Apollo: Journal of Tourism and Business
Vol 4, Issue 3, September 2026, Page 939-951
ISSN: 2985-5810 (Media Online)
DOI: https://doi.org/10.58905/apollo.v4i3.752

Improving Financial Statement Translation Methodology under IAS 21 for Cross-Border Business in Globalized Economies

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Abstract. The intensification of globalization and economic integration, the expansion of transnational corporations, and the growing inflow of foreign investment have made the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) increasingly necessary. Today, financial reporting is regarded not merely as a source reflecting an entity's financial position and performance, but as an integrated information system used by investors, creditors, government authorities, and other stakeholders for economic decision-making. In this context, it is essential to scientifically substantiate the procedures for translating accounting information prepared in a functional currency into a presentation currency. Ensuring the reliability, consistency, and international comparability of financial reporting indicators, while preserving the interrelationship between income and expenses, assets and liabilities, equity items, net profit, and other comprehensive income, is one of the priority research directions for improving financial reporting methodology. Using the case of a Tashkent-based joint-stock company, this article examines the problems of translating financial statements from a functional currency into a presentation currency and proposes a weighted-average-rate methodology as a solution.

Keywords: Financial Reporting, Functional Currency, Presentation Currency, Currency Exchange, Weighted Average Exchange Rate.

1 Introduction

In business, the significance of financial reporting is manifested as the logical continuation and practical outcome of the accounting system. This is because information accumulated, systematized, and processed within accounting is ultimately summarized in the form of financial statements and presented to various interested users. Accordingly, we consider it appropriate to regard financial statements not simply as a final, systematized set of information reflecting the outcomes of economic reforms, but as an important, standardized information system required for economic and fi-

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nancial management, state financial oversight, and strategic monitoring. In other words, while accounting reflects economic processes, financial reporting reveals their substance, consolidates them into a coherent whole, and brings them to a level suitable for decision-making.

The role of financial reporting within accounting under conditions of economic reform can be recognized in that it enhances the transparency of financial and economic events, enables an assessment of the efficiency of resource utilization, and reduces information asymmetry among owners, shareholders, and management bodies. It also creates a reliable information base for the state, potential investors, and creditors. This is particularly evident in the process of economic digitalization, where financial reporting serves as an objective tool for assessing an enterprise's financial stability, solvency, profitability, and investment attractiveness. From this perspective, financial reporting functions as an institutional pillar of economic reform, since the effectiveness of reforms largely depends on the quality of economic information.

In recognizing the essence and significance of financial reporting, correctly interpreting its purpose is a fundamental element. Although the purpose of financial reporting has been interpreted in various ways in the scientific literature, a common feature is that financial reporting forms information that serves to substantiate users' economic decisions. According to the modern conceptual approach, the purpose of financial reporting is not limited to recording the results of past periods; it also serves to assess future economic prospects by systematizing information about an entity's resources, liabilities, capital, income, expenses, and cash flows.

Scientifically substantiating the theoretical approach to financial reporting requires an in-depth analysis of the definitions proposed by domestic and foreign economists in their research. Identifying the development and conceptual directions of theoretical scientific views on financial reporting creates a methodological basis for forming a generalized scientific approach within the scope of this research. On this basis, definitions put forward by domestic and foreign economists are analyzed below for their scientific significance.

In the earliest classical works, Pacioli described financial reporting not as a modern theoretical construct, but as a system of accounts and statements produced as the result of bookkeeping calculations, with the main emphasis placed on the orderly recording of business transactions and the ability to prepare, from such records, statements showing profit and financial position [1]. In our view, under this approach the function of financial reporting was primarily to record and present the results of economic activity in an orderly manner. According to Paton, financial reporting is not a simple listing but a system formed on the basis of certain theoretical classifications and principles, in which the theoretical distinction of assets and other elements is essential [2]. In our opinion, this scholar viewed financial reporting as a tool expressing an enterprise's economic condition in a classified and theoretically grounded form. Lipczynska describes financial reporting and its central concern as the structured and systematic representation of an entity's financial position and operating results for a given reporting period [3]. In our view, this approach focuses mainly on the orderliness, systematic nature, and analytical convenience of information for users, while giving less attention to the specific elements reflected in the reporting forms. Accord-

