For managerial purposes, accounting is supplemented by non-financial corporate accounting, which records economic indicators in physical terms (e.g., the physical volume of production inventories and output, as well as the number of employees). Thus, the information contained in financial statements under this methodological approach is not exhaustive.

The strength of this methodological approach lies in its ability to provide expanded information (compared with the previous approach) that is useful for financial and economic analysis of a company's operations. The accounting reports prepared under this approach can be effectively used for planning, forecasting, and managing enterprise activities.

However, a key weakness of this approach is the potential for significant measurement errors. For instance, fixed assets may be morally obsolete even though their amortization period and useful life have not yet expired. Furthermore, the limited financial measurement of a company's resources presents another challenge. For example, the wage fund reflects the amount of financing required to attract and utilize human resources during the reporting period. However, it does not capture employees' qualifications, loyalty, or the degree to which their potential is realized.

According to the fiscal conceptual approach, the methodological approach to accounting assumes that its purpose is the accurate calculation and timely payment of taxes (Ergasheva et al., 2023c). In this methodological framework, accounting focuses on indicators of a company's business activities relevant to taxation, such as taxable objects, tax base, tax burden (or its calculation basis), taxes paid, and outstanding tax liabilities. The methodological features of accounting in this approach include the following:

- Strict alignment of accounting and reporting with the tax period, which may differ from the calendar year and vary for different taxes and fees, requiring the preparation of financial reports multiple times during the year;
- Meticulous preparation of accounting reports in full compliance with current tax legislation and their

mandatory submission to tax authorities upon request, as well as for tax audits;

- Measurement of accounting indicators and reports in the same currency used by the enterprise to pay taxes and fees;
- Preparation of accounting (tax) reports in the official language of the country in which the enterprise is registered as a taxpayer;
- Classification of taxes and fees to determine the company's tax burden for each category.

The primary outcome of accounting in this methodological approach is tax reporting, which provides the following insight:

- The company's tax discipline;
- Changes in the company's tax burden over time and their underlying causes;
- The timeliness of tax and duty payments;
- Opportunities for optimizing the company's tax strategy.

In certain cases, tax reporting may coincide with a company's management reporting, though this is not always the case. Therefore, it is important to distinguish between these two types of accounting reports. Unlike management reporting, tax reporting is primarily intended for external stakeholders, most notably, the tax authorities. Errors or inaccuracies in a company's tax reporting can result in fines and penalties, as well as limit its potential for future tax optimization.

If a company operates in multiple countries (e.g., through an international branch network), its activities may be subject to taxation in each respective jurisdiction. In such cases, it may be necessary to maintain accounting records and prepare reports in accordance with the national standards of each country.

Among the strengths of this methodological approach are its rigor and high level of accuracy, which stem from reliance on clear guidelines and instructions provided by tax authorities, as well as the use of official templates. However, its key weakness lies in the fact that accounting and reporting conducted under this approach are primarily designed for tax authorities and therefore contain only aggregated tax information. This makes them insufficient for comprehensive informational and analytical support of corporate management.

Within the investment conceptual approach, two methodological approaches to accounting are distinguished (Kantor et al., 2023). The first assumes that accounting is intended to attract foreign investment and provide reports to investors. In this methodological approach, accounting records the company's market-related performance indicators, such as share price, market capitalization of assets, total investment inflows, and goodwill.

The methodological characteristics of accounting within this approach include the following:

- Detailed recording of various financial resources (own funds, borrowed capital, direct foreign investments, acquisition of shares or bonds of other companies), with careful classification to explain their structure and causal relationships;

- Preparation of accounting (tax) reports in a foreign language (e.g., English);
- Measurement of economic indicators in foreign currencies (e.g., US dollars) based on applicable exchange rates;
- Financial valuation of assets based on their market value, which often differs from their book value, with the difference representing goodwill.

The primary outcome of accounting in this methodological approach is reporting in accordance with IFRS, the most recent of which is IFRS 18. Such reporting provides the following insights:

- The transnational nature of the company's activities, including its reliance on foreign capital and participation in cross-border supply and distribution chains;
- The financial effectiveness of the company's own investment activities;
- The attractiveness of specific investment channels, particularly in geographical terms;
- The advisability of listing the company's shares on stock exchanges in various countries and of changing its organizational or legal form.

The strengths of this methodological approach include its ability to evaluate the effectiveness of a company's marketing activities and express them in financial terms. An important advantage is that it facilitates decision-making by foreign investors and encourages the inflow of foreign capital into the economy and entrepreneurship. However, the weakness of this approach lies in its high degree of subjectivity: accounting and reporting under this framework consider investors' expectations, which may be volatile and not always well-founded. As a result, the reports produced under this approach may not fully reflect the company's actual situation and can distort the true financial picture. Moreover, such reports often lose comparability across different time periods, complicating long-term analysis and reducing their objectivity as tools for forecasting and strategic decision-making.

