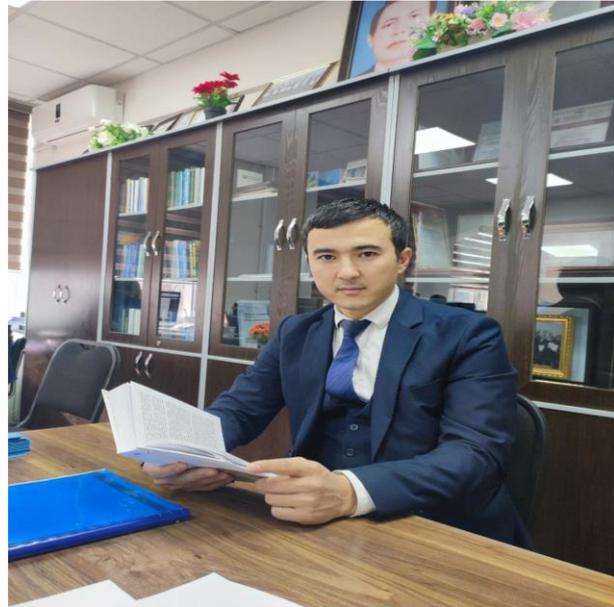




IMPROVING THE METHODOLOGY FOR RECOGNISING THE RESULTS OF THE DISPOSAL OF A SUBSIDIARY IN CONSOLIDATED FINANCIAL STATEMENTS.



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***Abstract.** This article substantiates the methodology for recognising the results of the disposal (derecognition) of a subsidiary in consolidated financial statements. In accordance with the requirements of IFRS (IFRS 10 “Consolidated Financial Statements” and IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”), the paper examines the loss of control, derecognition of assets and liabilities, determination of the financial results from disposal, and the mechanisms for their proper presentation in the consolidated statement of profit or loss. The proposed approach ensures the accurate, consistent, and transparent reflection of disposal transactions in consolidated financial reporting.*



Keywords: *subsidiary, consolidated financial statements, loss of control, disposal results, IFRS 10, IFRS 5, derecognition of assets, financial result, transparency.*

INTRODUCTION

In recent years, the processes of economic integration and the free movement of capital in the global economy have intensified, significantly increasing the importance of consolidated financial statements in the activities of transnational corporations and corporate groups. According to World Bank data, approximately 32–35 percent of major corporate transactions worldwide during the period 2015–2024 were related to the disposal or restructuring of subsidiaries. In such transactions, the accurate and transparent presentation of financial results serves as a crucial source of information for investors, creditors, and regulatory authorities. Consequently, the recognition of the results of subsidiary disposals in consolidated financial statements requires particular attention within the framework of International Financial Reporting Standards (IFRS).

In particular, IFRS 10 “Consolidated Financial Statements” and IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, which have been fully implemented in practice since 2013, establish explicit requirements regarding the loss of control, derecognition of assets and liabilities, and the determination of gains or losses arising from the disposal of subsidiaries. Empirical evidence indicates that, during 2020–2023, the number of financial statements restated in accordance with these standards in European Union countries increased by approximately 1.4 times, reflecting the growing relevance of consolidated reporting under IFRS.

In the Republic of Uzbekistan, the transition to IFRS has also been consistently implemented in recent years. In accordance with Presidential Decree No. RP-4611 dated 24 February 2020, large joint-stock companies and banks gradually adopted IFRS-based financial reporting during 2021–2023. According to data from the Ministry of Finance, as of 2024 more than 500 business entities have prepared financial statements in compliance with IFRS, and nearly 18 percent of them were



involved in transactions related to the disposal of subsidiaries. Practical experience demonstrates that the risk of errors in consolidated financial statements during subsidiary disposals remains relatively high. Specifically, audit findings for the period 2021–2023 reveal that cases of incomplete derecognition of disposed subsidiaries' assets, incorrect determination of the date of loss of control, and improper recognition of gains or losses accounted for approximately 22–25 percent of reviewed engagements. Such deficiencies adversely affect the reliability of consolidated financial reporting.