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ing to Dauderis, Annand, and others, the composition of financial reporting includes the statement of financial position, statement of performance, statement of changes in equity, statement of cash flows, and notes; the notes provide additional, non-quantitative but necessary information for users [4]. In our opinion, although these economists did not directly define financial reporting, they sought to clarify its modern content, giving attention both to the set of reporting components and to the accompanying notes and disclosures. According to Biehl, Bleibtreu, and Stefani, financial reporting is an economic information source that influences not only the decisions of capital market participants but also the real activities of entities, particularly the efficient allocation of investments and resources [5]. This suggests that when an entity's financial reporting is of high quality, that is, reliable, faithful, comparable, and timely, it also improves decisions on resource utilization within the entity itself; for example, it becomes clear which direction cash, investments, credit resources, production capacities, or expenditures should be allocated to, so that resources are directed toward higher-yielding activities rather than inefficient or low-profitability ones. The Russian economist Balikhina interprets financial reporting as the primary information base for assessing a company's solvency and as a unified information system composed of interrelated indicators [6]. In our view, the value of financial reporting under this approach lies in its ability to provide an analytical basis for conclusions about the structure of property and capital, the balance of cash flows, and liquidity. Zaika argues that the theoretical significance of financial reporting lies not only in its structure and forms, but in its capacity to give users a reliable picture of financial position, financial performance, and cash flows [7]. In our opinion, this approach recognizes financial reporting as the principal source of information for its users. Foreign economists Chan, Phua, and Jalaludin, in their research on this subject, have drawn attention to the fact that the relevance of financial reporting in today's global economy depends not only on financial indicators but also on environmental, social, and governance (ESG) information. As they note, investors are increasingly demanding non-financial information that supplements traditional financial statements [8].

At a symposium held in cooperation with the Association of Chartered Certified Accountants (ACCA) entitled “The Future of Financial Reporting 2025: Emerging Technology and Corporate Reporting,” several views were presented on the prospects of financial reporting [9]. In particular, Jodie Moll and Ogan Yigitbasioglu's central argument is that financial reporting is no longer only a traditional system presenting periodic financial indicators, but, under the influence of digital technologies, is becoming a near-real-time, integrated, and analytical information system. They note that Big Data, blockchain, artificial intelligence, and cloud accounting are shaping the future of corporate reporting, and that although many organizations are investing in these technologies, they face difficulties integrating them effectively. This indicates that, in their approach, technology is interpreted not merely as innovation, but as a factor transforming the methodology, quality, and practical application of financial reporting.

According to Moll, while corporate reporting has traditionally relied on historical financial data, Big Data combines structured and unstructured information, including

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figures, text, images, and audio data, thereby expanding the content of reporting [10]. Most importantly, this approach elevates financial reporting from merely "recording the results of a past period" to "enabling a deeper understanding of the current situation and facilitating timely decision-making." They show that Big Data can strengthen near-real-time financial analysis, assist in better assessing asset obsolescence or impairment through video analytics, and expand disclosure regarding intangible resources such as customer base and human capital.

In addition, Professor Chaiyot Sumritsakun conducted an analysis based on the reports of companies listed on the Stock Exchange of Thailand. He scientifically substantiates that including sustainability information in financial reporting can increase the value relevance of such reporting. In his view, while traditional financial statements show only a company's past results, sustainability information provides investors with important information for assessing a company's long-term prospects [11].

Furthermore, alongside the core IFRS standards related to the preparation of financial reporting mentioned above, the International Sustainability Standards Board (ISSB) developed and presented to the public in 2023 standards for disclosing sustainability-related information, namely IFRS S1, "General Requirements for Disclosure of Sustainability-related Financial Information," and IFRS S2, "Climate-related Disclosures" [12]. These standards were developed to establish the foundation for reliable and high-quality global sustainability reporting for investors.

