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RULES FOR RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT IN FINANCIAL STATEMENTS IN ACCORDANCE WITH ACCOUNTING RULES OF IFRS FOR SME IN AZERBAIJAN

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Abstract: *Property, plant and equipment represent a critical component of enterprise activity and therefore occupy a central position in financial statements. This article presents a comparative analysis of the sections in which these assets are reported and the manner in which they are disclosed. Although the reporting forms and their required content are defined in the accounting rules aligned with the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs), the guidance lacks detailed instructions on how the information should be presented. The article highlights inconsistencies in reporting formats and issues arising from inaccurate translations of report titles that diverge from the original standards. It further examines the relationship between IFRS for SMEs and the forthcoming IFRS 18 "Presentation of Financial Statements," which will replace IAS 1 in 2027. Using IFRS 18 as a reference, the study compares disclosure requirements and summarizes key sections related to property, plant and equipment through tabular analysis.*
Keywords: *IFRS, IFRS for SME, accounting rules, financial statements*

1. Introduction

According to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), the objective of financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to users in making economic decisions. Moreover, financial statements reflect the outcomes of the management of resources entrusted to the entity. Referring to the conceptual framework of the IFRS for SMEs, the primary users of financial statements are investors, lenders, and other creditors. The identification of financial statement users is a significant topic of investigation. Some studies consider founders and investors as the primary users, while others include financial analysts (PricewaterhouseCoopers, 2007). Unlike the requirements of full IFRS, financial statements prepared under IFRS for SMEs require a **certain degree of reduced disclosure**. Each section of the Standard presents relevant topics that align with the general objectives of small and medium-sized enterprises (SMEs) and are appropriate for all users who benefit from these financial statements, except for individuals licensed in the securities market and entities whose securities are publicly traded on stock exchanges (including shareholders, creditors, borrowers, and employees) (Jafarov & Musayeva, 2022).

Financial statements do not merely reflect past events; they also provide the opportunity to analyze the entity's position based on comparative information.

According to Section 3, Paragraph 17 of the IFRS for SMEs, financial statements comprise the following:

1. A statement of financial position at the reporting date;
2. A statement of comprehensive income for the period, or separate statements of profit or loss and other comprehensive income;

3. A statement of changes in equity for the reporting period;
4. A statement of cash flows for the reporting period;
5. Notes, including significant accounting policies and explanatory information.

Together, these components aim to provide a comprehensive and coherent picture of the financial health, performance, and resource management of SMEs, thereby enabling informed decision-making by a wide range of users.

2. Materials and methods

This study examines the presentation of financial statements under the IFRS for SMEs and the SME-adapted IFRS frameworks. The primary materials include accounting regulations issued in 2017 and 2019, focusing on the Statement of Financial Position and the Statement of Comprehensive Income. The analysis compares classification formats, income and expense aggregation, and terminology differences between the two frameworks. A qualitative approach was applied, using content analysis and regulatory comparison to identify structural discrepancies and alignment with simplified accounting principles. Supplementary examples from post-Soviet countries were considered to contextualize practical challenges in implementation.

The Statement of Financial Position is presented as an addendum to the final provisions of accounting regulations prepared in accordance with the IFRS for SMEs and the IFRS for SMEs adapted for small and medium-sized entities (SMEs). Under the IFRS for SMEs, the Statement of Financial Position (Appendix 1 to the accounting regulations prepared according to International Financial Reporting Standards) is presented in a single format, classifying assets and liabilities into long-term and short-term categories (Accounting Regulations in Accordance with IFRS, 2017). In contrast, under the IFRS for SMEs adapted for SMEs, the Statement of Financial Position (Appendix 1) can be presented in **two formats**: a) classification of assets and liabilities into short-term and long-term classes, and b) classification of assets and liabilities according to decreasing liquidity (Accounting Regulations in Accordance with IFRS for SMEs, 2019).

According to Section 4.4 of the IFRS for SMEs adapted for SMEs, enterprises are required to present short-term and long-term assets and liabilities in the Statement of Financial Position. In exceptional cases, information may be presented based on liquidity. Similarly, paragraph 96 of IFRS 18 permits the presentation of assets and liabilities according to their liquidity in exceptional cases. However, under the IFRS-compliant accounting regulations, the Statement of Financial Position is presented in only one format.

