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Ways to Improve the Accounting Policy in the Formation of Income of Commercial Banks

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***Abstract:** Accounting policy is important in the formation of commercial banks' income. Accounting policy helps to determine the bank's financial performance and performance. Accounting policy in banks is a set of principles, rules and methods used by the bank in accounting, preparation and presentation of financial statements. Therefore, the article analyzes the ways of improving the accounting policy in the formation of the income of commercial banks.*

***Key words:** income, bank account policy, interest, interest income, net profit, non-interest income, accounting.*

Introduction. In the banking system of Uzbekistan, the accounting policy of banks is developed by the bank's management and approved by the bank's supervisory board. Today, the process of accounting in banks should be automated as much as possible (without the human factor) and no changes should be made to the accounting policy as much as possible. As an exception, it is allowed to change only the part of the accounting policy of banks, which is affected by these changes, only in connection with the introduction of amendments and additions to legislative documents or IFRS.

The main goal of commercial banks is definitely to make a profit. At this point, conducting bank operations aimed at income correctly and in compliance with the established legislation requires that the bank has developed an accounting policy and conducts work within it. The income of commercial banks and their sources can be classified according to banking activity, that is, from the point of view of operations carried out by commercial banks.

The income of commercial banks is derived from lending, discount activities, providing trust (trust) services, guaranteeing activities of banks, operations with securities, accepting deposits and keeping their accounts, activities based on representative relations with other banks, and providing non-

traditional services. formed as a result of related activities and other types of activities.

Each type of these activities differs depending on the situation in which the bank participates in these operations. Some of the above types of activities are included in active operations, and some are included in passive operations. Earnings can vary from activity to activity. Income from active operations makes up the bulk of total income.

Literature Review. It is very important to consider the implementation of the measurement of the fair value of financial instruments in order to improve the accounting policy in the formation of the income of commercial banks (Zel'kman V.D., Ak'ímová T.V., Zagn'ý K.V., Zelikman Vladyslav, Akimova Tetiana, Zagniy Kateryna (2023)). This approach provides a more accurate reflection of the economic net worth of financial institutions and helps to make better decisions for regulators, shareholders and creditors (Thomas H. Mondschean, 1992) . In addition, optimization of tax calculations through reformed accounting procedures will help to effectively determine the taxable base, provide correct information for the accurate determination of tax liabilities (Valerii, Ya., Plaksiienko., Tetiana, O., Melikhova., Maryna, V., Yermolaieva., Kseniia, V., Chernenko., Roman, V., Lipskyi. (2019)). In addition, the development of corporate accounting policy as a management tool helps align accounting practice with corporate strategies, optimize coordinated activities in corporate relations (V.M., Rumyantseva. (2022)). By incorporating these strategies, commercial banks can improve their accounting policies to better reflect their financial position and improve their decision-making processes.

Robert Gray's article suggests that current and proposed standards continue to miscalculate interest rate risk for commercial banks, suggesting an alternative accounting approach, the fair value of financial assets and liabilities, including all loans and deposits. suggests direct reporting (Robert Gray, 2003).

In the article of Elena V. and others, a comparative analysis of taxation practice in Russia, the USA, Great Britain, Germany and France is made, and proposed ways of improving tax incentives and taxation in commercial banks of the Russian Federation and foreign countries are analyzed. (Elena V. Konvisarova, Ilona V. Stihiljas, Andrey V. Koren, Irina A. Kuzmicheva, Tatjana E. Danilovskih , 2016). In another article by this author, they study the role of financial risks, deposit policy and the activation of means of attracting and maintaining existing deposit sources in the context of the crisis of the Russian economy, which is related to the need to stabilize the banking sector. based on preventing withdrawal of funds from clients' deposit accounts (Elena A. Ivanova, Alexey A. Golovin, Alina A. Kamalova, Bulat T. Gali, Vladimir Nosov, Marina V. Solovyanova , 2020).