2 Methods

This study employs a normative-qualitative research design combining regulatory analysis with an applied case study, given that the research objective is methodological in nature (namely, improving the procedure for translating financial reporting indicators from a functional currency into a presentation currency) rather than the statistical testing of behavioral hypotheses; accordingly, a questionnaire-based quantitative design was not applicable.

The primary source material comprised the text of International Accounting Standard (IAS) 21, "The Effects of Changes in Foreign Exchange Rates," together with related International Financial Reporting Standards (IFRS 18 and IAS 33). Secondary data consisted of (1) the official monthly average USD/UZS exchange rates published by the Central Bank of the Republic of Uzbekistan for the 2024-2025 period, and (2) the audited financial statements (statement of profit or loss and other comprehensive income) of "Tashkent City Water Supply" JSC for the financial years ended 31 December 2024 and 31 December 2025.

"Tashkent City Water Supply" JSC was selected as the case-study entity because it is a joint-stock company whose functional currency (Uzbek soum) differs from the currency in which it is required to present financial information to certain foreign stakeholders, making it a representative example of the functional-to-presentation currency translation problem addressed in this study.

The following methods, commonly applied in accounting research, were used to organize and conduct the study: expert assessment, in order to evaluate the adequacy

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of the existing IAS 21 translation procedures; comparative analysis, in order to compare the outcomes of the simple arithmetic average rate against the proposed weighted average rate; content and document analysis, applied to the regulatory text of IAS 21 and related standards; and systemic and factor analysis, applied to decompose income and expense translation into the three methodological stages described below. The proposed weighted-average-rate formulas (equations 1-4) were then applied to the actual monthly income and expense data of the case-study entity to empirically verify the methodology and quantify the resulting deviation from the simple-average-rate approach.

3 Results And Discussion

Sufficient methodological grounds exist at the international level for preparing the Statement of Profit or Loss and Other Comprehensive Income, a component of financial reporting. However, from the author's perspective, the discrepancy between the functional currency and the presentation currency used in financial reporting is, in today's digital economy, not merely a technical issue but a methodological problem that directly affects the reliability and comparability of financial results. The global significance of this problem lies in the fact that, as a result of expanding international trade, foreign investment, and cross-border corporate groups, many entities now conduct their operations in one currency, maintain their functional environment in another, and present financial reporting to investors in yet another currency. According to the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment reached USD 1.6 trillion in 2025, an increase of 14 percent compared to 2024 [13]. These figures confirm that the volume of international capital flows is increasing and that the practice of preparing financial reporting in different currencies is becoming increasingly relevant at the global level.

In preparing the Statement of Profit or Loss and Other Comprehensive Income, the need has arisen to apply and improve a methodology that accounts for the discrepancy between the presentation currency and the functional currency.

According to IAS 21, The Effects of Changes in Foreign Exchange Rates, the functional currency is defined as the currency of the primary economic environment in which the entity operates. As noted above, the functional currency of all business entities in the Republic of Uzbekistan is the soum (UZS).

The same standard defines the presentation currency as the currency in which the financial statements are presented, meaning, in the case of entities operating in the Republic of Uzbekistan, any currency other than the soum. Figure 1 presents the principal characteristics of the functional currency and the presentation currency based on the criteria set out in IAS 21.