The sequence of information required in the Statement of Financial Position differs between IFRS 18 (paragraphs 103–104) and the SME-adapted IFRS (Section 4.2). While most of the items included are similar, IFRS 18 presents items in the order of long-term assets, short-term assets, and liabilities, whereas the SME-adapted IFRS presents them according to liquidity.

According to Section 4.2 of the SME-adapted IFRS, the minimum items required in the Statement of Financial Position include: cash and cash equivalents; trade and other receivables; financial assets; inventories; land, buildings, and equipment; investment property; intangible assets; biological assets; investments in subsidiaries; investments in jointly controlled entities; trade and other payables; financial liabilities; current tax liabilities and assets; deferred tax liabilities and assets; provisions; non-controlling interests presented separately within equity; and equity attributable to owners of the parent.

Under IFRS 18, paragraph 103, the Statement of Financial Position should include: land, buildings, and equipment; investment property; goodwill; intangible assets; financial assets; contract portfolios not covered by IFRS 17, paragraph 78; investments accounted for using the equity method; biological assets under IFRS 41; inventories; cash and cash equivalents; trade and other receivables; assets classified as held for sale under IFRS 5 and those included in disposal groups; trade and other payables; provisions; financial liabilities; contract portfolios not covered by IFRS 17, paragraph 78; current tax assets and liabilities; deferred tax liabilities and assets; and liabilities included in disposal groups held for sale under IFRS 5. Paragraph 104 of IFRS 18 specifies that the Statement of Financial Position should also include non-controlling interests and issued share capital and reserves attributable to owners of the parent.

In practice, under the SME-adapted IFRS, the Statement of Financial Position can be prepared either according to decreasing liquidity or by classifying assets and liabilities into short-term and long-term categories. However, applying two formats for the Statement of Financial Position is inconsistent with the purpose of simplified accounting for small and medium-sized entities. This highlights a structural divergence between the regulatory flexibility intended for SMEs and the need for standardization and comparability in financial reporting.

Table 1. *Statement of Financial Position (Classification of Assets and Liabilities into Short-term and Long-term Categories)*

Section / Item No.	Name of Section / Item
ASSETS	
1	Long-term assets
10	Intangible assets
11	Land, buildings, and equipment
12	Investment property
13	Biological assets
14	Mineral resources
15	Investments accounted for using the equity method
16	Deferred tax assets
17	Long-term receivables
18	Other long-term financial assets
19	Other long-term assets

Source. State Statistical Committee of the Republic of Azerbaijan, updated 2025.

In the Statement of Financial Position prepared according to the classification of assets and liabilities into short-term and long-term categories, the section numbers corresponding to long-term assets in the chart of accounts are also indicated. In contrast, in the Statement of Financial Position presented according to decreasing liquidity, the chart of accounts section numbers are not provided, and assets are arranged based on their liquidity.

Under the simplified accounting framework for SMEs, the presentation of the Statement of Financial Position in two formats according to the SME-adapted IFRS, compared to a single format under the full IFRS framework, contradicts the concept of simplified accounting. This discrepancy highlights a structural tension between regulatory flexibility for SMEs and the objective of comparability and clarity in financial reporting. By providing multiple presentation formats, SMEs may gain flexibility in organizing their financial information, yet this can introduce inconsistencies that challenge stakeholders in interpreting financial health and performance. A relevant case can be observed in **Kazakhstan,** a post-Soviet country that has gradually adopted IFRS-based reporting for both large enterprises and SMEs. In Kazakhstan, SMEs operating under the simplified accounting regime are allowed to present financial statements in either long-term/short-term or liquidity-based formats. However, local regulatory authorities have reported that this dual-format approach has led to discrepancies in financial analysis by banks and investors, particularly in evaluating liquidity and solvency metrics.

Consequently, many SMEs voluntarily adopt the long-term/short-term classification to ensure consistency and comparability with larger enterprises while aligning with national reporting guidelines. This example illustrates that while the SME-adapted IFRS framework provides flexibility, practical implementation in post-Soviet contexts such as Kazakhstan underscores the need for guidance and standardization to maintain reliability and usefulness of financial statements for decision-making by a broad set of users.

2.1.*Statement of Comprehensive Income*

Section 5 of the IFRS for SMEs adapted for SMEs has been translated under the heading "Statement of Comprehensive Income and Profit or Loss." In the English version, it is presented as the "statement of comprehensive income and income statement." However, in the accounting regulations prepared under the SME-adapted IFRS, it is titled "Statement of Comprehensive Profit and Loss." The terminology "comprehensive profit and loss" does not accurately reflect the nature of the report, as the concept of comprehensive income exists, while the term "comprehensive profit" is not recognized. In contrast, the IFRS-compliant accounting regulations present it as the "Statement of Profit or Loss and Other Comprehensive Income."

