G.Ü. İ.İ.B.F. Dergisi, 3/99, 91-106

Studies On Accounting Standards in Kyrgyzstan

Mevlüt KARAKAYA*

The Kyrgyz Republic published the 18 Accounting Standards in 1997. All of these standards became effective Janu y 1, 1998. Preparation of the standards was carried out by the Ministry of Finance of Kyrgyz Republic with the assistance of CARANA which was sponsored by the United States Agency for International Development (USIAD). All of these standards have been developed in accordance with International Accounting Standards (IASs).

In this study each of these standards has been examined briefly.

1. INTRODUCTION

Following the breakdown of the Soviet System in 1990, Kyrgyzistan became an independent country in 1991. Since then, Kyrgyz Government has acted on a number of fundamental reforms including demonopolising and privatizing state-owned enterprises.

Presently, more than 20 projects and programs financed by the Wold Bank and Asian Development Bank as well as other International Institutions and donors have being implemented so as to realize the reforms. Most of these projects deal with establishing infrastructure of the market-oriented economy in Kyrgyzistan.

The entities such as the World Bank and Asian Development Bank financing the projects require that a project should have accounting and control systems capable of reliably recording and reporting all financial transactions. This requirement is one of the main terms carried out by borrowers before effective any project. For example, the World Bank requires borrowers to submit the developed financial management system for project before signing loan agreement. The system should be developed in accordance with International Accounting Standards (IASs). The bank rules are allowed borrowers to use national accounting applications. However, where national standards are used, the bank requires financial statements to disclose any material departures from International Accounting Standards and the impact of such departures on the financial statements must be stated.

* Assoc. Prof., Faculty of Education for Commerce and Tourism; Gazi University.

Ministry of Finance of the Kyrgyz Republic is directly involved in realization the projects and programs as a main entity in the Kyrgyz Republic responsible for functioning of a financial systems. The requirements of the international funders of the projects on establishing accounting systems according to IASs forced the Ministry of Finance to develop accounting standards for Kyrgyz Republic. The 18 Accounting Standards have been adapted from IASs in 1997. These Standards have been prepared by the Ministry of Finance with the assistance of CARANA Corporation, which is sponsored by the United States Agency for International Development (USAID).

2. GENERAL VIEW

18 Kyrgyz Accounting Standards were developed on the basis of International Accounting Standards. These standards are shown below with the adjacent relevance International Accounting Standards.

Kyrgyz Acconting Standards (KAS)	Relevance International Accounting Standards (IAS)
KAS-1 Acconting Policy and Its Disclosure	IAS-1 Disclosure of Accounting Policy (This standard was revised and republished in 1998, under the name "Presentation of Financial Statements").
KAS-2 Balance Sheet	IAS-5 Information To Be Disclosed Financial Statements IAS-13 Presentation of Current Assets and Current Liabilities.
KAS-3 Statement of Operations	IAS-5 Information To Be Disclosed Financial Statements IAS-8 Net Profit or Loss For the Period, Fundamental Errors and Changes İn Accounting Policy IAS-10 Contingencies and Events Occuring, After the Balance Sheet Date.
KAS-4 Cash Flow Statements	IAS-7 Cash Flow Statements.
KAS-5 Inventories	IAS-2 Inventories
KAS-6 The Effects of Changes In Foreign Exchange Rates	IAS-21 The Effects of Changes In Foreign Exchange Rates
KAS-7 Income Recognation	IAS-18 Revenue
KAS-8 Accounting For Fixed Assets and Other Long-Term Assets	IAS-4 Depreciation Accounting IAS-16 Property, Plant and Equipment
KAS-9 Income Taxes	IAS-12 Accounting For Income Taxes

KAS-10 Accounting For Leases	IAS-17 Accounting For Leases
KAS-11 Consolidated Financial Statements and Accounting for Investments in Subsidiaries	IAS-27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries
KAS-12 Accounting for Government Grants and Description of Government Assistance	IAS-20 Accounting for Government Grants and Description of Government Assistance
KAS-13 Accounting for Business Combinations	IAS-22 Business Combinations
KAS-14 Related Parties	IAS-24 Related Party Disclosures
KAS-15 Investments	IAS-25 Investments
KAS-16 Investments in Associates	IAS-28 Investments in Associates
KAS-17 Investments in Joint Ventures	IAS-31 Investments in Joint Ventures
KAS-18 Borrowing Costs	IAS-23 Borrowing Costs

3. BRIEFING THE STANDARDS

KAS-1 Accounting Policy and Its Disclosure

The objective of this standard is to set out the procedures for formulation and disclosure of the Accounting Policy of an entity by selecting from the variety of methods, depicted in this standard, the most appropriate methods and procedures of accounting for that entity.