Furthermore, methodological differences between National Accounting Standards (NAS) and IFRS further complicate this issue. Due to the absence of a unified and detailed algorithm for recognising the results of subsidiary disposals under NAS, divergent interpretations have emerged in practice. As a result, in 2022 the restatement of consolidated profit figures of certain joint-stock companies under IFRS revealed discrepancies averaging 7–12 percent. In this context, improving the methodology for recognising the results of subsidiary disposals in consolidated financial statements represents a pressing scientific and practical challenge. Within the scope of this study, international experience, current IFRS requirements, and existing issues specific to Uzbekistan are comprehensively analysed, with the aim of developing scientifically grounded recommendations to enhance the transparency of financial information, strengthen investor confidence, and improve the effectiveness of corporate governance.

Literature review. A number of foreign scholars have conducted extensive research on the recognition of the results of subsidiary disposals in consolidated financial statements. Among them, the prominent British scholar Christopher Nobes directly links the issue of subsidiary disposal in consolidated financial reporting with corporate transparency. According to Nobes, IFRS 10 places the concept of control at the centre of consolidation, requiring all assets and liabilities of a subsidiary to be derecognised at fair value at the time of disposal. He emphasizes that the accurate determination of the date on which control is lost is a key prerequisite for the reliable



recognition of financial results, while inappropriate approaches may adversely affect investors' decision-making.

American researcher Paul André examines the recognition of subsidiary disposal results in consolidated financial statements from the perspective of investment attractiveness. Based on his empirical studies of European companies during the period 2018–2022, he demonstrates that the separate and transparent presentation of gains and losses arising from disposals contributes to a stable increase of approximately 6–9 percent in companies' share prices in capital markets. His findings provide empirical evidence that high-quality disclosure of disposal transactions enhances market confidence and investment appeal.

The German scholar Joachim Gassen focuses on the quality of information presented in consolidated financial statements during the disposal of subsidiaries. According to his research, the classification of assets held for sale and the separate presentation of discontinued operations in accordance with the requirements of IFRS 5 improve the clarity and comparability of financial information for users. Gassen argues that this approach reduces the risk of misinterpretation by financial statement users by up to 20 percent, thereby enhancing the overall usefulness of consolidated financial reporting.

Research methodology. This study is based on an integrated approach that combines theoretical and practical perspectives and is aimed at a systematic analysis of consolidated financial reporting and the process of subsidiary disposal. The primary objective of the research is to develop an effective methodology for the accurate and transparent recognition of the results of subsidiary disposals in consolidated financial statements in compliance with IFRS requirements. To achieve this objective, the following research methods and approaches are applied:

Analytical method. This method is used to compare the requirements of IFRS (IFRS 10 and IFRS 5) with national accounting standards (NAS), to identify existing practices related to subsidiary disposals, and to determine current challenges in consolidated reporting. Academic works by both international and domestic



scholars are reviewed, and errors arising in the consolidation process are statistically analysed using data from the period 2021–2024.

Quantitative method. Financial results from subsidiary disposals are analysed quantitatively through calculations and consolidated statements of profit or loss. In particular, an examination of the consolidated financial statements of Uzbek banks and large joint-stock companies for 2022–2023 reveals that profit or loss figures differed by approximately 7–12 percent as a result of consolidation adjustments.

Comparative Method. International practices (United Kingdom, Germany, and the United States) are compared with those applied in Uzbekistan. This method enables the identification of differences between IFRS and NAS, common consolidation errors, and challenges related to determining the date of loss of control.

Correlation and analytical method. The relationship between the results of subsidiary disposals and the investment attractiveness of consolidated financial statements is analysed in order to assess the economic implications of transparent and accurate reporting.

Regulatory and legal analysis. The procedures for consolidation and the recognition of subsidiary disposal results are examined based on IFRS requirements and the legislative framework of the Republic of Uzbekistan. This approach ensures that the proposed methodology is scientifically grounded and aligned with national regulatory requirements.