According to Section 5.2 of the SME-adapted IFRS, an enterprise must present its total comprehensive income for a given period in one of the following ways:

a) **Single-statement approach:** In this case, the statement of comprehensive income presents all income and expense items recognized during the reporting period; or
b) **Two-statement approach:** This involves a separate statement of profit or loss and a statement of comprehensive income. The profit or loss statement presents all income and expense items recognized during the reporting period, except for those included in other comprehensive income as permitted or required by the Standard.

Under the single-statement approach, all income and expense items recognized during the reporting period must be included in the statement of comprehensive income. The Standard provides specific treatments for certain items:

a) **Correction of errors and changes in accounting policies** are presented as retrospective adjustments of prior periods rather than as part of current period profit or loss.
b) **Four types of other comprehensive income** are recognized separately from profit or loss:

- Gains or losses arising from foreign currency translation,
- Certain actuarial gains and losses,
- Certain changes in the fair value of hedging instruments,
- Revaluation increases in property, plant, and equipment recognized under the revaluation model.

The statement of comprehensive income must include the following items:

a) Revenues,
b) Finance costs,
c) Share of profit or loss of investments in subsidiaries and jointly controlled entities accounted for using the equity method,
d) Tax expenses, subject to certain exceptions,
e) Profit or loss,
f) Total comprehensive income.

Additionally, the statement should separately present for each period:

a) Profit or loss attributable to non-controlling interests and owners of the parent,
b) Total comprehensive income attributable to non-controlling interests and owners of the parent.

In the two-statement approach, profit or loss is presented as the final line of the profit or loss statement, while the statement of comprehensive income begins with profit or loss and separately presents items of other comprehensive income. According to Section 5.1 of the SME-adapted IFRS, expenses are aggregated based on their nature and function. Accordingly, in the accounting regulations under the SME-adapted IFRS, the Statement of Comprehensive Profit and Loss is grouped by both the nature and function of expenses. However, a significant critique is that the report's title does not align with the IFRS terminology, and the single- or two-statement approach is not consistently applied. The Statement of Comprehensive Profit and Loss is included as Appendix 2 in both the IFRS-compliant and SME-adapted IFRS accounting regulations. The statement can be presented in two formats, either based on the **nature of expenses** or their **function**. In the statement prepared according to the nature of expenses, depreciation related to long-term assets is explicitly presented. In contrast, in the function-based statement, depreciation related to long-term assets is included within cost of sales, selling expenses, administrative expenses, and other operating expenses, rather than being reported separately. Additionally, in the function-based statement, depreciation is also reflected under operating expenses by type of expense.

Table 2. Statement of Comprehensive Income (by Nature of Expenses)

Section (Item) / Account No.	Indicator Name
60	Main Operating Revenue
61 and 73	Other Operating Revenue
-	Increases (Decreases) in Work-in-Progress and Finished Goods Inventory
-	Capitalized Work Performed by the Organization
-	Used Material Inventories
-	Employee Expenses
-	Depreciation Expenses
-	Other Operating Expenses
73 and 61	Other Operating Expenses
62 and 74	Profit (Loss) from Discontinued Operations
-	Operating Profit (Loss)
63 and 75	Financial Profit (Loss)
64 and 76	Extraordinary Profit (Loss)
81	Share of Profit (Loss) in Subsidiaries and Joint Ventures
-	Profit (Loss) Before Tax
90	Income Tax
341	Net Profit (Loss) for the Reporting Period
-	Other Comprehensive Income

Source. State Statistical Committee of the Republic of Azerbaijan, updated 2025.

Table 3. Statement of Comprehensive Income (by Function of Expenses)

Section (Item) and Account No.	Indicator Name
60	Main Operating Revenue
70	Cost of Sales
-	Gross Profit (Loss)
61 and 73	Other Operating Revenue
71	Selling Expenses
72	Administrative Expenses
73 and 61	Other Operating Expenses
62 and 74	Profit (Loss) from Discontinued Operations
-	Operating Profit (Loss)
63 and 75	Financial Profit (Loss)
64 and 76	Extraordinary Profit (Loss)
-	Profit (Loss) Before Tax
90	Income Tax
341	Net Profit (Loss) for the Reporting Period
-	Other Comprehensive Income

Source. State Statistical Committee of the Republic of Azerbaijan, updated 2025.

