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Harmonization of capital accounting in Azerbaijan commercial enterprises in accordance with IFRS requirements

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Abstract. The topic of the research related to capital accounting in commercial enterprises is relevant, as the harmonization of this process in accordance with the requirements of International Financial Reporting Standards (IFRS) becomes an integral component for attracting investment, increasing the transparency of financial reporting, and maintaining competitiveness in the global market. The purpose of the study is to develop and implement the methodology of capital accounting in the accounting activities of commercial enterprises of the Republic of Azerbaijan. Among the methods used, analytical method, statistical method, functional method, method of system analysis, method of deduction, method of synthesis and method of comparison were applied. The research was aimed at in-depth analysis of the essence of capital accounting in Azerbaijani commercial enterprises in the context of modern conditions of market economy. The main attention was paid to the study of the legal and regulatory framework, peculiarities of the authorized capital of limited and joint stock organizations. Within the framework of the research, the key elements of development of financial accounting of capitals complying with IFRS requirements were identified. In addition, specific examples of synthetic accounting of business transactions for capital formation at commercial enterprises are provided, as well as the rules of their reflection in the financial statements are outlined. Special attention is paid to the fundamentals of new accounting rules developed to meet IFRS requirements. As a result of the study, solutions have been proposed to eliminate problems related to capital accounting in accordance with IFRS requirements in the activities of Azerbaijani commercial enterprises. These solutions are oriented to harmonize accounting practices with international standards, improve transparency of financial statements and increase attractiveness for potential investors. The results can be used for Azerbaijani commercial enterprises, contributing to the improvement of financial transparency, attractiveness for investors and harmonization of accounting practices with global standards

Keywords: financial reporting; regulatory framework; accounting correspondence; transparency; civil code

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Introduction

In the field of accounting, the concept of capital is of great importance, since it is not only related to the internal processes of an enterprise, but is also a fundamental source of formation of its assets and productive potential. Capital, at the level of the individual enterprise, becomes concrete: it can be described in detail, accounted for and its efficiency analysed. Among the many functions of capital, one of the most important is its role in protecting the business from the various risks that surround it from all sides. Competent capital accounting is the basis for the formation of the potential of a commercial enterprise, its financial stability and competitiveness. The Republic of Azerbaijan has stable economic ties with many foreign countries, and in the future, plans to expand foreign contacts, as this direction of development provides an inflow of capital into the country's economy. Capital management implies, among other things, the organization of its accounting in such a way as to meet the requirements of legislation and ensure the principle of efficient use.

Competent capital accounting allows forming the basis for analysing and making managerial decisions related to capital management. The modern period of economic development of the Republic of Azerbaijan is associated with the transition to a market economy and the functioning of the country as an independent state. Currently, Azerbaijan is fully oriented on International Financial Reporting Standards (IFRS). However, it should be noted that the country faces an important task of harmonizing accounting in accordance with international standards. For countries with economies in transition, this is an important strategic direction for the development of accounting, which can ensure more effective cooperation with foreign partners.

In his study, R.M. Allahyarov (2021) analysed the impact of the process of harmonization of capital accounting in Azerbaijani enterprises with IFRS requirements. His conclusions indicate the critical importance of this process for increasing the degree of transparency and comparability of financial reporting. N. Tanklevska *et al.* (2023 analysed the impact of IFRS application on capital accounting in Azerbaijani enterprises. Her study revealed that this approach contributes to more accurate and comparable accounting of financial data. Moreover, the author points to the increased attractiveness for foreign investors due to the standardization of financial reporting. In their work, I.M. Abbasov & E.R. Babayev (2021) deeply studied the peculiarities of IFRS application in capital accounting at Azerbaijani enterprises. The study emphasizes that harmonization of accounting with IFRS requires additional efforts for successful adaptation to local peculiarities and effective integration into accounting practice. V.M. Guliyev (2021) argues that the effective application of IFRS in capital accounting provides an increased degree of transparency of Azerbaijani companies' activities to investors and market participants. His study also revealed that this approach contributes to the creation of a more attractive environment for investment. Deeply focused on the problems and prospects of harmonization of capital accounting in accordance with IFRS study by A. Valiyev *et al.* (2021). Their work emphasizes the importance of this process for strengthening the positions of Azerbaijani enterprises in the world arena and identifies the prospects for its successful implementation.