This standard shall cover:

a- the formulation of the Accounting Policy – all entities, regardless of the ownership type on the territory of the Kyrgyz Republic;

b- the disclosure of the Accounting Policy – entities, partially or fully its publishing financial statements in accordance with the legislatinon of Kyrgyz Republic, founding documents or an their own initiative.

The standard requires the management of an entitiy to formulate accounting policy on the basis of this standard. At the same time the management should approve a working Chart of Accounts developed according to the Chart of Accounts approved by the National Accounting Commission of Kyrgyz Republic. The commission has not been set up yet. For the time being, the Chart of Accounts approved by the Ministry of Finance is used for that purpose. Newly formed entities should formulate their accounting policies till the end of the first reporting period, but not later then 90 days as of the registration date of an entity.

The standard requires an entity to follow the basic accounting principles (going concern principle, consistency, and accrual). According to the standard, the following considerations should be followed by an entity while selecting and applying proper accounting policy and preparing financial statements:

1) Prudence
2) Substance over form principle
3) Materiality
4) Duality
5) Cost measurement
6) Segregation
7) Valuation
8) Conservatism
9) Classification.

Understandability, Significance, Reliability and Comparability are stated as basic qualitative characteristics for financial statements.

The standart has not been modified according to the modified International Accounting Standard-1.

KAS-2 Balance Sheet

This standard provides the form, content and methodical basis of the Balance Sheet. The standard states that the form and content of the balance sheet and its explanatory notes sould be applied in a consistent manner from one reporting period to another. Balance sheet sould be presented with the data for the period previous to to the reporting one with adjustments required. The standard requests to be disclosed for each adjustment in the explanatory note.

Balance sheet is prepared as of the last calender day for each year. If an entity formed after Octobe 1 the first reporting date is the last calender day of the following year. According to the standard the balance sheet shoulde signed by the manager and chief accountant of the entity. If the balance sheet performed on a contract basis by an accounting firm or an accountant, it sould be signed by the manager of the entity and the manager of the accounting firm or by the accountant.

Assets on the balance sheet should be divided into two categories as current and long-term assets. The assets expected to be converted into cash funds within one year from the balance sheet date should be presented under the category of current assets. The assets for the usage in production, leasing, administrative purposes and are intended to be used more than one year should be presented under the category of long-term assets.

Current assets are classified as follows:

1) Cash
2) Short-term investments
3) Receivables
4) Debts of the investors (founders) on contributions to the authorized capital.
5) Inventory
6) Prepaid expenses
7) Deffered expenses
8) Other current assets

Long term assets are classified as indicated below:

1) Fixed assets
2) Long-term accounts receivable
3) Long-term investments
4) Intangible assets

Liabilities on the balance sheet should be divided into two categories as current and long-term liabilities.

The liabilities expected to be paid within one year from the balance sheet should be presented unde the category of current liabilities. The liabilities apart from current liabilities should be presented under the category of long-ter liabilities.

Current liabilities are classified as given below:

1) Accounts payable
2) Short-term liabilities
3) Taxes payable
4) Accrued liabilities
5) Other current liabilities

Long-term liabilities are classified as indicated below:

1) Long-term loans from bonds and other institutions
2) Bond payable
3) Notes payable
4) Other long-term liabilities

Equity on the balance sheet are classified as the following:

1) Common shares
2) Preferred shares
3) Treasury shares
4) Additional paid in capital
5) Retained earnings
6) Reserve capital
7) Addittional capital

Those items of the assets, liabilities and equity mentioned above are the examples for indicating the balance sheet items.

KAS-3 Statement of Operations

This standard describes financial results of entities' operations for the accounting period.

According to the standard, the statement of operations includes the following items:

1) Revenues (from sales of inventory and services);
2) Cost of sales (cost of goods purchased and produced);
3) Gross profit (the difference between revenues and cost of sales);
4) Operating expenses
   - For merchandising company:
     a) Selling expenses
     b) General administratives expenses
   - For manufacturing company:
     a) Depreciation
     b) Selling expenses
     c) General and administrative expenses
5) Profit from operations (the difference between gross profit and operating expenses)
6) Income from non-operations activities
   a) Revenue from share participation, dividends
   b) Interest income
   c) Income from investment securities sold
   d) Income from exchange rate differences

e) Income from sale or disposal of fixed asseets

f) Received fees, penalties etc.

g) Others non-operating incomes

7) Expenses from non-operational activities

a) Interest expenses (including leasing contracts)

b) Losses from exchange rate differences

c) Losses from sale or disposal of fixed assets

d) Expenses related with environment protection, penalties, forfeit etc.