Research methodology. Research is done using a variety of techniques, including comparison of indicators, induction, deduction, positivism, experiments, questionnaires, generalizing sample results to the population, emission models, and more. Additionally, the research being conducted uses objective, scientific methodologies as well as statistical design in the form of cause and effect.

Analysis and results. Commercial banks receive income from their activities at the expense of carrying out financial activities, and they must cover their expenses and receive a certain amount of profit. We can study the financial activities of commercial banks by dividing them into two major groups. That is, passive operations and active operations.

Operations related to the formation of bank resources are called passive operations of banks. With the help of passive operations, the amount of funds in the passive and asset-passive accounts of commercial banks increases. Passive operations of banks play a major role in organizing their activities. With the help of passive operations, commercial banks organize credit resources necessary

for lending.

There are basically four forms of passive operations of commercial banks:

1. Collection of resources by issuing commercial banks' securities;
2. Establishing various funds or increasing the amount of funds at the expense of bank profits;
3. Attracting funds from other creditors;
4. Implementation of deposit operations.

The resources of commercial banks are formed at the expense of the bank's own funds, attracted and issued funds.

In the first and second forms of passive operations listed above, banks' own funds are created, and in the last two forms, the second part of credit resources is attracted resources.

Commercial banks must follow the norms established by the current legislation in the process of carrying out asset operations.

Commercial banks must maintain the established level of liquidity for their activities and rationally distribute the fluctuations (risks) that may arise by type of asset operations. In practice, the assets of commercial banks are divided into two groups, i.e. non-profitable and profitable assets, based on the degree of income generation. Of course, this grouping of assets is divided into two main groups.

But in our opinion, some factors were not taken into account in this grouping. For example, cash assets are included in assets that provide bank liquidity but do not generate income. In our opinion, it would be appropriate to divide the assets of commercial banks into the following three groups:

1. Assets that do not generate income, but provide banking activity. These assets include the amount of mandatory reserves in the account of the Central Bank of the Republic of Uzbekistan, fixed assets and low-value perishable goods, as well as other assets.
2. Assets that bring low income, but provide bank liquidity. These assets include cash on hand and equivalent documents, government medium-term treasury obligations, and government short-term bonds.
3. Assets with high returns but high volatility. These assets can include loans, leasing, factoring, forfeiture, investments in corporate securities, foreign currencies and other assets. We believe that the grouping of assets of commercial banks in the above order, in our opinion, fully reveals the essence of assets.

Bank assets consist of the following main positions:

- Cash assets. The first asset of a bank's financial statement is usually cash and Nostro deposits. This item, i.e. cash in bank vaults, all deposits placed in other banks, funds in the process of collection and funds in the mandatory reserve fund of the Central Bank, is often called "primary reserves". Because these assets serve as the bank's "first line of defense" when unforeseen circumstances occur and liabilities need to be resolved quickly. Usually, the bank tries to keep this item as low as possible, because cash funds do not generate almost any income.
- Stock investments. This item is the "second line of defense" of the bank, which is financial investments in liquid securities.

This position is often referred to as 'secondary reserves'. It usually includes investments in short-term government securities. Also, this position may include money market securities, interest-bearing term deposits in other banks, and commercial securities. "Secondary reserves" take a position between cash and loans, provide a certain amount of income and are a secondary source of liquidity.

In the economic literature, when revealing the nature of asset operations, they are divided into traditional and non-traditional banking services. Because in their opinion, commercial banks perform the tasks of other economic enterprises in addition to their own tasks. Leasing operations are carried out by leasing companies as their main activity. But commercial banks also carry out this activity in order to earn income. Insurance companies provide guarantees to third parties, but banks also perform this activity. Investment institutions carry out transactions with securities (trust, registry, etc.) as their main activity. Commercial banks are also required by law to carry out operations with securities. In our scientific research, we try to study the nature of asset operations of commercial banks based on the form of income they bring. In this direction, we consider the opinion of B.T. Berdiyarov, that is, active operations of commercial banks are divided into two groups:

1. Interest income.
2. We support interest-free income. We will try to analyze this idea more widely (Berdiyarov B.T., 2009). Commercial banks use many of their types when conducting asset operations. In our opinion, the main types of active operations are as follows:
 1. Providing loans to legal entities and individuals for different periods, for different purposes and on different terms;
 2. Provision of mediation services to bank clients;
 3. Implementation of leasing operations;
 4. Carrying out operations with foreign currencies;
 5. Making investments in securities of the state and other legal entities on his own behalf and at his own expense;
 6. Implementation of investment projects;
 7. Implementation of operations in the form of "Repo";
 8. Implementation of operations with precious stones and metals.
 9. Implementation of other types of traditional and non-traditional services.