In general, the authors highlighted the importance of this process for increasing the transparency of financial reporting, improving the comparability of data, and attractiveness of companies to investors. However, solutions to address the problems associated with capital accounting have not been highlighted. The purpose of this study is to identify existing problems and develop specific practical solutions aimed at improving capital accounting in Azerbaijani commercial enterprises in accordance with IFRS requirements.

Materials and Methods

This study relies on an extensive background, which includes a thorough study of regulatory documentation and scientific publications in the field of harmonization of capital accounting under IFRS. For this purpose, both national laws and regulations (The Civil Code of the Azerbaijan Republic, 1999; The Tax Code…, 2000; Conceptual bases of…, 2007; Law of Azerbaijan No. 716-IIQ, 2021) related to capital accounting in enterprises in Azerbaijan and guidelines governing the application of IFRS in global practice (IFRS Accounting Standards…, 2019) were used. The study also included a review and analysis of recent academic research published in this area to provide an extensive and up-to-date understanding of the issues related to the harmonization of capital accounting with IFRS requirements.

The conduct of the research study to investigate the current issues of capital accounting in business enterprises was carried out using methods that reveal the content of the subject. The analytical method was used to study the structure of capital accounting in enterprises of Azerbaijan, to identify the main components of capital, to identify problem areas in accounting and to study the legislative norms regulating capital accounting. Application of statistical method allowed collecting, systematizing, and studying the volumes of data on financial activity of enterprises, their capital, financial indicators, and changes in accordance with IFRS requirements. The functional method made it possible to study the role that capital fulfils in the economic activity of enterprises, to identify the impact of capital on various aspects of companies' activities and its role in ensuring their sustainability and development. The application of the system analysis method made it possible to examine capital accounting in enterprises as a complex system, considering the relationship between its components, processes, and external environment, to understand the impact of accounting harmonization on the broader context of enterprises' functioning. The method of deduction allowed the study of the basic principles and norms of IFRS to apply them to the specific context of enterprises in Azerbaijan. The method of synthesis helped to combine disparate data and results of studying different aspects of capital accounting to form a holistic understanding of the problem. The comparison method was used to compare capital accounting practices in Azerbaijani enterprises with IFRS global standards, to identify differences, advantages, and disadvantages, and to consider harmonization strategies to achieve comparability and improve capital accounting.

The study covered a versatile analysis not only of concepts, principles, and standards related to capital accounting under IFRS, but also included extensive research on general accounting principles and various interpretations of the concept of capital in economic theory. The assessment of compliance of IFRS requirements with the principles of capital accounting in the world practice involved analysing not only regulatory acts and standards, but also real financial statements of Azerbaijani commercial enterprises. This range of analyses allowed understanding specific problems in capital accounting, which can have a significant impact on the efficiency of commercial enterprises in Azerbaijan. The study of these problems in the context of IFRS requirements was aimed at taking appropriate decisions to eliminate them and improve capital accounting in these enterprises. As a result, these actions were aimed at assessing the feasibility of harmonizing capital accounting processes with IFRS requirements to achieve the development of commercial enterprises in Azerbaijan in the global economic environment.

Results

The peculiarities of capital accounting in Azerbaijan are related to the general structure of accounting applied in the course of business activities of enterprises. The structure of capital accounts of a particular company, including commercial accounting, is based primarily on the legal principles enshrined in the regulations in force in the country (Namazova, 2020). The first law defining accounting principles and rules was adopted in 1995 and this document did not mention IFRS. After its introduction, this document was seriously revised and implemented in 2004, and in 2018 it was significantly supplemented and amended. In the Republic of Azerbaijan, the main issues of formation, accounting, development, and management of capital of commercial enterprises are regulated by such normative acts as The Civil Code of the Republic of Azerbaijan (1999), The Tax Code of the Republic of Azerbaijan (2000) and Law of the Republic of Azerbaijan No. 716-IIQ "On Accounting" (2021).

The capital of commercial enterprises is formed on the basis of the type of enterprise defined pursuant to The Civil Code of the Azerbaijan Republic (1999). The most widespread forms of commercial enterprises in the Azerbaijan Republic are the following:

1. Limited Liability Company (LLC) – Articles 87-90.
2. Joint-stock company (JSC) – Articles 98-106.
3. Cooperatives – Articles 109-110.

