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FORMATION AND IMPLEMENTATION ISSUES OF AN ENTERPRISE'S ACCOUNTING POLICY

Accounting ensures the implementation of financial management and self-financing in every enterprise and organization. When developing the accounting policy of an economic entity, one of the most complex tasks is the selection of accounting elements that are common to both financial, tax, and fiscal accounting.

Attempts to reflect taxation operations within financial accounting often lead to inaccuracies in other financial accounting data. At the same time, it must be emphasized that the subjects of tax accounting and financial accounting are not identical. According to the Tax Code of the Republic of Azerbaijan, citizens of the Republic of Azerbaijan, foreigners, and stateless individuals are considered taxpayers if they derive income within the territory of Azerbaijan. The data provided by financial accounting alone are insufficient to meet taxation requirements, and the presence of related problems cannot be excluded. These issues compel enterprises, agencies, and organizations to establish a new accounting system for tax purposes, distinct from traditional financial accounting.

Despite the fact that both financial and tax accounting serve the fiscal purposes of the state, they create conditions for dual accounting among taxpayers and lead to an increase in expenses, that is, the emergence of additional costs. In this regard, the establishment of an optimal unified accounting system remains an important subject of discussion and research.

Organization of Financial Accounting

Accounting is often referred to as the language of the economy, or more precisely, the language of business. Through this "language," it is possible to analyze the current condition of enterprises and to forecast their future developments. At present, the process of transforming the accounting system in Azerbaijan to comply with International Financial Reporting Standards (IFRS) continues. It should be noted that the effective organization of financial and tax accounting systems is of paramount importance.

The Law of the Republic of Azerbaijan "On Accounting" (dated June 29, 2004, No. 716-IIQ) regulates the organization and maintenance of accounting, including the preparation and presentation of financial statements, by legal entities operating within the territory of the Republic of Azerbaijan, regardless of their form of ownership and organizational-legal structure, as well as by individuals engaged in entrepreneurial activity without forming a legal entity.

According to Article 4.1 of this law, the primary objective of state regulation in the field of accounting in Azerbaijan is to develop and implement financial reporting standards based on International Financial Reporting Standards for commercial organizations and National Accounting Standards for non-commercial organizations based on International Public Sector Accounting Standards. This aims to foster the development of accounting in line with international standards and ensure transparency in financial reporting across the country.

Additionally, the "Conceptual Framework for National Accounting Standards for Commercial Organizations," approved by the Order № I-73/1 of the Ministry of Finance of the Republic of Azerbaijan dated July 23, 2007, stipulates in Article 9 that the purpose of financial statements is to provide a broad range of users with information deemed significant for making economic decisions, particularly regarding the financial position, performance results, and changes in the financial condition of the accounting entity [3].

Thus, the purpose of financial accounting is the preparation of financial statements and other documents that reflect the financial position, financial performance, and changes in the financial condition of an enterprise.

The primary task of financial accounting is to prepare the following four key financial statement forms to support users in making informed decisions [5, p. 24]:

- Balance Sheet;
- Statement of Profit and Loss;
- Statement of Changes in Equity;
- Statement of Cash Flows.

The conduct of financial accounting is carried out in accordance with the Law of the Republic of Azerbaijan "On Accounting" and the relevant normative acts adopted by the Ministry of Finance based on this law.

Financial and management accounting are necessary to obtain information about the financial position of an enterprise and to support the adoption of management decisions. Accounting, as a system, involves the collection, processing, recording, and delivery of information related to the management of the enterprise, its asset complex, and the economic transactions carried out, all of which are necessary for making substantiated management decisions.

Under market economy conditions, due to the division of accounting into financial accounting and management accounting, the concept of accounting is also separated into the concept of financial accounting and the concept of management accounting [8].