However, in the accounting regulations prepared under the SME-adapted IFRS, the statement of comprehensive income classified by **function of expenses** also provides information on operating expenses within the classification by nature of expenses. In this information, depreciation expenses are explicitly presented.

2.2.*Statement of Cash Flows*

Section 7 of the SME-adapted IFRS for SMEs covers the **statement of cash flows**. This section specifies the format in which the cash flow statement should be presented. The statement separately reports the movements of cash and cash equivalents according to **operating, investing, and financing activities.**

Table 4. Information to be presented in the Statement of Cash Flows

Operating Activities	Investing Activities	Financing Activities
Cash inflows from sale of goods and services	Payments for acquisition of land, buildings, equipment, intangible and other long-term assets	Cash inflows from issuance of shares and other equity instruments
Cash inflows from royalties, fees, commissions, and other income	Cash inflows from sale of land, buildings, equipment, intangible and other long-term assets	Payments to owners for purchase or redemption of company shares
Payments to suppliers for goods and services received	Payments to acquire equity or debt instruments of other companies or interests in joint ventures	Cash inflows from financial liabilities, loans, promissory notes, bonds, mortgages, and other short- and long-term borrowings
Payments to employees	Cash inflows from sale of equity or debt instruments and interests in joint ventures	Payments for repayment of borrowings
Corporate income tax and other tax payments	Cash advances and loans provided to other persons	Payments to reduce unpaid receivables under financial leasing agreements by lessees
Cash inflows and outflows from investments, loans, and similar contracts	Cash inflows from repayments of advances and obligations provided to other persons	

Source. State Statistical Committee of the Republic of Azerbaijan, updated 2025.

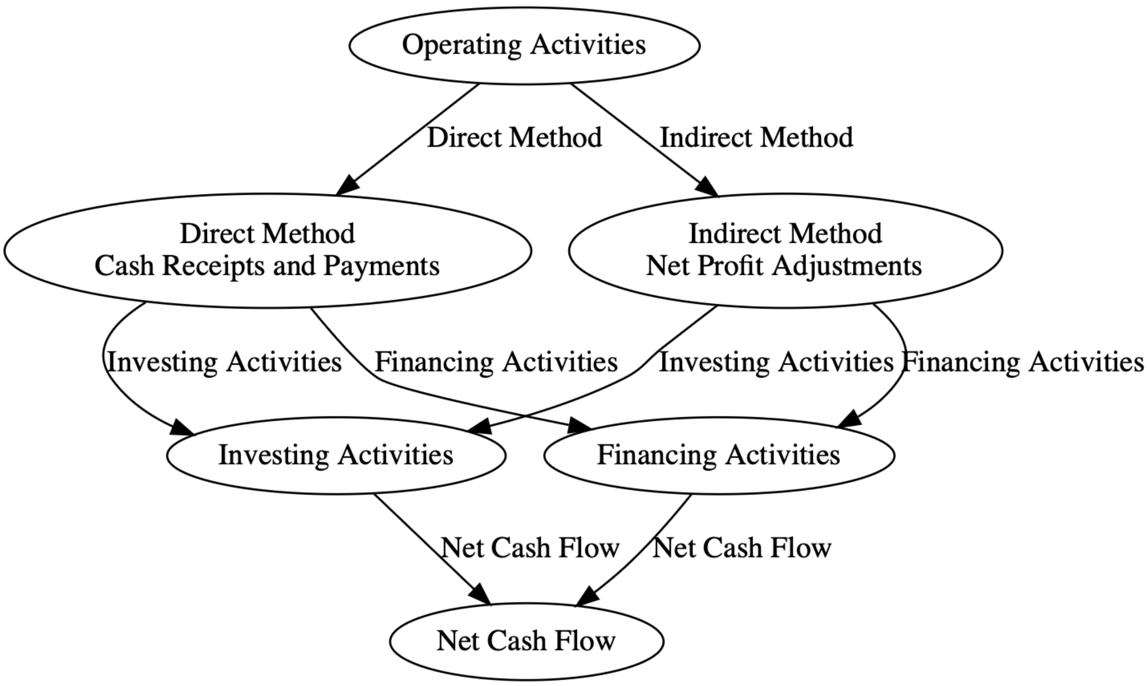
The Statement of Cash Flows can be prepared using two methods: **direct** and **indirect**. While the cash flow sections for investing and financing activities remain identical under both methods, the cash flows from **operating activities** differ. In the **indirect method**, the Statement of Cash Flows includes a line item for **depreciation and amortization** related to long-term assets. In contrast, the **direct method** does not provide explicit information about depreciation expenses. Under the **indirect method**, the operating activities section of the cash flow statement begins with the **net profit or loss**for the reporting period. Subsequently, depreciation and amortization expenses are added. The following sections reflect the changes in cash resulting from differences between the relevant line items in the current and previous period of the Statement of Financial Position, presented as increases or decreases in cash.