e) Expenses on bad debts paid

f) Other non-operating expenses

8) Profit before taxes and extraordinary items

(Profit from operations plus/minus the difference between non-operating incomes and non-operating expenses)

9) Income taxes

10) Profit before extraordinary items

11) Extraordinary items

a) Not insured losses, resulted from earthquakes, flood, fires and theft

b) Gains or losses, resulted with the enforcement of a new law

c) Expropriation af assets by the government

d) Gains or losses from paying back of the debts before maturity date

The standard also refers to the issues related to disclosure, contingencies, discounted operations, fundamental errors, and changes in accounting estimates and changes in accounting policies.

KAS-4 Cash Flow Statements

This standard provides the information on changes in cash and cash equivalents of an entity. According to the standard, the statement should report the effect of operating, investing, and financing activities on cash situation during the reporting accounting period.

The standard explaines the activities with examples of the cash flows from operating, investing and financing activities.

According to the standard, the cash flows from operating activities should be reported using either direct or indirect method. Under the direct method the cash flows are reported as major classes of gross cash receipts and gross cash payments. The method assumes transformation of each item of Statement of Operation. Under the indirect cash flows are determined by adjusting net profit or loss. The method does not assume transformation of each item of Statement of Operation.

KAS-5 Inventories

This standard prescribes the accounting treatments for inventories and its cost. The concept of inventory by this standard is defined as follows:

Inventories are assets:

a) held for sale in the ordinary course of business;

b) in the process of production;

c) in the form of materials or supplies to be consumed in the production process or in the rendering of service

The standard states that inventories should be measured at the lower of cost or net realizable value. The cost of inventories should comprise all costs of purchase, costa of conversion and other costs incurred in bringing the inventories to their present location and condition.

Components of the cost of purchase by the standard are listed as follows:

- purchase price;
- import duties and taxes;
- transportation and handling expenses; and
- other costs directly attributable to the acquisition of inventories.

Trade discounts on purchases, rebates and other similar items are deducted from the cost of purchase.

The cost of conversion consists of labor costs and production overheads. Five criteria were listed by the standard for allocating of fixed factory overheads to the costs of finished goods. Those criterions are as follows:

- labor usage;
- cost of direct materials;
- amount of direct costs;
- estimated cost of goods produced;
- selling price of fininshed goods.

The accounting policy on this issue is developed by an entity's management. Selected criteria cannot be switched within the reporting period. According to the standard if allocation of the overhead to each unit of production is impossible, unallocated overheads are recognized as an expense in period which they are incurred.

In some cicumstances, standard cost method for manufacturing companies and retail method for merchandising companies can be used.

Two methods which are FIFO (first-in, first-out) and weighted average cost for the measurement of costs of inventories are recommended by this standard.

However using of LIFO (last-in, first-out) is possible as an alternative method. In some circumstances according to prudence concept of accounting an entity can use net realizable value to measure the inventories.

According to the standard if an entity determines the cost of inventories using the LIFO method, the balance sheet should disclose the difference between the amount of inventories as shown in the balance sheet and either:

- the lower of the amount calculated in accordance with FIFO and net realizable value.
- The lower of current at the balance sheet date and net realizable value.

KAS-6 The Effects of Cahnges in Foreign Exchange Rates

This standard prescribes the accounting for transactions in foreign currencies and treating the financial statements of foreign operations.

A foreign currency transaction should be recorded by appliying the exchange rate at the date of the transaction. For practical reasons, the standard allows to apply an average rate for a week or a month, If exchange rate fluctuation within the period is not significant.

According to the standard exchange differences arising on monetary items should be recognized as income or as expenses in the period in which they arise, with exception of exchange differences of the net investment in a foreign entity.

The method used to translate the financial statements of foreign operations is selected by taking into consideration carecterictics of the operations.

The financial statements of a foreign operations that is integral to the operations of the reporting enterprise should be translated in accordance with the following procuders:

a) foreign currency monetary items should be converted into reporting currency with by using the closing rate;

b) non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction;

c) non-monatery items, which are carried at fair value denominated in a foreign currency, should be reported using the exchange rates that existed when the fair value was determined.

The financial statements of a foreign operation that is a foreign entity should be translated in accordance with the following procuders:

a) the assets and liabilities, both monetary and non-monetary, of the foreign entity should be translated at the closing rate;

b) income and expense items of the foreign entity should be translated at exchange rates at the dates of the transactions, expect when the foreign entity reports in the currency of hyperinflationary.

c) all resulting exchange differences should be classified as equity at the "Additional Capital" article until the disposal of the investment.