The legislation reflects the main regulatory and legal issues of the charters of these commercial enterprises and establishes the procedure for the formation and existence of the authorized capital on this basis. According to The Civil Code of the Azerbaijan Republic (1999), a joint stock company has the right to increase the amount of its authorized capital. Two instruments may be used for this purpose: increase of the nominal value of a share; redemption of additional number of shares. In any case, the application of these instruments requires the adoption of a relevant decision at the general meeting of shareholders. Under Article 105, a joint-stock company may also take the opposite action, i.e. reduce the value of the authorized capital on the basis of a resolution of the general meeting of shareholders. In this case, the nominal value of the share is reduced or the total number of shares is reduced by buyback. Table 1 proposes to use the following accounting entries for the recognition of share capital.

Table 1. Accounting for authorized capital

Contents of business transactions	Correspondence	
	Debit	Credit
The amount of recognized authorized capital	302	301
The amount of the paid part of the authorized capital	221, 223	302

Source: compiled by the author

In this situation, the part of the authorized capital unpaid by the founders is reflected in the debit balance of account 302 "Unpaid part of nominal (authorized) capital". It should be noted that the process of payment and rules of late payment of the sums of the authorized capital are legally regulated by The Civil Code of the Azerbaijan Republic (1999). Paragraph 2 of Article 90 states that if the charter of a limited liability company does not provide for payment of the charter capital within a certain period of time, the founders are obliged to pay all amounts of the charter capital before the state registration of the business company. If the charter provides for deferred payment terms, a specific payment period must be specified, which must not exceed three months. Such rules do not apply to joint-stock companies, since Article 103 (3) states that the founders of a joint-stock company must pay the entire amount of the authorized capital before state registration. The main regulatory requirements regarding the formation of the authorized capital for commercial enterprises that have chosen the form of a limited liability company are discussed in the article, which clearly states that some important information on the formation of the authorized capital must be reflected in the charter of this type of commercial enterprise.

The charter of a limited liability company also specifies: the amount of the authorized capital of the company; the number of units invested by each participant; the composition and rules of investment of units; the liability of participants for non-fulfilment of obligations to invest units. As can be seen from the content of Article 89, the charter of a limited liability company should legislatively establish certain guiding requirements for the formation of the authorized capital of the relevant type of commercial enterprise. The relevant requirements for the authorized capital of a joint stock company are set out in Article 102(1): "The charter of a joint stock company shall also specify: the categories, nominal value and number of shares issued by the company; the amount of the company's authorized capital; the rights of shareholders" (The Civil Code of the Azerbaijan Republic, 1999). Article 90 defines the composition of the charter capital of a LLC as a set of individual shares of participants of a commercial organization of this type, the value of which shares are summed up and form the total charter capital. In accordance with Article 90, the amount of the authorized capital of LLC determines the minimum value of the company's property necessary to secure the claims of its creditors. The amount of the company's authorized capital cannot be lower than the value that ensures the property interests of creditors.

Equity capital under IFRS, as already mentioned, is the share of the company's assets that remains after deducting all liabilities. This share represents the interests of the owners of the enterprise. The economic activity of any commercial enterprise requires the use of capital resources, that is, various types of capital (Abdullah & Tursoy, 2021). The capital of an enterprise can be differentiated on various grounds. Depending on the form of ownership of funds, the capital is differentiated into: equity capital (can be formed from share capital, additional capital, reserve capital; this part of the capital includes all types of reserves, results of revaluation of funds, retained profits or losses); borrowed or attracted capital (obligations of the organization to creditors, which can be banks, funds, other creditors). Depending on the composition of funds in accounting activities, capital can be represented by: Active capital resources (investment areas – fixed and current assets); Passive capital resources (sources of funds of the enterprise). Capital is subdivided by the term of useful use into: long-term (up to 1 year); short-term (1 year and less) (Dafermos & Nikolaidi, 2021). The relationship between assets and equity and debt capital can be expressed through the formula (Fig. 1).