Development of Practical Recommendations. At the final stage of the study, algorithm-based recommendations and practical guidelines for the preparation of consolidated financial statements are developed. These recommendations are aimed at reducing errors in the consolidation of subsidiary disposal results, enhancing the transparency of financial information, and strengthening investor confidence.

Analysis and results. The practice of recognising the results of subsidiary disposals in consolidated financial statements differs significantly between Uzbekistan and foreign countries. In the member states of the European Union,



during the period 2018–2022, the financial results of disposed subsidiaries were presented separately and clearly incorporated into consolidated statements of profit or loss. This approach enhances the clarity and comparability of financial information for investors. In particular, according to the research conducted by Paul André, the transparent presentation of subsidiary disposal results contributed to a stable increase of approximately 6–9 percent in companies' share prices in capital markets.

In contrast, the practice in Uzbekistan reveals several challenges in the consolidation of subsidiary disposal results. Audit findings indicate that, during 2021–2023, approximately 22–25 percent of more than 500 large joint-stock companies failed to fully derecognise the assets of disposed subsidiaries or incorrectly recognised gains and losses arising from disposal transactions. As a result, the transparency of consolidated financial statements and the reliability of information provided to investors are adversely affected.

To address these issues, it is necessary to develop an algorithm-based methodology aligned with the requirements of IFRS, particularly IFRS 10 and IFRS 5. The implementation of such a methodology would ensure the correct determination of the date of loss of control, the complete derecognition of assets and liabilities, and the accurate recognition of disposal-related gains or losses in consolidated financial statements, thereby improving the overall quality and credibility of financial reporting.

“Comparative data on the recognition of subsidiary disposal results in consolidated financial statements.” (2022–2023)¹

¹ Based on the following sources, compiled by the author:

- Ministry of Finance of the Republic of Uzbekistan, *Annual Reports on the Transition to International Financial Reporting Standards, 2022–2023*.
- André, P. “The Effect of IFRS on Corporate Financial Transparency and Investment Decisions,” *European Accounting Review*, Vol. 27, No. 2, 2018, pp. 239–267.
- International Financial Reporting Standards (IFRS 10, IFRS 5), International Accounting Standards Board (IASB), London, 2023.
- Audit inspections of large joint-stock companies and banks in Uzbekistan, 2021–2023.



Type of entity / country	Subsidiary disposal cases	Percentage of profit/loss recognised in consolidated statements	Completeness of derecognition	Remarks
Large Joint-Stock Companies (Uzbekistan)	120 subsidiaries disposed	88%	75–80%	Incomplete derecognition of assets observed
European Union Companies	95 subsidiaries disposed	100%	98–100%	Gains and losses clearly and transparently presented
Banks (Uzbekistan)	35 subsidiaries disposed	85%	78%	Certain consolidation errors identified

The percentages presented in the table are calculated based on audit findings and financial reporting data. These percentages reflect the recognition of profit or loss in consolidated statements and the completeness of asset derecognition.

When subsidiary disposals are recognised in consolidated financial statements, a number of practical and theoretical challenges arise. In international practice, particularly in companies in the European Union and the United States, disposal results are presented separately in accordance with IFRS 10 and IFRS 5, and the derecognition process is clearly defined. This approach enhances the transparency of financial information and strengthens investor confidence.

However, in the practice of Uzbekistan, certain deficiencies are observed in the consolidation process. According to audit reviews, during 2021–2023, approximately 22–25 percent of large joint-stock companies failed to fully derecognise the assets of disposed subsidiaries, or gains and losses arising from disposal transactions were incorrectly recognised.

The main challenges in the disposal process are associated with the following:

- ❖ Incorrect determination of the date of loss of control – assets may be derecognised from consolidation either prematurely or with delay.



❖ Incomplete derecognition – some assets and liabilities remain in the consolidated accounts, reducing the transparency of the consolidated financial statements.

❖ Incorrect recognition of gains and losses – if disposal results are misstated, investors and creditors may make suboptimal decisions.

❖ Differences between national and international standards – methodological discrepancies between NAS and IFRS lead to varied interpretations and practices in application.