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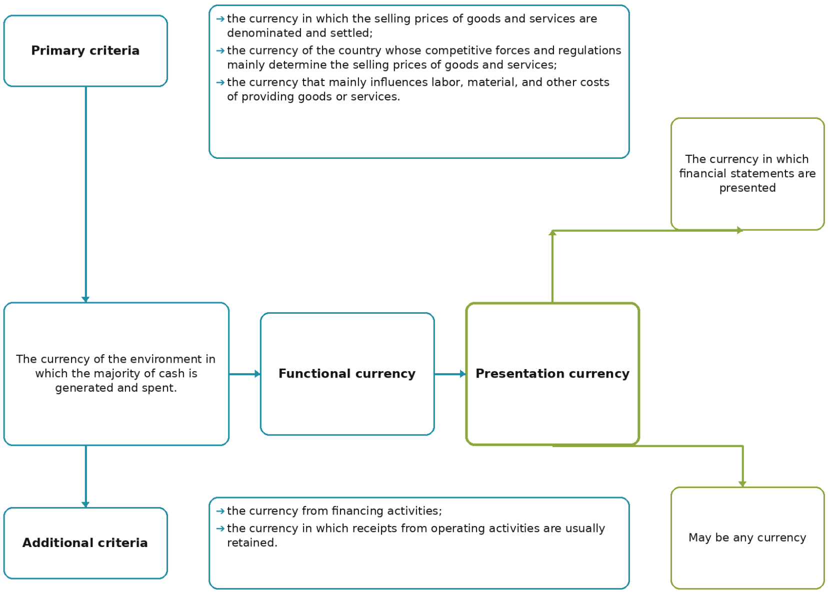

Fig. 1. Principal characteristics of the "functional currency" and the "presentation currency" (compiled by the author based on the criteria of IAS 21)

Depending on the requirements of investors and founders, business entities may present their financial statements in any currency. If the presentation currency differs from the entity's functional currency, the entity translates its results of operations and financial position into the presentation currency.

In accordance with paragraph 39 of IAS 21, the results of operations and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into the presentation currency according to the following procedures: first, assets and liabilities presented in the statement of financial position are translated at the closing rate at the date of that statement of financial position; second, income and expenses presented in the statement of profit or loss and other comprehensive income are translated at the exchange rates prevailing at the dates of the transactions. It is further established that all resulting exchange differences are recognized in other comprehensive income.

From this procedure it follows that equity items such as share capital and additional paid-in capital are carried at the exchange rate prevailing at the date of initial recognition. For example, if an entity's share capital amounted to UZS 200 million in 2020 and was initially recognized at an exchange rate corresponding to USD 180,000, then by 2025 the share capital continues to be recorded at USD 180,000, regardless of subsequent changes in the exchange rate.

Paragraph 40 of IAS 21 permits the use of an average rate for the period when determining the exchange rate for each individual income or expense transaction proves

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impractical, provided that exchange rates do not fluctuate significantly during that period.

A thorough analysis of IAS 21 revealed that the standard does not explicitly set out a methodology for applying an average rate when translating income and expenses from the functional currency to the presentation currency. It merely establishes that, where this method is used, an official exchange rate source must serve as the basis, that the degree of rate fluctuation must be substantiated by internal documentation, and that using an average rate is inappropriate where sharp fluctuations in the exchange rate occur.

Based on an analysis of the above procedures, this study proposes a methodology for applying a weighted average exchange rate, commensurate with the frequency and volume of transactions, when translating income and expense indicators from the functional currency to the presentation currency. This methodology does not contradict IAS 21; the proposed weighted average rate yields a value closer to the rates prevailing on the transaction dates than a simple arithmetic average rate would.

The practical application of this methodology is carried out in three stages.

1. Stage 1. Determining the average exchange rate for each month.

At this first stage, the periods during which the exchange rate changed within the month are taken into account. For example, if the rate changed five times within one month, the average is not simply calculated by dividing the sum of the rates by five; rather, the number of days between each successive change is also taken into account. Suppose the Central Bank's exchange rate changed as follows: on 1 February 2025, 1 USD equaled UZS 12,957.01; on 7 February 2025, 1 USD equaled UZS 12,985.01. In this case, when determining the average rate for the month, UZS 12,957.01 is applied for the 1st, 2nd, and 3rd days of the month. All exchange rates for February are determined in the same manner and the resulting figure is divided by 28 days.

2. Stage 2. Weighting the monthly average rates determined in Stage 1 by income and expenses.

At this second stage, the average exchange rate applied for the reporting period is calculated not as a simple arithmetic average, but in proportion to the volume of income and expense transactions. The monthly income and expenses are determined, and each business transaction contributes to the overall weighted average rate in proportion to its corresponding amount. As a result, transactions of larger volume have a greater influence on the final rate, while smaller transactions have proportionally less influence.