ASSETS = CAPITAL + PLEDGES

Figure 1. Structure of assets of a commercial enterprise
Source: developed by the author

The accounting system should be supplemented with an independent concept of "capital" as it is positioned in the financial statements, as it is not insignificant for users of financial statements. Such a definition would optimize the approach to capital accounting. Capital in the accounting system is an aggregate of funds invested by the owners of the company and received by it in the course of financial and economic activities. The amount of capital depends on the final financial results and owners' decisions on its distribution, and changes from year to year (Zhang, 2013). In the process of diagnosing the financial condition of the enterprise, the amount of capital, based on the structure presented in Figure 1, is the difference between assets and liabilities. Thus, the capital of a commercial enterprise structurally consists of the following components: the authorized fund, reserve capital, the amount of retained profit or loss and special purpose funds. The formation of each of them may be mandatory or voluntary. Mandatory formation is regulated on a legislative basis, which is determined by the legal status of a particular type of legal entity. Voluntary formation is determined by the intentions of the enterprise and is reflected in the constituent documents and accounting policy of the enterprise (Renaldo *et al.*, 2021).

Formation of the authorized capital (statutory fund, share capital, share fund) is mandatory for all types of commercial enterprises. When establishing a joint stock company, the charter is approved, which must contain information about the amount of the authorized capital. In a production cooperative society, the authorized capital is approved. There is no minimum or maximum size for the share fund (Akbaralievich & Akbarovich, 2023). Thus, the activity on formation of the charter capital is one of the main activities of a commercial organization. However, this raises the problem of the moment of accounting of operations on the formation of the authorized capital. On the one hand, any commercial enterprise is considered to be established from the moment of state registration (Nugraha *et al.*, 2019). However, before that, there is a sequence of events related to the launch of the business. Firstly, it is the meeting of participants and making a decision on the establishment of the enterprise, approving the authorized capital and determining the share of each participant. In addition, the partners can make cash contributions. All these stages of events occur before the registration of the company, so there is a situation when business activities are conducted in relation to the company, but it is not yet officially registered.

The question arises as to when the obligations of the participants should be accounted for as a contribution to the authorized capital. On the one hand, there is the date of the participants' decision to establish the company and approve the charter. On the other hand, there is the date of state registration, which confirms the fact of business creation. In practice, these two dates do not coincide. According to the rules of the chart of accounts, it is required to account for the formation of the authorized capital after state registration in accordance with the legislation. In such a situation, unpaid contributions of participants to the authorized capital should be reflected on the date of state registration. Reflection of an earlier date has no grounds, as at that time the commercial organization did not exist yet. It should be noted that in Azerbaijan, the greatest role in improving accounting activities towards harmonization with international standards belongs to the new chart of accounts, which is included in the IFRS-based accounting rules approved by the Board of the Ministry of Finance on 30 January 2017. This chart of accounts provides for several main synthetic accounts for capital accounting. The synthetic accounts designed to record capital transactions in business entities are listed in the third section of the chart of accounts, "Capital". This section consists of 5 subsections and 13 synthetic accounts.

Data on the current state and movement of the authorized capital are recorded on account 301 "Nominal (Authorized) Capital". The Instructions for the use of this account do not contain a rule on the share fund. It may be proposed to correct this shortcoming and include in the instruction a reference to the unit trust. In its essence, a mutual fund is like a pooled capital. Therefore, it is logical to reflect the status and movement of the mutual fund on account 301 "Nominal (authorized) capital", which is what happens in practice. To avoid theoretical disputes on this issue, a subaccount "Mutual Fund" may be opened within account 301 "Nominal (Authorized) Capital". Account 301 "Nominal (authorized) capital" is a passive account. Within the framework of accounting of the authorized capital on credit of account 301 are reflected the sums at the expense of which this type of capital resource is formed at creation of the commercial enterprise and further increase of the authorized capital in the process of economic activity. Accordingly, the reduction of the authorized capital is reflected on the credit of the account. The list of accounts with which can be correlated account 301 "Nominal (Authorized) Capital", is quite large and includes accounts for the accounting of tangible assets, cash, financial investments, settlements, intangible assets. Nevertheless, in practice, the main correspondent account for the credit of account 301 "Nominal (Authorized) Capital" is account 302 "Unpaid part of the nominal (authorized) capital".

Accounting of operations on formation of the authorized capital is basic for all commercial organizations, as it is the authorized capital that is, in fact, the basis for the beginning of entrepreneurial activity. After state registration, formation of the amount of the authorized capital and management bodies, a business entity may start its activities. The existing rules of application of the Chart of Accounts provide for the entry of the authorized capital to the amount of the founders' contributions and reflection of this operation on the credit of account 301 "Nominal (authorized) capital" and debit of account 302 "Unpaid part of the nominal (authorized) capital". After such recording, the subsequent movement of the founders' contributions will be reflected on the credit of account 302 "Unpaid part of the nominal (authorized) capital" and debit of the accounts where valuables and cash are accounted for. Such order of reflection of actions connected with initial formation of the authorized capital is uniform for all commercial organizations. It is also advisable to keep analytical accounting on account 301 "Nominal (authorized) capital", which will allow accumulating information on the formation of authorized capital in the context of founders, stages of capital accumulation, types of securities. As an example, the algorithms of accounting of the authorized capital are offered.