Table 5. Cash Flows from Operating Activities (Indirect and Direct Methods)

Cash Flow Statement (Indirect Method)	Cash Flow Statement (Direct Method)
Cash flows from operating activities	**Cash flows from operating activities**
Net profit or loss for the reporting period	Cash receipts from sales of goods and services
Adjustments for the following items:	Cash receipts from royalties, fees, and commissions
Non-controlling interest	Cash receipts from other income
Income tax expenses	Total cash inflows from operating activities
Depreciation and amortization expenses	Cash payments for goods and services
Losses (gains) related to investing activities	Payments to employees

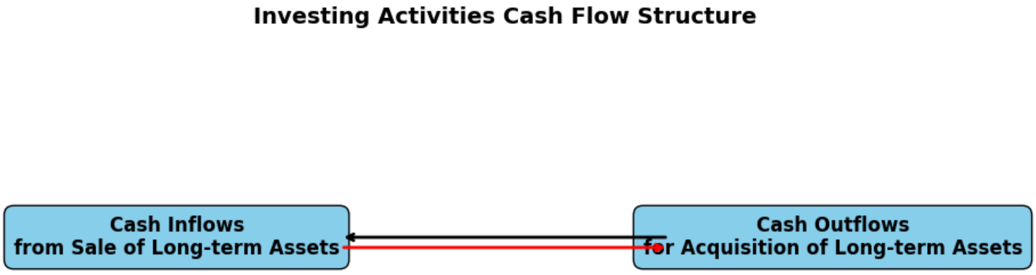
Other expenses (income) related to financing activities	Cash payments for income taxes
Exchange rate differences (expenses/income)	Cash payments for other taxes
Interest expenses (income)	Cash payments for interest on operating activities
Bad debts expenses	Cash payments for other expenses
Income from overdue accounts payable	Total cash outflows from operating activities
Other non-cash transactions (expenses/income)	Net cash flow from operating activities
Net cash flows from operating activities before changes in working capital	
Changes in the following items:	
Decrease (increase) in inventories	
Decrease (increase) in trade receivables	
Decrease (increase) in other short-term assets	
Increase (decrease) in tax and other mandatory payables	
Increase (decrease) in trade payables	
Increase (decrease) in other short-term liabilities	
Income tax paid	
Interest paid	
Exceptional cash inflows and outflows related to operating activities	
Net cash flows from operating activities	Net cash flows from operating activities

Source. State Statistical Committee of the Republic of Azerbaijan, updated 2025.



Source. State Statistical Committee of the Republic of Azerbaijan, trained in ML.

The differences between the direct and indirect methods of preparing the cash flow statement show that the indirect method contains more items and is less aligned with simple accounting principles. Typically, the indirect method is suitable for companies with a large number of transactions. However, for small and medium-sized enterprises, preparing the statement using the direct and simpler method reduces the information load for several line items. In both the direct and indirect methods, the “Cash Flows from Investing Activities” section of the cash flow statement includes items related to long-term assets.



Source. Ministry of Economy of AR, trained in ML.

2.3.*Statement of Changes in Equity and Profit and Loss and Retained Earnings Report*

This report reflects the profit and loss for the reporting period, other comprehensive income, the impact of changes in accounting policies, and corrections of errors recognized during the period, as well as the amounts of investments contributed by capital owners, dividends paid, and other distributed funds. For SMEs under IFRS for SMEs, the Accounting Rules include Appendix 3, "Statement of Changes in Equity." This report also reflects information about revaluation reserves related to long-term assets. According to paragraph 12.30 of the SME IFRS-based Accounting Rules, when the revaluation model is applied to land, buildings, and equipment, the assets are recorded at their fair revalued amount, resulting in an increase or decrease in their value. In this case, account 331 "Revaluation Reserve" is used.