3. Stage 3. Determining a separate weighted average rate for income and a separate weighted average rate for expenses.

The weighted average rate for income is proposed to be determined using the following formula:

$$K\_inc = (\Sigma\ n=1..12 \text{ of } (K\_n \times I\_n)) / (\Sigma\ n=1..12 \text{ of } I\_n) \qquad (1)$$

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where K_{inc} is the weighted average rate for income; K_n is the average rate in month n; I_n is the income in month n.

The weighted average rate for expenses is proposed to be determined using the following formula:

$$K_{exp} = \left(\sum_{n=1}^{12} (K_n \times EX_n) \right) / \left(\sum_{n=1}^{12} EX_n \right) \qquad (2)$$

where K_{exp} is the weighted average rate for expenses; K_n is the average rate in month n; EX_n is the expenses in month n.

It is further recommended that where financial income and financial expenses constitute a material portion of the total, separate weighted average rates should likewise be determined for them.

The weighted average rate for financial income is proposed to be determined as follows:

$$K_{f.inc} = \left(\sum_{n=1}^{12} (K_n \times FINC_n) \right) / \left(\sum_{n=1}^{12} FINC_n \right) \qquad (3)$$

where $K_{f.inc}$ is the weighted average rate for financial income; K_n is the average rate in month n; $FINC_n$ is the financial income in month n.

The weighted average rate for financial expenses is proposed to be determined as follows:

$$K_{f.exp} = \left(\sum_{n=1}^{12} (K_n \times FEXP_n) \right) / \left(\sum_{n=1}^{12} FEXP_n \right) \qquad (4)$$

where $K_{f.exp}$ is the weighted average rate for financial expenses; K_n is the average rate in month n; $FEXP_n$ is the financial expenses in month n.

Applying this methodology, we examine the process of translating the 2025 Statement of Profit or Loss and Other Comprehensive Income of “Tashkent City Water Supply” JSC, the case-study entity of this research, from the functional currency into the presentation currency.

To determine the Stage 1 monthly average exchange rate, the monthly exchange-rate movements for 2024 and 2025 were obtained from the official website of the Central Bank of the Republic of Uzbekistan.

To weight the Stage 2 monthly average rates by income and expenses, the following monthly income and expense data of “Tashkent City Water Supply” JSC for 2025 were used.

Table 1. Monthly income and expenses of “Tashkent City Water Supply” JSC for 2025 (prepared by the author based on the company's financial statements), in million UZS

Indicator	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Income	72,894	80,081	84,188	69,814	89,321	87,268	95,481	98,561	98,561	84,188	81,542	84,780
Expenses	65,695	69,801	71,854	75,960	86,224	98,542	70,827	96,489	89,304	95,007	126,008	80,770

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Using formulas (1) and (2), the weighted average rates for income and expenses respectively were determined as follows:

K_inc = (Σ n=1..12 of (K_n × I_n)) / (Σ n=1..12 of I_n) = (72,894 × 12,954.68 + … + 84,780 × 12,018.3) / 1,026,679 = 12,539.94

K_exp = (Σ n=1..12 of (K_n × EX_n)) / (Σ n=1..12 of EX_n)= (65,695 × 12,954.68 + … + 80,770 × 12,018.3) / 1,026,482 = 12,541.01

For 2025, the income-weighted average rate for "Tashkent City Water Supply" JSC was 1 USD = UZS 12,539.94, while the expense-weighted average rate was 1 USD = UZS 12,541.01. Had the calculation instead used a simple average rate, 1 USD would have equaled UZS 12,577.35, with the same rate applied to both income and expenses.

An analysis of the operations of "Tashkent City Water Supply" JSC showed that financial income and financial expenses did not constitute a material share of total income and expenses; accordingly, the same weighted average rates, UZS 12,539.94 for financial income and UZS 12,541.01 for financial expenses, were applied for 2025.