Example 1. The authorized capital of a joint stock company is declared in the amount of AZN 150 thousand. The company was registered on 21 August 2023. Initially, the shares were placed between 5 shareholders equally (each in the amount of AZN 30 thousand). Cash of AZN 15 thousand each was received from four shareholders on 31 August 2023 and one shareholder deposited cash in the cash desk on 26 August 2023. The following entries should be made in the accounting records of the joint stock company (Table 2).

Table 2. Accounting for contributions from shareholders

Date	Contents of a business transaction	Amount, manat	Account correspondence	
			Debit	Credit
21.08.2023	The amount of the authorized capital is recognized	150,000	302	301
26.08.2023	The shareholder contributed half the value of his shares to the company treasury	15,000	221	302
31.08.2023	Shareholders transferred half the value of their shares to the company's bank account	60,000	223	302

Source: compiled by the author

As a result, the following will happen: the shareholders have not yet paid for their shares in full, the 301 account "Nominal (authorized) capital" will reflect the authorized capital in full in accordance with the company's charter. A similar situation is allowed for all commercial companies. Payment of contributions by the founders can be made not only in cash, but also in other types of property. From the point of view of accounting, payment for a share of shares does not change the correspondence of accounts on account 301 "Nominal (authorized) capital". However, non-monetary contributions have a number of additional restrictions that must be taken into account. The founders of a commercial company agree on the valuation of the contributed property. In limited liability companies, for example, a participant may make a non-monetary contribution. As a rule, if the contribution is not in cash but in the form of property other than cash, it must be valued by an independent expert authorized to do so. At the same time, it is prohibited to value the property by the founders themselves more expensive than it was valued by an independent appraiser. In joint-stock companies, an independent valuation of the contributed property should be carried out, regardless of the amount of the contribution and the type of shares (Czembrowski *et al.*, 2016).

The fair valuation of non-monetary contributions is important for tax accounting, as it forms the basis for calculating property tax, as well as participates in the calculation of depreciation charges (if the property valued as a contribution to the charter capital belongs to the category of fixed assets). The method of accounting for non-monetary contribution to the charter capital will affect the formation of accounting statements and financial results of the organization, i.e. determine, among other things, the financial position of the commercial organization. If the share (shares) is paid for by inventories, their value is taken at the valuation agreed upon by the founders.

Example 2. The amount of the authorized capital of an LLC is declared in the amount of AZN 10 thousand. The company is registered on 21 August 2023. The amount of the share in the capital is distributed as follows: AZN 9 thousand to the first participant and AZN 1 thousand to the second participant. The first participant contributed his share in cash on 27 August 2023. The second participant contributed by surrendering his own computer. Entries should be made in the company's accounting records (Table 3).

Table 3. Accounting for contributions to the authorized capital of a limited liability company with property

Date	Contents of a business transaction	Amount, manat	Account correspondence	
			Debit	Credit
21.08.2023	Amount of recognized authorized capital	10,000	302	301
26.08.2023	Paid share in the authorized capital by the first participant	9,000	223	302
26.08.2023	The second participant brought in a computer	1,000	111	302

Source: compiled by the author

This completes the use of account 301 "Nominal (authorized) capital" for many commercial enterprises. This is because businesses are not inclined to change the initial amount of the authorized capital, which is usually set at a minimum level. However, commercial companies can change the amount of their authorized capital either upwards or downwards. This may be mandatory or voluntary. A mandatory increase of the share capital is related to changes in the statutory requirements for the amount of the share capital. The provisions of paragraphs 5, 6 and 7 of Article 90 of The Civil Code of the Azerbaijan Republic (1999) provide for the following options for voluntary increase of the authorized capital of an LLC: contribution to the property of the company; additional contributions from existing participants; use of contributions from new participants of a commercial company. For joint stock companies, the civil legislation of Azerbaijan in Article 104(1) provides the following legal options for increasing the authorized capital: increase in the nominal value (can be applied only by increasing assets); additional issue of shares.