In the second methodological approach to accounting within the investment conceptual framework, accounting is designed to support and demonstrate progress toward the Sustainable Development Goals (SDGs), as well as to provide a financial assessment of returns on corporate social and environmental responsibility. In this methodological approach, accounting records the enterprise's key financial indicators related to its operations, such as environmental investments, "green" jobs, and social investments. The methodological characteristics of accounting within this approach include the following:

- A flexible set of indicators to be recorded and included in financial reports;
- A discretionary nature of financial measurement for the company's environmental-economic and social-economic performance indicators, which are not subject to standardization;
- Detailed reporting (aligned with the classification of the 17 UN SDGs) of the specific goals that the company supports and implements in practice;

- Breakdown of the factors contributing to the results achieved for each SDG supported by the enterprise.

The primary outcome of accounting in this methodological approach is the sustainability report, which provides the following insights:

- The level of the company's corporate social and environmental responsibility and its evolution over time;
- The price premium associated with corporate social and environmental responsibility;
- The impact of such responsibility, particularly as expressed through support for the SDGs, on consumer loyalty toward the enterprise.

Although sustainability accounting and reporting are increasingly popular among modern enterprises worldwide, including in the Republic of Uzbekistan, this accounting practice has not yet been standardized and therefore is implemented at the discretion of each enterprise.

On the one hand, the absence of standardization allows companies to present their activities in the most favorable light in their sustainability reports, highlighting only those indicators where they outperform competitors and/or show positive trends. On the other hand, this flexibility can mislead stakeholders regarding the company's actual progress toward the SDGs, thereby hindering rather than facilitating sound and rational decision-making.

The strengths of this methodological approach lie in its ability to enable not only quantitative but also mixed quantitative-qualitative economic analysis of corporate activity. The range of indicators recorded and reported is broader than in the previously discussed approaches, making this type of reporting valuable for informing social and environmental decision-making. Accounting reports prepared under this approach also help forecast potential changes in a company's financial performance by considering stakeholder loyalty. They serve as a tool for strengthening that loyalty.

The weaknesses of this approach include the high degree of subjectivity involved in maintaining accounting records and preparing reports under this framework, leading to a lack of comparability between different enterprises' reports. Consequently, accounting under this approach only partially serves the internal interests of management and provides little value to other stakeholders, while also creating the risk of misinformation. It is also important to note that accounting and reporting within this framework are not comprehensive and can serve only as a supplement to the core mandatory accounting practices described in the previous approaches.

4. DISCUSSION

According to the conceptual managerial approach, the following two methodological approaches to accounting are distinguished based on the purpose of accounting

(involving the preparation of internal managerial reports):

- A methodological approach designed to identify the company's break-even point and manage financial risks. The key areas of business activity subject to accounting and reflected in financial reports under this approach include cost (expenses), revenue (income), profit, and profitability (the basis for its calculation). This methodological approach involves the preparation of financial statements;
- A methodological approach aimed at determining production capacity and operational efficiency. The key areas of business activity subject to accounting and reflected in financial reports under this approach include enterprise resources, resource efficiency, depreciation and renewal of fixed assets, productivity, and inventories. This methodological approach involves the preparation of non-financial (production) reports.

In accordance with the conceptual fiscal approach, a methodological approach is identified that is intended to ensure the accurate calculation and timely payment of taxes. The key areas of business activity subject to accounting and reflected in financial reports under this approach include taxable objects, the tax base, tax burden, taxes paid, and outstanding tax liabilities. This methodological approach involves the preparation of tax reports.

According to the conceptual investment approach, the following two methodological approaches to accounting are distinguished based on the purpose of accounting (both involving the preparation of internal managerial reports):

- A methodological approach designed to attract foreign investment and provide reports to investors. The key areas of business activity subject to accounting and reflected in financial reports under this approach include the market value of shares, market capitalization of assets, the volume of attracted investments, and goodwill. This methodological approach involves the preparation of reports in accordance with IFRS;
- A methodological approach designed to support and demonstrate progress toward the Sustainable Development Goals (SDGs) and to provide financial measurement of returns from corporate responsibility. The key areas of business activity subject to accounting and reflected in financial reports under this approach include environmental investments, "green" jobs, and social investments. This methodological approach involves the preparation of sustainability reports.

Accordingly, the results presented in this article continue a series of scientific studies (Ergasheva et al., 2023a, 2023b, 2023c, 2024; Popkova et al., 2024a, 2024b) devoted to the methodology of accounting and financial reporting, systematizing the accumulated scientific knowledge and deepening the classification of conceptual and methodological approaches to accounting practices.

5. CONCLUSION

Thus, considering the identified strengths and weaknesses of the existing methodological approaches to accounting for business entities, it can be concluded that their diversity does not simplify the accounting process

by offering a suitable choice of approach. On the contrary, it complicates accounting practice due to the necessity of simultaneously adhering to several approaches and preparing not just one but an entire set of accounting reports: financial, production, tax, IFRS-based, and sustainability reports.

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