KAS-7 Income Recognition

This standard deals with the conditions of recognition of income, measurement of income, basic disclosure of income in the financial reports and in the notes to financial statements.

Matching principle is the main consideration on recognition and of income and expenses. The standard states that recognition criterion is usually applied separately to each transaction. In certain circumstances when the transactions are linked in such a way that the commercial effect cannot be understood without any reference to the series of transactions as a whole, the recognition criteria are applied to two or more transactions together.

The fair value should be used to measure income. According to the standard the fair value of the consideration to be received is determined by discounting all future receipts using an imputed interest rate. The standard also explains how to determinate the interest rate. The amount between the fair value and the nominal amount of the consideration is recognized as interest income.

The standard does not deal with income related to:

- lease agrements;
- construction contracts;
- dividends from investments accounted for under the equity;
- insurance cotracts of insurance entities;
- changes in fair value of investment entities;
- changes in value of other current assets;
- natural growth in agricultural and forest production;
- the extraction of mineral ores.

KAS-8 Accounting For Fixed Assets and Other Long-Term Assets

This standard explaines the accounting treatment for fixed assets and other long-term assets owned and controlled by the entity. The standard deals with the subjects related to fixed assets and other long-term assets in the following manner:

- recognition of assets;
- estimation of useful economic life;
- estimation of carriying amount and depreciable amount;
- estimation and methods of accounting for other decreases in carrying amount of fixed assets and other long-term assets.

The standard states that a fixed asset should be valued at its initial cost. Initial losses should be recognized as an expense. However, the standard allows the entities to revalue the fixed assets in compliance with the Kyrgyz legislation. The increase, as a result of revaluation, should be credited directly to equity under the heading " Revaluation Surplus". The decrease should be recognized as an expense within the accounting period in the amount exceeding the amount of revaluation surplus from previous revaluation of that asset.

Subsequent expenditures on fixed assets are only added the carrying amount of the asset when it is probable that the expenditures improve tha condition of assets.

Depreciable amount of long-term asset should be allocated on a systematic basis over its useful economic life. The standard explaines the factors which sould be taken into consideration in determining the useful life of a fixed asset i.e expected usage, technical obsolescence, legal or similar limitations. For intangible assets useful economic life is determined by its valid time. If an intangible asset has unlimited valid time the life is determined in reasonable period of time, but not more than 40 years.

The methods of depreciation are used for accounting purposes only and do not depend on methods set by Tax Code of the Kyrgyz Republic.

The standard recommends selecting the most appropriate method from the methods, which listed below:

a) straight-line method of depreciation;
b) production method of depreciation; and
c) two methods of accelerated depreciation:
    - declining-balance method; and
    - sum-of-the-years'-digit method.

KAS-9 Income Taxes

This standard deals with the determination of the amounts of expenses or savings related to taxes on income in respect to the reporting period and their disclosure in the financial statements.

The standard explaines the differences between taxable income and accounting income. The differences are divided into two categories. One of them is the timing difference, which originate in one period and reverse in one or several subsequent periods. The other is the permanent difference, which originate in the current period and do not reverse in subsequent periods.

The standard states that the tax expense for the period should be determined on the basis of tax effect accounting, using either the deferral or liability method. Under the deferral method, tax effects of current timing differences are deferred or allocated to future reporting periods when the timing differences reverse. Under the liability method, the expected tax effects of current timing differences are determined and reported either as liablities in the item "Diferred Taxes" or as assets in the item "Differed Expenses-Taxes", representing advance payment of future taxes.

KAS-10 Accounting For Leases

This standard deals with the following issues:

- accounting for leases in the financial statements of leasees;
- accounting for leases in the financial statements of lessors;
- accounting for leases by manufacturers and dealers.

The standard states that a finance lease should be recorded in lessee's balance sheet both as an asset and as an obligation to pay future lease payments. However, this transaction should be recorded as a receivable in lessor's balance sheet at an amount equal to the net investment in the lease. On an operating lease, the assets should be recorded as fixed assets in the balance sheet of the lessors. The rental expense for an operating lease should be expensed each accounting period of the lease term on a systematic basis in the statement of operation of the lessee.

KAS-11 Consolidated Financial Statements and Accounting For Investments in Subsidiaries

This standard describes the methods of preparing and presenting consolidated financial statements for a group of entities under the control of parents. The standard also describes the methods of accounting for investments in subsidiaries in a parent's separate financial statements.

According to the standard, the consolidated financial statements should include all entities, which are controlled by the parent.

KAS-12 Accounting For Government Grants and Description of Government Assistance

This standard deals with the following issues:

- accounting for government grants and other government assistance;
- description of government grants and and other government assistance.