Financial accounting is mandatory not only for the enterprise itself but also for external users — state authorities, tax authorities, creditors, investors, and others. In contrast, management accounting is primarily important for the enterprise's internal needs. The purpose of management accounting is to collect, process, and deliver the information required by the enterprise's leadership and managers to make more informed management decisions that enhance operational efficiency. Financial accounting covers all areas of enterprise activity, accounting objects, and their sources of origin, while management accounting provides conditions for the collection, processing, and analysis of the information needed by managers to make correct management decisions [7].

Thus, it can be concluded that financial accounting examines the quantitative aspects of all accounting objects related to an organization's activities, whereas management accounting focuses on the qualitative characteristics and the efficiency of their use. The purposes and tasks of management accounting are determined by the functions it performs.

Organization and Fundamental Principles of Tax Accounting: The primary importance of financial accounting for taxation purposes lies in the fact that its materials provide extensive information about an enterprise's turnover, profit, and other indicators. The tax accounting system is independently organized by the taxpayer and must comply with the following fundamental principles [4, p. 179]:

Consistency: The norms and rules of tax accounting must be applied consistently from one tax period to another;

Continuity: Accounting objects for taxation purposes must be reflected chronologically and without interruption;

Completeness: Analytical accounting data must fully disclose the procedures for forming the tax base.

The information contained in tax accounting consists of quantitative and other characteristics regarding accounting objects reflected in the taxpayer's documents. Tax accounting data must reflect the following:

- The procedure for forming the amounts of income and expenses;
- The method for determining the proportion of expenses considered for taxation purposes within the current tax period;
- The residual amount of expenses to be carried forward to the next tax period;
- The procedure for forming the amount of created reserves;
- The amount of debt in settlements with the budget regarding profit tax.
- The documents verifying the accuracy of tax accounting data include:
 - Initial accounting documents;
 - Analytical registers of tax accounting;
 - Tax base calculation records.

Initial accounting documents are those that confirm the formalization of all economic operations conducted by the economic entity. Analytical registers of tax accounting are special documents used exclusively for taxation purposes. The calculation of the tax base represents the summarized outcome of tax accounting data. For addressing the tasks of tax accounting, the following methods can be identified [4, p. 180]:

- Determination of tax accounting indicators;
- Calculation of the "tax cost price";
- Determination of the method for forming the tax base;
- Assignment of tax discounts;
- Determination of the tax period;
- Maintenance of special tax documents.

The Main Objectives and Purposes of Tax and Financial Accounting

The accounting policy of an economic entity is the principal organizational and directive document regulating the conduct of financial and tax accounting. The formation and development of financial and tax accounting systems have occurred under the influence of various economic and political realities. While the emergence of tax accounting was driven by the role of the state in public life, the development of financial accounting resulted from the activities of economic entities.

According to Article 3 (Mandatory Accounting) of the Law of the Republic of Azerbaijan "On Accounting" (dated June 29, 2004), it is mandatory for all accounting entities to maintain

accounting records in accordance with the relevant accounting standards or simplified accounting rules established by the aforementioned Law.

The main duties of financial accounting are as follows [4, p. 177]:

1. To generate complete and comprehensive information about the activities and property status of the economic entity;
2. To ensure control over the use of labor, material, and financial resources in accordance with legally established norms, standards, and budgets, as well as the movement of assets;
3. To detect reserves within the economic entity that would eliminate adverse outcomes of economic activities and ensure the financial stability of the enterprise.

The purpose of financial accounting and tax accounting differs from each other. Tax accounting serves as both an alternative and a complement to financial accounting in the field of taxation. Tax accounting is a system for the collection and recording of information necessary for the full and accurate calculation of a taxpayer's tax obligations.

In General Terms, the Subject of Tax Accounting

In general, the subject of tax accounting is the production and non-production activities of an economic entity that create obligations to calculate and pay taxes.

In practice, both similarities and differences between financial and tax accounting can be observed. The primary distinction of tax accounting from financial accounting lies in the fact that the system for maintaining tax records is determined independently by the taxpayer.

Economists and researchers identify the following common features between tax and financial accounting:

- The mandatory nature of maintaining accounting records as stipulated by legislation;
- The measurement of indicators in monetary units;
- The identity of accounting objects;
- The continuity in the preparation and submission of reports;
- The obligatory documentation of economic transactions.