The legislation regulates the term within which it is possible to contribute funds from the moment of making a decision to increase the value of the authorized capital. If the term established by law is not observed, the increase in the authorized capital will be considered as failed. The consequence of a failed increase is the company's obligation to return the participants' contributions within a reasonable period of time. Another source of authorized capital increases are funds from reserves and retained earnings. Generally, in the course of business operations of commercial companies, reserves are formed for various purposes. These reserves function as part of the companies' capital: revaluation reserves; exchange rate reserves; statutory reserves; obligatory reserves; other reserves. In the chart of accounts for accounting of separate types of capital reserves, the corresponding synthetic accounts are intended. If a decision is made to increase the company's authorized capital at the expense of available capital reserves, the relevant amounts should be recorded on the debit of accounts depending on the type of reserve (accounts 331 "Revaluation reserve" – 335 "Other reserves"). These amounts will correspond to the credit of account 301 "Nominal (authorized) capital". When increasing the authorized capital at the expense of accumulated retained earnings, an entry should be made to debit account 343 "Retained earnings (uncovered loss) of previous years" corresponding to the credit of account 301 "Nominal (authorized) capital".

When deciding to increase the authorized capital at the expense of additional authorized capital or issue of additional shares, such operations should be reflected in the accounting in the same way as in the formation of the initial capital: a corresponding entry: (D-t 302, K-t 301). In this case, the amounts reflected on the credit of account 302 "Unpaid part of the nominal (authorized) capital" correspond to the debit of accounts of cash accounting, and if the contribution was made at the expense of other resources – accounts of other assets (D-transaction 221, 223, 121, 201… K-transaction 302). The date of reflection of such an operation is the date of actual making of an additional contribution (placement of shares). In some cases, the value of the additional contribution may be higher than its nominal value. To record the difference in value, the excess is written off to debit account 302 "Unpaid part of nominal (authorized) capital" and credited to account 311 "Share premium".

The excess of the sale price over the nominal value of the share shall be recognized in the same way. The date of reflection of capital increase is the date of state registration of changes in the constituent documents.

Example 3. At the meeting of shareholders, it was decided to issue an additional number of shares, which will be further distributed among shareholders, to increase the authorized capital by AZN 270 thousand. The cost of selling the shares is AZN 210 thousand. Amendments to the charter were registered on 2 August 2023. Payment for the shares was credited to the company's account on 19 August 2023. These transactions should be recognized as follows (Table 4).

Table 4. Accounting for differences in share prices

Date	Contents of a business transaction	Amount, manat	Account correspondence	
			Debit	Credit
02.08.2022	The debt of shareholders for additionally issued shares is reflected	210,000	302	301
19.08.2022	Shares paid by shareholders	270,000	223 (221)	302
19.08.2022	The difference between the sale price and the nominal value is charged to additional capital account	60,000	302	311

Source: compiled by the author

Thus, on the example of capital accounting in commercial companies it is worth concluding that the development of accounting in Azerbaijan in the post-Soviet period took place in the direction of IFRS, in accordance with the requirements of which the relevant national standards of the country were adopted. At the same time, in accordance with the requirements of the market economy, the necessary legislative and regulatory framework was formed, on the basis of which the main directions of capital accounting in commercial enterprises were outlined.

Discussion

The study of capital accounting in Azerbaijan emphasizes the importance of complying with legal rules and regulations in the formation, accounting, and management of capital in enterprises. The results show that the key features of capital accounting in the country are closely related to compliance with the legal and regulatory principles defined by the current legislation. This is a critical factor in ensuring the financial stability of enterprises and their attractiveness to investors. One of the identified aspects is the importance of strict compliance with regulatory and legal requirements in the formation and accounting of authorized capital. This helps to ensure financial transparency and legality of enterprises' activities. For example, the problem of the unpaid part of the authorized capital highlights the importance of accurately accounting for this aspect and related legal aspects.

The findings of the study provide valuable recommendations and practical solutions to overcome the challenges of capital accounting in line with global standards. This underscores the importance of striving to harmonize accounting practices with international standards to ensure the sustainability of enterprises and attract investment. It is important to note that changes and amendments to capital accounting legislation, especially in 2018, indicate a constant evolution of rules and regulations. This implies the need to continuously monitor and keep accounting practices in line with the latest legislative changes to ensure conformity and compliance. The results emphasize the importance of attention to detail and the relevance of capital accounting knowledge for enterprises in Azerbaijan. In addition, this study can also serve as a starting point for further research and development on financial accounting and regulatory aspects affecting the capital of enterprises.