The standard explains the two medhosd of accounting of government grants:

a) Method based on a capital

b) Method on an income

The standard also decribes the presentation of grants related to assets and related to income in financial statements.

KAS-13 Accounting For Business Combinations

This standard prescribes the accounting treatment for business combinations. The standard deals with the following issues:

- determination of cost of acquision;
- determination of the date of acquisition;
- the method of accounting for the combination;
- allocation of cost of acquisition;
- recognition of identifiable assets and liabilities;
- determining the fair values of assets and liabilities acquired;
- goodwill arising from acquisition;
- adjustments to purchase consideration contingent upon future events;
- subsequent changes in cost of acquisition;
- subsequent identification or changes in value of assets and liabilities.

The standard states that a business combination occured due to acquisition should be accounted for by use of the purchase method of accounting.

KAS-14 Related Parties

This standard introduces the concept of "Related Parties" and describes the required disclosure of the relationships and the transactions between a reporting entity and its related parties.

The standard deals with the following issues:

- determining the related party relationships;
- explaination of the specifics of related parties accounting.

KAS-15 Investments

This standard explains the methods of accounting for and disclosure of investments.

The standard deals with the following issues:

- classification of investments;
- cost of investments;
- carrying of amount investments;
- disposal of investments;
- transfers of investment.

According to the standard, current assets should be presented in the balance sheet at:

a) market value; or

b) the lowest cost of acquisition and market cost.

The carrying amount of current assets should be determined on the basis of investment portfolio or by categories of investments, or on the basis of separate investments.

Long-term investments should be presented in the balance sheet at:

a) acquisition cost;
b) revalued amounts;
c) if investments have a market value, established at the active market - at the lowest cost of acquisition and market value determined on the basis of the whole investment portfolio.

KAS-16 Investments in Associates

This standard describes the methods of accounting for and disclosure of investment in associates.

The standard deals with the following issues:

- significant influence over the investee;
- the methods applied to account for investments in associates;
- scope of consolidated financial statement of an investor;
- application of the equity method;
- decline in the value of an investment.

The standard states that if an investor hodls, directly or indirectly through subsidiaries, 20 % or more of the voting power of the investee, it is presumed that the investor does have significant influence.

An investment in an associate should be accounted under the cost method:

- if the investment is acquired and held exclusively with a view to its disposal in the near future;
- when it operates under severe long-term restrictions that significantly impair its ability to tranfer funds to the investor.

KAS-17 Investments in Joint Ventures

This standard describes the methods of accounting for investments in joint ventures and the reporting of joint ventures assets and liabilities, income and expenses in the financial statements of venturers and investors. In this regard, the standard deals with the following issues:

- forms of joint ventures;
- contractual arrangements;
- financial statements of a venturer – proportionate consolidation;
- exceptions to proportionate consolidation;
- transactions between a venturer and a joint venture;
- reporting investments in joint ventures in the financial statements of an investor.

According to the standard, an investment in a jointly controlled entity should be reported in venturer's financial statements, using proportionate consolidation. The balance sheet should include its share of the assets and the liabilities. The statement of operations should include its share of the income and expenses.

KAS-18 Borrowing Costs

This standard prescribes accounting treatment for borrowing costs. The standard introduces two accounting treatments for borrowing costs:

a) Benchmark treatment

Under benchmark treatment, borrowing costs should be recognized as an expense in the accounting period in which they are incurred, regardless of how the borrowings are applied.

b) Altenative treatment

Under the alternative treatment, borrowing costs that are directly attributetable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of the asset when:

- it is probable that they will result in future economic benefits to the entity;
- the costs can be measured reliably.

The standard also describes the following issues of capitalization:

- borrowing costs eligible for capitalization;
- commencement of capitalization;
- suspention of capitalization;
- cessation of capitalization.

4. CONCLUSION

The 18 accounting standards published by the Kyrgyz Republic were developed in accordance with International Accounting Standards. The scope of these standards includes 22 International Accounting Standards. When these standards are compared to the Turkish Accounting Standards, the Kyrgyz Accounting Standards appear to have wider scope in terms of both in content and number. However the major problem on reflecting of these standards to the accounting practice in Kyrgyzstan is the lack of accounting specialists who are trained in accounting and finance. Because of this, accounting training/education for the country is a critical issue. A uniform accounting system that includes a uniform chart of accounts with its applications for the country may assits in reflecting of these standards to the practice. In this issue, experience of Turkey would be a good example for Kyrgyzstan for adaptation of new accounting systems.

REFERENCES

International Accounting Standards

Kyrgyz Accounting Standards