Applying the same methodology to 2024 data, the income-weighted average rate for "Tashkent City Water Supply" JSC was determined to be UZS 12,636.49, and the expense-weighted average rate UZS 12,620.62. As in 2025, since financial income and financial expenses did not constitute a material share of the totals for that year, these same weighted average rates, UZS 12,636.49 for financial income and UZS 12,620.62 for financial expenses, were applied.

Table 2 presents the Statement of Profit or Loss and Other Comprehensive Income of "Tashkent City Water Supply" JSC for 2024-2025, prepared in both the functional currency and the presentation currency in accordance with the requirements of IFRS 18, IAS 33 ("Earnings per Share"), and IAS 21.

Table 2. Statement of Profit or Loss and Other Comprehensive Income of "Tashkent City Water Supply" JSC for 2024-2025 (prepared by the author based on the company's financial statements)

Indicator	**Note**	**Functional currency (USD)**		**Presentation currency (thousand UZS)**	
		31 Dec 2025	31 Dec 2024	31 Dec 2025	31 Dec 2024
Revenue	1	78,071,748	78,335,565	979,017,379	989,886,580
Cost of sales	2	(60,102,450)	(53,796,766)	(753,745,426)	(678,948,544)
Gross profit (loss)		17,969,298	24,538,798	225,271,953	310,938,036
Other operating income	3	2,818,669	1,829,404	35,346,028	23,117,247
Selling expenses	4	(6,197,408)	(3,869,048)	(77,721,756)	(48,829,779)
Administrative expenses	4	(6,243,073)	(4,883,789)	(78,294,447)	(61,636,446)
Other operating expenses	4	(6,251,053)	(5,378,348)	(78,394,513)	(67,878,092)

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Operating profit (loss)		2,096,433	12,237,018	26,207,265	155,710,966
Dividend income	5	–	–	–	–
Income/expense from investment property	5	–	–	–	–
Other investment income and expenses	5	–	–	–	–
Profit before finance costs and income tax		2,096,433	12,237,018	26,207,265	155,710,966
Finance income	6	982,230	465,266	12,317,139	5,879,334
Finance expenses	6	(1,392,750)	(2,373,717)	(17,466,495)	(29,957,778)
Profit before income tax		1,685,913	10,328,567	21,057,909	131,632,522
Income tax expense	7	(1,663,263)	(2,622,986)	(20,858,997)	(33,103,713)
Profit from continuing operations		22,650	7,705,581	198,912	98,528,809
Profit/loss from discontinued operations	9	–	–	–	–
Net profit		22,650	7,705,581	198,912	98,528,809
Other comprehensive income	10	3,872,000	(1,970,000)	–	–
Total comprehensive income		3,894,650	5,735,581	198,912	98,528,809
Earnings per share (UZS, USD)	11	0.0005	0.19	4.75	2,446

Implementing this methodology in the practice of “Tashkent City Water Supply” JSC helped reduce the impact of exchange-rate discrepancies when restating income and expenses, increased the accuracy and comparability of reporting data, and enhanced the reliability and transparency of financial information for foreign investors. In addition, applying the proposed formulas showed that, when translating from the functional currency to the presentation currency, the resulting deviation in profit before income tax attributable to income amounted to 2.8 percent, while the deviation attributable to expenses amounted to 1.7 percent, compared with the outcome that would have resulted from using a simple average rate.

The methodological need to prepare the statement of financial position stems primarily from the requirement to correctly distinguish assets, liabilities, and equity according to their economic substance. Elements of financial reporting should be assessed not only by their legal form but also by their capacity to generate future economic benefit or to give rise to an outflow of economic resources. For instance, an asset should be treated as an economic resource controlled by the entity, and a liabil-

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ity as an obligation arising from past events that may result in an outflow of economic resources in the future; only under such an approach can the statement of financial position faithfully represent the entity's financial position. Given that the central objective of this research concerns entities whose transactions are conducted in multiple currencies, the methodological necessity of preparing the statement of financial position becomes even more pronounced.