Attention was drawn to the need for strict compliance with regulatory and legal principles in capital accounting in the study by P.R. Agénor *et al.* (2013), as it is a key factor for ensuring the financial stability of enterprises. Compliance with legal and regulatory principles ensures transparency and reliability of financial statements of enterprises. The authors found that accurate and timely compliance with these regulations helps to reduce the risks associated with possible violations and increases the confidence of investors and other market participants in the financial condition of companies. The study also found that the correct implementation of regulatory requirements in capital formation and accounting has a direct impact on the financial performance of companies, ensuring their stability and resilience in a variable economic environment. The results of the author's study, like those of the researchers, highlight the importance of compliance with regulatory and legal principles in capital accounting to ensure the financial stability of enterprises. This emphasizes the similarity of the findings, where this aspect is highlighted as critical for the successful functioning of companies.

I. Fuertes (2008) conducted in his work an analysis that focuses on the importance of harmonization of capital accounting practices with global standards in the context of modern economy. The idea that the alignment of internal capital accounting processes of enterprises with global financial reporting standards (IFRS, for example) is of key importance for attracting investors and ensuring their financial stability was emphasized. According to the author's findings, harmonization of accounting practices with global standards is important because it enables enterprises to ensure the comparability and adequacy of their financial reporting in the global arena. It is worth noting that enterprises that comply with global standards can attract investment and resources more easily as their financial statements become more understandable and credible to a global audience. Harmonization of accounting practices with global standards allows companies to manage risks more effectively and assess their financial performance more accurately, which contributes to their stability and long-term growth.

In their study, K.J. Wiryadi & B. Novendra (2021) analysed the role played by legislation and regulations in the formation of the charter capital for different legal forms of enterprises. Particular attention was paid to the peculiarities of formation of authorized capital for LLC, JSC and other types of enterprises. The peculiarities of the process of formation and accounting of the authorized capital according to different types of enterprises were revealed. The authors considered in detail what specific requirements and regulations govern the formation of capital for each organizational and legal form, and how these regulations differ in each case. Included were mandatory minimum values, procedures for increasing or decreasing the authorized capital, and the specifics of contributions and their valuation. As in the study by the researchers, the author's results focus on the role of legislation and regulations in the formation of authorized capital for different types of enterprises and emphasize the importance of compliance of legislation and established norms in capital formation for ensuring financial stability of organizations.

In the study by E. Saez & G. Zucman (2020), the authors considered in detail the problems related to the accounting of the unpaid part of the authorized capital. They highlighted the main legal aspects related to this issue, paying special attention to the need for accurate accounting of this aspect. The importance of accurate accounting of the unpaid part of the authorized capital is justified not only to comply with legal requirements, but also to ensure the financial transparency and stability of enterprises. This aspect can have a significant impact on the financial condition and operations of companies, as the unpaid part of the capital affects their solvency and creditworthiness. Problems with the unpaid part of the authorized capital require careful analysis and control on the part of the company. It is worth noting that this should include the establishment of a clear policy on payment of capital, observance of payment deadlines, and accurate reflection of all financial transactions in the company's accounts.

M.E. Barth *et al.* (2023) analysed in their paper the changes in capital accounting over time. They noted that the rules and regulations governing capital accounting undergo constant evolutionary changes over time due to various factors including legislative developments, international standards, and changes in the economic environment. This analysis emphasized the need to continuously update and adapt capital accounting practices to meet new requirements and standards. In particular, capital accounting is sensitive to changes in legislation and international financial reporting standards and therefore requires constant monitoring and adaptation. Ongoing changes in the regulatory environment relating to capital accounting may affect an entity's financial statements as well as its market position and investor relations. Lack of compliance with new requirements and standards can lead to loss of competitiveness of the enterprise and create risks for its operations.

During their study, H.N. Dang *et al.* (2019) analysed the impact of capital accounting on the structure of assets and liabilities of enterprises, which allowed them to determine not only the financial stability, but also the attractiveness of these enterprises for investors. Based on their analysis, the authors found that the way in which enterprises maintain capital accounting has a significant impact on the structure of their assets and liabilities. Capital accounting is one of the key determinants of the financial position of enterprises and their overall financial stability.