Specific Features of Tax and Financial Accounting

Although the difference between financial accounting and tax accounting is an issue of interest for accountants, in many economic entities, accounting continues to be organized solely for tax purposes. Organizing accounting in compliance with the requirements of tax legislation and preparing financial statements may distort the real financial position (net assets) of the economic entity. Therefore, the accounting policies for both financial and tax purposes in enterprises should be differentiated. Economic transactions that occur in an entity and their expression in monetary terms, as well as quantities and other necessary indicators, are reflected in accounting. However, there are economic transactions that are considered in financial accounting but are not accounted for in tax accounting, or vice versa.

Accounting policy refers to the methodological methods chosen by the enterprise that affect the extent of profit and loss. Accounting policies are developed based on existing legal regulations by the entity's economic, legal, and accounting services.

In the current period, when financial accounting in the Republic of Azerbaijan has been aligned with international standards, the main normative acts regulating accounting policy in commercial organizations include the Law on Accounting, National Accounting Standards No. 1 "Presentation of Financial Statements," and National Accounting Standards No. 11 "Accounting Policies, Changes in Accounting Estimates, and Errors."

In the “Accounting Policies, Changes in Accounting Estimates, and Errors” section of the National Accounting Standard No. 11 for commercial organizations, approved by the Ministry of Finance of the Republic of Azerbaijan on July 23, 2007, Order I-73/1, it is stated in Article 9 that when a specific standard is applied to a particular transaction, event, or condition, the accounting policy to be applied to that transaction, event, or condition must be the one outlined in the relevant National Accounting Standard.

Results of Applying Accounting Policy

If the results of applying an accounting policy are insignificant, its application is not required. However, for the purpose of presenting the financial position, financial results, or cash flows of an enterprise at a certain level, it is not considered acceptable to allow significant deviations from the National Accounting Standards or to leave them uncorrected [3].

Selection of Accounting Policy

When selecting an accounting policy, it is necessary to rely on the normative acts regulating financial accounting. The chosen accounting policy should ensure the maximum reliability of accounting information. The selection of the accounting policy directly depends on the specifics of the enterprise, the organization of management, the norms reflected in the establishment documents and the charter, the features of commercial activities, and the current and long-term goals of the enterprise.

In establishing the accounting policy in enterprises, all these factors must be taken into account. Furthermore, while implementing the accounting policy, the enterprise must base its actions on the principles of financial accounting, the requirements of accounting, and the documents that form the methodological and conceptual basis for accounting. The chosen accounting policy of the enterprise should align with its economic policy. The enterprise must especially adhere to the principle of consistency when selecting and applying the accounting policy. Ensuring the consistency of accounting policy guarantees the comparability of the enterprise’s financial statements over time.

Conclusion on the Importance of Accounting Systems

Based on research, it can be concluded that accounting in every enterprise and organization should ensure the implementation of economic accounting and self-financing. This can be achieved by properly recording the income and expenses of the enterprise and organizations, comparing them with each other, determining the financial results, and exercising control over the amounts in the local currency.

According to the legislation, the accounting system of an enterprise must include both financial and tax accounting, which differ in their execution. In principle, financial accounting serves the interests of users. Tax accounting, closely related to financial accounting, differs in the application of the tax calculation and payment procedure, and its normative source is the Tax Code of the Republic of Azerbaijan.

At the same time, the role of management accounting in the financial system of an enterprise is particularly significant. Its establishment and implementation require a completely different approach and the involvement of specialists who differ from those serving the financial and tax sectors. In the context of globalization, the system of tax and financial accounting in Azerbaijan has undergone significant changes, additions, and adjustments, and it has been considerably improved. Targeted measures continue in this direction.

The resolution of all the mentioned issues related to the tax and financial accounting system opens significant pathways for its future alignment with international standards and establishes important directions for the more effective development and improvement of tax accounting in our republic.

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