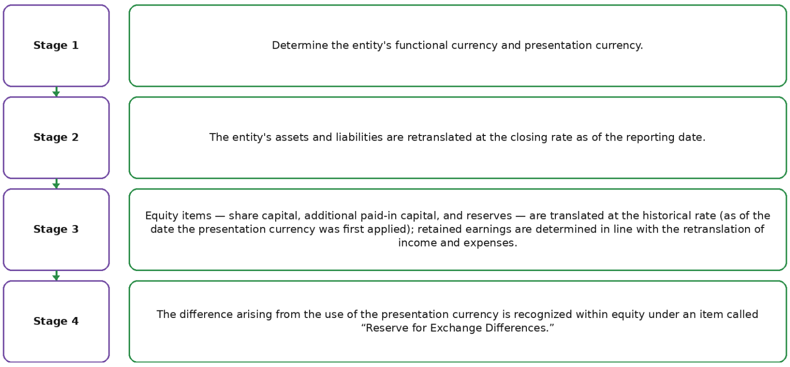

Fig. 2. Methodological stages of forming the statement of financial position in the presentation currency

At the fourth stage of the methodological process illustrated above, the exchange differences arising from translating financial reporting indicators prepared in the functional currency into the presentation currency are treated not as a result of the entity's direct operating activity, but as a discrepancy associated with the change of reporting currency. For this reason, such differences are not included in profit or loss but are recognized through other comprehensive income and presented as a separate item within equity. Under this approach, it is appropriate to introduce a liability account entitled "Reserve for Exchange Differences" within equity to record the exchange differences arising from the use of the presentation currency [14]. This is because assets and liabilities are restated at the closing rate as of the reporting date, income and expenses are restated at the weighted average rate, while equity items are formed at the historical rate; as a result, the balance sheet equation would not otherwise be maintained. The balance recorded in this account serves as the mechanism that restores the equity equation. It should be noted that this account is used solely when translating financial statements from the functional currency into the presentation currency; it applies to the statement of financial position, the statement of profit or loss and other comprehensive income, and the statement of changes in equity only when the presentation currency is used.

4 Conclusion

This study found that, under conditions of economic reform, the purpose of financial reporting is to provide interested users with useful, relevant, and reliable information

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about an entity's financial position, financial performance, and cash flows, while its fundamental and functional tasks consist of disclosing an entity's financial position, assessing operating efficiency, revealing cash flows, strengthening management accountability, reducing information asymmetry, ensuring comparability, and creating an information base for macroeconomic governance. It was further established that the complete and reliable fulfillment of these tasks directly contributes to the implementation of economic reforms, the strengthening of investment stability, and the enhancement of the national economy's competitiveness in international markets.

Based on an analysis of the provisions of IAS 21, The Effects of Changes in Foreign Exchange Rates, this study proposed a methodology for applying a weighted average exchange rate, commensurate with the frequency and volume of transactions, when translating income and expense indicators from the functional currency into the presentation currency. The empirical application of this methodology to the case of “Tashkent City Water Supply” JSC demonstrated that implementing it in practice helps reduce the impact of exchange-rate discrepancies when restating income and expenses, increases the accuracy and comparability of reporting data, and enhances the reliability and transparency of financial information for foreign investors, yielding a deviation from the simple-average-rate outcome of 2.8 percent for income and 1.7 percent for expenses. It is further proposed that a liability account entitled “Reserve for Exchange Differences” be introduced within equity to record the exchange differences arising from the use of the presentation currency, since assets and liabilities are restated at the closing rate as of the reporting date, income and expenses at the weighted average rate, while equity items are formed at the historical rate, a discrepancy that would otherwise prevent the balance sheet equation from being maintained. The balance recorded in this account serves as the mechanism that restores the equity equation. It should be noted that this account is used solely when translating financial statements from the functional currency into the presentation currency, and applies to the statement of financial position, the statement of profit or loss and other comprehensive income, and the statement of changes in equity only when the presentation currency is used.

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