The results of the author's analysis emphasize that capital accounting is important in determining the financial strength and attractiveness of enterprises to investors. Well-organized and accurate capital accounting helps to create more stable and attractive financial positions of enterprises for investors. In general, strict adherence to regulatory and legal principles, harmonization of accounting practices with global standards, and the role of legislation in the formation of share capital are critical factors for the financial stability and attractiveness of enterprises to investors. There is also a need for systematic and accurate capital accounting to ensure financial stability, improve the transparency of enterprises and increase their attractiveness in the financial market.

Conclusions

This study has analysed and examined in detail the main aspects of capital accounting in the context of commercial enterprises in Azerbaijan. A number of key aspects related to the formation, accounting, and modification of authorized capital, as well as legislation and regulations governing this area in the country were identified. An important result of the study was a detailed description of the structure of capital accounts and the main stages of formation of authorized capital for different types of commercial enterprises – LLCs, JSCs and cooperatives, taking into account the requirements of The Civil Code of the Azerbaijan Republic and other regulations. Methods of accounting of the authorized capital were proposed, with examples of accounting entries for different scenarios of increase or decrease of the authorized capital.

The study also covered the issues of payment of the authorized capital, peculiarities of making contributions by the participants and their legal liability, clarified the procedures of registration of changes in the authorized capital and the impact of tax accounting of non-monetary contributions to the authorized capital. It also considered the main principles of IFRS implementation in the Azerbaijani accounting system and analysed the role of the new IFRS-based accounting system in capital accounting. The study emphasized the importance of compliance of capital accounting practices with international standards for the attractiveness of enterprises to investors and ensuring financial stability in the market. Overall, the results of the study emphasize not only the relevance of the capital accounting problem in Azerbaijan, but also the need for more flexible, transparent legal regulations and accounting practices to ensure the efficient functioning of commercial enterprises in the country.

Further research in this area could focus on analysing capital accounting in different countries to identify best practices and compare them with Azerbaijani norms and standards. As well as to conduct a comparative analysis of capital accounting in different organizational and legal forms of enterprises (LLCs, JSCs, cooperatives) to identify the peculiarities of their capital and accounting practices.

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Conflict of Interest

None.

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Гармонізація обліку капіталу в азербайджанських комерційних підприємствах відповідно до вимог МСФЗ

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Анотація. Тема дослідження, пов'язана з обліком капіталу на комерційних підприємствах, є актуальною, оскільки гармонізація цього процесу відповідно до вимог Міжнародних стандартів фінансової звітності (МСФЗ) стає невід'ємною складовою для залучення інвестицій, підвищення прозорості фінансової звітності та підтримання конкурентоспроможності на світовому ринку. Метою дослідження є розробка та впровадження методики обліку капіталу в облікову діяльність комерційних підприємств Азербайджанської Республіки. Серед використаних методів – аналітичний метод, статистичний метод, функціональний метод, метод системного аналізу, метод дедукції, метод синтезу та метод порівняння. Метою дослідження був поглиблений аналіз сутності обліку капіталу в азербайджанських комерційних підприємствах в контексті сучасних умов ринкової економіки. Основна увага була приділена вивченню законодавчої та нормативної бази, особливостей статутного капіталу товариств з обмеженою та акціонерною відповідальністю. В рамках дослідження були визначені ключові елементи розвитку фінансового обліку капіталів відповідно до вимог МСФЗ. Крім того, наведено конкретні приклади синтетичного обліку господарських операцій з формування капіталу на комерційних підприємствах, а також викладено правила їх відображення у фінансовій звітності. Особливу увагу приділено основам нових правил бухгалтерського обліку, розроблених відповідно до вимог МСФЗ. В результаті дослідження запропоновано рішення, спрямовані на усунення проблем, пов'язаних з обліком капіталу відповідно до вимог МСФЗ в діяльності азербайджанських комерційних підприємств. Ці рішення спрямовані на гармонізацію облікової практики з міжнародними стандартами, поліпшення прозорості фінансової звітності та підвищення привабливості для потенційних інвесторів. Результати можуть бути використані азербайджанськими комерційними підприємствами, сприяючи підвищенню фінансової прозорості, привабливості для інвесторів та гармонізації облікових практик зі світовими стандартами

Ключові слова: фінансова звітність; нормативно-правова база; бухгалтерська кореспонденція; прозорість; цивільний кодекс