- If the value of land, buildings, and equipment increases, the entries are a debit to account 111 and a credit to account 331.
- If the value decreases, a credit is recorded in account 111, and if there is a prior credit balance in account 331 for the respective assets, a debit is made to account 331 up to that balance; the remaining amount is recorded as a debit to account 731 and a credit to account 112.

These entries also affect the statement of comprehensive income or loss.

4. Discussion

The adoption of IFRS for SMEs in Azerbaijan is firmly grounded in the national legal framework, particularly the Law of the Republic of Azerbaijan on Accounting, which empowers the Ministry of Finance to implement IFRS and IFRS for SMEs for domestic entities (IFRS Foundation, 2025a). Under this law, public interest entities, such as banks and large corporations, are mandated to prepare financial statements in accordance with full IFRS, whereas small and medium-sized enterprises (SMEs) may adopt IFRS for SMEs or simplified accounting rules (IFRS Foundation, 2025b). The Ministry of Finance has translated and officially published these standards, ensuring their legal validity for local reporting purposes (Rules for Accounting Based on IFRS for SMEs, 2019). Despite this formal adoption, practical implementation issues exist. The dual presentation formats for the Statement of Financial Position allowed under SME-adapted IFRS (long-term/short-term classification or liquidity-based classification) create inconsistency with the simplification objective of IFRS for SMEs (Jafarov & Musayeva, 2022). Furthermore, the incorrect translation of report titles, such as "Statement of Total Profit and Loss," undermines clarity and comparability with international terminology, which recognizes the concept of comprehensive income rather than comprehensive profit (Jafarov, 2020). Empirical studies indicate similar challenges in other post-Soviet countries. For instance, in Kazakhstan, SMEs allowed to present financial statements in multiple formats experienced discrepancies in liquidity and solvency analysis by banks and investors, highlighting the need for standardization (Hinke & Zborkova, 2013).

Local professional literature confirms that although IFRS for SMEs simplifies reporting requirements, limitations in professional competence and inconsistent audit practices reduce the reliability of financial statements in practice (Jafarov & Musayeva, 2022). Overall, the legal and regulatory framework supports IFRS for SMEs as a legitimate accounting system for Azerbaijani SMEs. However, the coexistence of multiple presentation formats and translation inconsistencies challenges the objectives of comparability, clarity, and simplification. Therefore, harmonizing reporting formats and standardizing terminology is essential to achieve the intended benefits of IFRS for SMEs (IFRS for SMEs, 2021).

5. Conclusions

The main purpose of developing and implementing the IFRS for SMEs (KOS IFRS) was to enable small and medium-sized enterprises (SMEs) to apply International Financial Reporting Standards in a simplified and practical manner. While the standards aim to reduce the complexity of reporting, several issues have been identified in their practical application. Notably, under the KOS IFRS-based accounting rules, the Statement of Financial Position can be presented in two formats, classification by short-term and long-term or by decreasing liquidity, whereas under full IFRS only a single format is prescribed. This dual-format approach conflicts with the principle of simplified accounting for SMEs, potentially leading to inconsistencies and difficulties in comparability across enterprises (Jafarov & Musayeva, 2022; IFRS for SMEs, 2021). Furthermore, Section 5 of the KOS IFRS has been translated as the Statement of Comprehensive Income and Profit or Loss. In English, it is presented as the Statement of Comprehensive Income and Income Statement, while the KOS IFRS rules label it as the Statement of Total Profit and Loss. This terminology is misleading because the concept of total profit or loss is not recognized in IFRS, and the proper term is comprehensive income (IFRS Foundation, 2025b). Misalignment between translation and international terminology can hinder accurate interpretation and reduce the usefulness of financial statements for stakeholders, including investors, creditors, and regulatory authorities. Based on these observations, several recommendations are proposed. It is necessary to harmonize the Statement of Financial Position by standardizing the presentation format to a single, simplified version aligned with IFRS for SMEs principles, which will reduce confusion and improve comparability. The report title should be corrected by revising the Statement of Total Profit and Loss to Statement of Profit or Loss and Other Comprehensive Income, in line with internationally recognized accounting terminology (IFRS Foundation, 2025b). Providing clear guidance for SMEs on the practical application of IFRS for SMEs, including examples of reporting and disclosure formats, will ensure consistent implementation. Targeted training programs for accountants and auditors of SMEs should be conducted to ensure proper understanding and application of KOS IFRS. Regulatory oversight should be strengthened to ensure SMEs follow standardized reporting practices and enhance the reliability of financial statements for all stakeholders.

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