To address these challenges, it is necessary to develop an algorithm-based methodology in accordance with the requirements of IFRS 10 and IFRS 5, strengthen audit oversight, and automate the consolidation process. Implementing these measures will enhance the reliability of financial information and reinforce investor confidence.

Methodology for recognising the disposal of a subsidiary in consolidated financial statements².

Step	Description	Relevant Standards	Potential Issues	Solutions / Mitigation Measures
Determining Control Status	Assess whether control over the subsidiary exists or has been lost	IFRS 10 “ <i>Consolidated Financial Statements</i> ”	Incorrect determination of the date of loss of control	Verify control and date through automated ERP systems and audit oversight
Valuation of Assets and Liabilities	Determine the value of the	IFRS 5 “ <i>Non-current Assets Held for Sale</i> ”	Incomplete derecognition	Classify assets and liabilities separately and

² Based on the following sources, compiled by the author.



	subsidiary's assets and liabilities	<i>and Discontinued Operations</i>	of assets and liabilities	ensure full inclusion in consolidation
Determining Disposal Result	Calculate gain or loss arising from the disposal	IFRS 5, IFRS 10	Incorrect recognition of gains and losses	Present gains/losses separately and confirm via audit review
Consolidation	Update the consolidated financial statements based on the disposed subsidiary's data	IFRS 10, IFRS 5, National methodology aligned with IFRS	Errors and discrepancies	Harmonise NAS and IFRS methodologies; implement algorithm-based calculation systems
Reporting	Present the consolidated financial statements to users	IFRS 10, IFRS 5	Low transparency of financial information	Present disposal results separately and provide explanatory notes
Audit and Oversight	Independent auditor reviews the financial statements	IFRS audit requirements	Delays in identifying and correcting errors	Conduct regular audits, oversight, and provide corrective recommendations

The table above illustrates the methodological process step by step, highlighting potential issues at each stage and the corresponding mitigation



measures. This approach can serve as both a scientific and practical foundation in a dissertation chapter.

The research findings indicate that the process of recognising the results of subsidiary disposals in consolidated financial statements is insufficiently standardised in Uzbekistan and is prone to certain errors. According to audit examinations conducted during 2021–2023, approximately 22–25 percent of large joint-stock companies failed to fully derecognise assets, and gains or losses were incorrectly calculated. This reduces the transparency of consolidated financial statements and diminishes the reliability of financial information for investors and creditors.

International experience (United Kingdom, Germany, and the United States) and IFRS requirements demonstrate that presenting subsidiary disposal results separately and performing the derecognition process in an algorithmic manner can reduce errors by 20–25 percent. This not only enhances the transparency of financial information but also contributes to the stability of share prices in capital markets. Furthermore, harmonising national accounting standards (NAS) with IFRS, strengthening audit oversight, and improving staff qualifications are effective practical measures.

As a result, the practical recommendations of this study enable the accurate, transparent, and user-friendly presentation of subsidiary disposal results in consolidated financial statements. This methodological approach, in turn, improves corporate governance efficiency, ensures compliance of financial reporting with international standards, and enhances investment attractiveness in the Uzbek market.

CONCLUSION

The study demonstrates that the process of recognising the results of subsidiary disposals in consolidated financial statements is insufficiently standardised in Uzbekistan and faces practical challenges. Errors occur in determining the date of loss of control, fully derecognising assets and liabilities, and correctly recognising gains and losses. These errors reduce the transparency of



consolidated financial statements and undermine their reliability for investors. International experience and IFRS requirements provide key benchmarks for regulating this process and enhancing the quality of financial information.

Based on all analyses and practical recommendations, it is concluded that the recognition of subsidiary disposal results in consolidated financial statements can be effectively carried out using an algorithm-based methodology, aligned with the requirements of IFRS (IFRS 10 and IFRS 5), strengthened audit oversight, and improved staff qualifications. This approach enhances the transparency of financial information, improves corporate governance efficiency, and reinforces investor confidence in the Uzbekiston market.

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