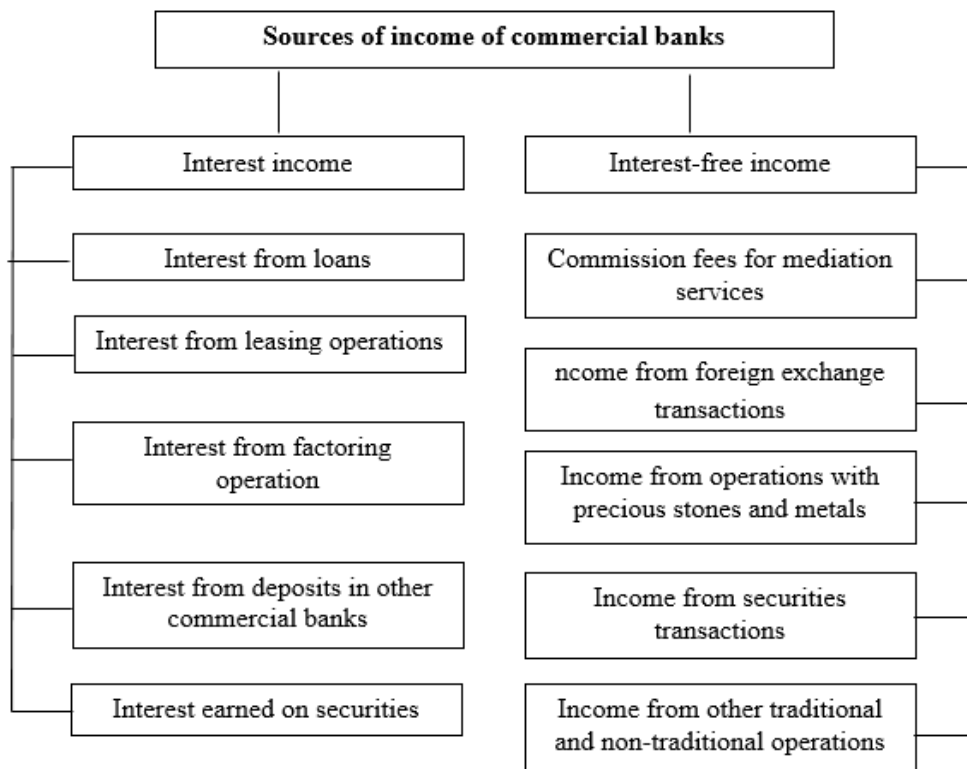


Figure 1. Sources of income of commercial banks (Berdiyarov B.T., 2009)

In international banking practice, the assets of commercial banks directly depend on the specialization of the bank, the amount of authorized capital, the composition of customers, competition in the market of banking services, the level of introduction of modern technologies in the bank and many similar factors. At the same time, the features of the legislation in the national banking system, i.e., the rights and obligations granted in it, as well as the established restrictions, are of great importance. The activity of asset placement is carried out in the context of the above factors.

It should be noted that non-traditional income in commercial banks refers to the activity carried out by the bank as well as other financial institutions. For example, a commercial bank conducts a leasing operation, at the same time specialized leasing companies also conduct this activity.

The net profit of the banking system of the Republic of Uzbekistan in 2023 increased by 24% compared to 2022 and amounted to 12.4 trillion soums. In this case, the amount of gross income received amounted to 128.7 trillion soums and expenses to 116.4 trillion soums. Interest income accounted for 67% of total bank income, and non-interest income accounted for 33%. 88.3% of interest income is from loans and customer obligations, 6.2% from funds placed in other banks, 5.5% from securities. In 2023, positive changes were observed in the profitability indicators of the banking system, and by the end of the reporting year, the profitability of banking system assets increased by 0.1 percentage points to 2.6%, and the return on capital increased by 0.9 percentage points to 14.2% compared to 2022.

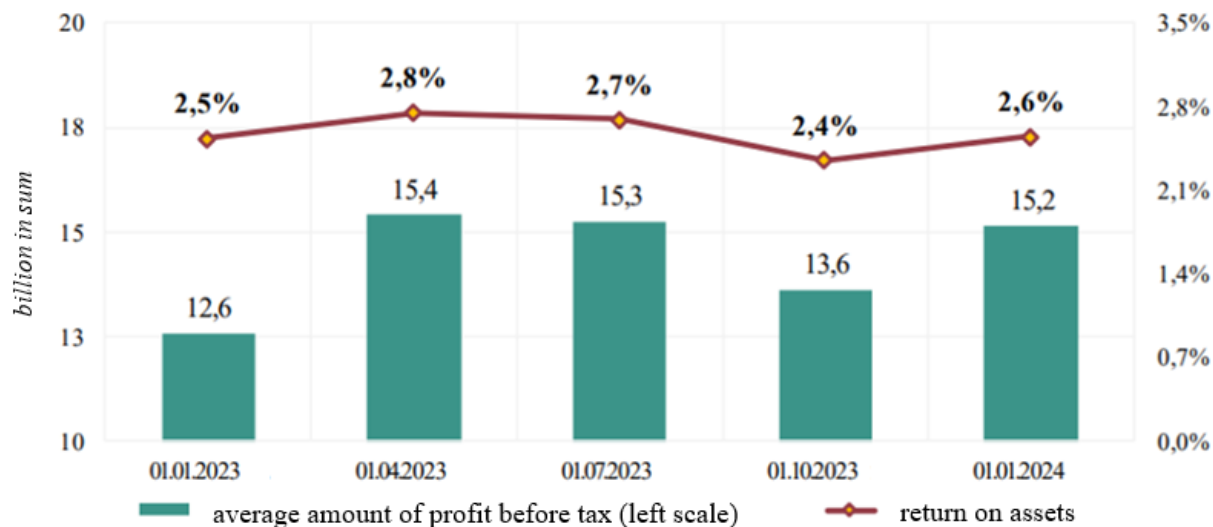


Figure 1. Banking system return on assets (ROA) dynamics

Source: Compiled by the authors.

In the third quarter of 2023, a decrease in the profitability of banking system assets is observed, and this situation is explained by the fact that some banks have created additional reserves against possible losses on assets.

Thus, the income of a commercial bank in all its forms can be divided into three groups:

- interest income;
- income received in exchange for mediation (commission);
- other various incomes (exchange rate difference in market operations, difference between the balance sheet price of the sold bank property, revaluation of securities and other nominal value, income received due to fines).

Table 1 Profitability indicators of the banking system of the Republic of Uzbekistan

No	Banking system income and expenses	01.01.2023	01.01.2024	Change, in percent
1	Interest income	61727.8	86679.1	140
2	Interest expenses	37566.1	57683.3	154
3	Interest margin	24161.7	28995.8	120
4	Interest-free income	33182.3	42053.7	127
5	Interest-free expenses	11811.9	13272.8	112
6	Operating expenses	14876.5	19563.3	132
7	Non-interest income (loss)	6493.9	9217.6	142
8	Assessment of possible losses on loans and leases	13862.7	18413.1	133
9	Assessing potential losses on other assets	4213.4	4645.1	110
10	Net profit (loss) before tax	12579.5	15155.2	120
11	Expenses for payment of profit tax	2587.2	2775.2	107
12	Net profit (loss)	9993.4	12380.0	124

Source: Compiled by the authors.

As of January 1, 2024, interest income of the banking system has increased by 140% compared to the same period of 2023, and interest expenses have increased by 154%. This can be explained by the slightly increased interest rates on bank deposits. Non-interest income increased by 127 percent, while non-interest expenses increased by 112 percent. As a result, the non-interest income increased by 142%. Loan and lease impairment allowance increased 133 percent and net profit (loss) increased 124 percent.

Margin income depends on the level of interest rates and income from brokerage services, the growth ratio between the bank's income and expenses, the cost of resources, etc.

Table 2 Banking system profitability indicators

Banking system profitability indicators	2022	2023
Ratio of net profit before tax to total assets (ROA)	2,5	2,6
The ratio of net profit before tax to total equity (ROE)	13,3	14 ,2
Ratio of net interest income to total assets	4,3	4,4
The ratio of net interest income received on loans to total loan deposits	6,2	6,2
The ratio of net interest income to total liabilities	5,1	5,2
The ratio of net interest margin to total assets	4,9	4,9

Source: Compiled by the authors.

It can be said that the ratio of net profit before tax to total assets (ROA) was 2.5 percent in 2022, and 2.6 percent in the same period of 203. The ratio of net profit to total capital (ROE) before tax was 13.3% in 2022 and 14.2% at the same time in 2023. The ratio of net interest income to total assets was 4.3% in 2022 and 4.4% in the same period of 2023 .

The ratio of net interest income received on loans to total loan deposits was 6.2 percent as of 2022 and 6.2 percent as of 2023. The ratio of net interest income to total liabilities was 5.1% in 2022 and 5.2% in 2023. The ratio of net interest margin to total assets was 4.9% in 2022 and 4.9% in 2023.

In order to increase the income in banks, it is very important to manage the accounting policy rationally:

First, the transparency of ratios:

Account policy right selected in the case of the bank financial status and activity transparent will be This is his in turn, investors and creditors for important (Brigham & Houston, 2012).

Second, the correct evaluation of income:

Account policy through bank income sure and reliable evaluation can This is important in planning and managing the bank's activities (Horngren et al., 2011).

Third, optimization of tax and other payments:

A properly chosen accounting policy helps to optimize the bank's tax and other mandatory payments (Robinson et al., 2015).

Based on the above analysis and considerations, the following should be implemented in order to improve the accounting policy in banks:

First, updating the accounting policy standards:

That is, it is necessary for commercial banks to update their accounting policy in accordance with international financial reporting standards (IFRS). This increases the bank's competitiveness in international financial markets (Epstein & Jermakowicz, 2010).

Second, the use of technological innovations:

For this, it is necessary to use modern information technologies to improve accounting policy. For example, by introducing automated reporting systems and electronic databases, the reporting process can be accelerated and made more transparent (Gelinis et al., 2012).

Thirdly, improve the skills of people:

Based on this, it is necessary to regularly improve the qualifications of bank employees for the effective implementation of processes related to the accounting policy. This about study courses and seminars organize to do important important have (Kaplan & Atkinson, 2015).

Fourth, diversification of sources of income:

It is possible to diversify sources of income through accounting policy. For example, the introduction of new financial products and services in addition to traditional loans and deposits (Van Horne & Wachowicz, 2009).

Fifth, legal compliance:

Accounting policies must be in accordance with national and international legislation. This is the bank legal from risks protection and financial stability provides (Chorafas, 2011).

Conclusion. Improving the accounting policy is important in the formation of the income of commercial banks. Banks can increase the efficiency of their activities by using technological innovations, improving the skills of employees and complying with international reporting standards. This, in turn, ensures competitiveness and financial stability of banks.

We formulated the following proposals to improve the accounting policy in the formation of commercial banks' income:

- Banks should develop an accounting policy in accordance with international and national reporting standards and regularly update it.
- It is necessary to improve the accuracy and transparency of reports through the automation of accounting processes and the use of digital technologies.
- Regular training of bank employees is necessary for effective implementation of processes related to accounting policy.
- It is necessary to expand sources of income by introducing new financial products and services.
- Accounting policies must be in accordance with national and international legislation.

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