

# REPUBLIC OF AZERBAIJAN ACCOUNTING LAW

## I. GENERAL PROVISIONS

### Article 1. Purpose of the law

1.1. This law regulates the organization and treatment of accounting, including rules on preparation and submission of financial statements, by legal entities that carry out their activity on the territory of Azerbaijan, regardless of their legal and ownership forms, and natural person who deals with entrepreneurial activity in Azerbaijan Republic without creation of legal entity (hereinafter “subjects of accounting”).

1.2. All normative-legal acts and recommendations related to accounting, developed by bodies of executive authority and off-budget state funds within their competence, may be applied on the territory of Azerbaijan Republic only after their adoption with consent of the relevant executive authority, with the exception of the cases stipulated in the law.

### Article 2. Definitions

The terms used in this law have the following meanings:

2.1. “Rules of Bookkeeping”—are rules, which define the format of source documents and accounting registers for those entities required under this law to prepare their financial statements in conformity with National Accounting Standards.

2.2. “group”—A parent and all its subsidiaries.

2.3. “International Financial Reporting Standards” — are the accounting standards, financial reporting standards and the interpretations of the Standing Interpretations Committee issued, adopted or approved by the International Accounting Standards Board, and each applicable Interpretation of the International Financial Reporting Interpretations Committee.

2.4. “International Public Sector Accounting Standards” — are the accounting standards issued, adopted or approved by the Public Sector Committee of the International Federation of Accountants.

2.5. “National Accounting Standards”—are the accounting standards approved by the relevant executive authority.

2.6. “Explanations and Recommendations on the Application of the National Accounting Standards”- are methodological instructions elaborated and approved by the relevant executive authority for the interpretation of provisions of the National Accounting Standards.

2.7. “Simplified Accounting Rules for Subjects of Small Entrepreneurship”- are special rules on the treatment of accounting for subjects of small entrepreneurship as defined by the relevant executive authority.

2.8. “consolidated financial statements”—are the financial statements of a parent and its subsidiaries presented as those of a single entity.

2.9. “public interest entity” — are credit organisations, insurance companies, investment funds, non-state (private) social funds, legal entities with securities listed on the stock exchange, and commercial organisations that on the date to which the financial statements are prepared, exceed two of the thresholds (for annual revenue, average number of employees during the financial year and total balance sheet) in an amount determined by the relevant executive authority.

2.10. All other definitions used in this law express the meaning defined in the Civil Code of Azerbaijan Republic and other acts of current legislation.

### **Article 3. Obligation of Accounting**

Accounting in compliance with the appropriate accounting standards or simplified accounting rules determined in this law is obligatory for all subjects of accounting.

## **II. REGULATION OF ACCOUNTING**

### **Article 4. The State Regulation of Accounting**

4.1. The main purpose of the state regulation of accounting in the Azerbaijan Republic is to provide for the transparency of the financial statements and development of the accounting in the country on the basis of international standards by developing and implementing the International Financial Reporting Standards and the National Accounting Standards based on them for commercial organizations and and the National Accounting Standards based on International Public Sector Accounting Standards for non-commercial organizations.

4.2. State regulation of accounting activity is implemented by the relevant executive authority.

4.3. The relevant executive authority exercising the state regulation of accounting:

4.3.1. organises the translation of International Financial Reporting Standards and International Public Sector Accounting Standards into the Azeri language and obtaining certification from the International Accounting Standards Board and the International Federation of Accountants respectively, or other related bodies, of the translation as the official text for International Financial Reporting Standards and International Public Sector Accounting Standards in Azeri;

- 4.3.2 develops and approves the National Accounting Standards, Explanations and Recommendations on the Application of the National Accounting Standards, and Rules of Book-keeping;
- 4.3.3. gives its approval for application of normative-legal acts and recommendations in the accounting sphere developed by and within the competence of the relevant bodies of executive authority and off-budget state funds;
- 4.3.4. cooperates with the International Accounting Standards Board and the Public Sector Committee of the International Federation of Accountants in order to monitor the changes in International Financial Reporting Standards and International Public Sector Accounting Standards and reflect these changes in National Accounting Standards in a timely manner;
- 4.3.5. develops and approves Simplified Accounting Rules for Subjects of Small Entrepreneurship;
- 4.3.6. cooperates with professional accounting organizations in order to improve the national accounting system.
- 4.4. Accounting rules and financial statement's format, content and periodicity for credit organisations are determined by the National Bank of Azerbaijan Republic with the consent of the relevant executive authority exercising the state regulation of accounting.

#### **Article 5. Advisory Council for Accounting**

- 5.1 The Advisory Council for Accounting is established in order to advise the relevant executive authority exercising the state regulation of accounting on matters related to accounting and financial reporting.
- 5.2. The relevant executive authority exercising the state regulation of accounting is required to consult with the Advisory Council for Accounting in advance of its decisions on introduction of International Financial Reporting Standards and International Public Sector Accounting Standards, development of National Accounting Standards and any major issues related to the development of the accounting in the Azerbaijan Republic.
- 5.3. In order to provide for the participation in the process of the National Accounting Standard development of the individuals and organizations with an interest in the introduction of International Financial Reporting Standards and International Public Sector Accounting Standards, the Advisory Council for Accounting shall consist of representatives of the bodies of state authorities, commercial and non-commercial organizations, accounting profession and faculty.
- 5.4. All members of the Advisory Council for Accounting shall be appointed from among specialists who have essential knowledge of International Financial Reporting Standards and International Public Sector Accounting Standards.
- 5.5. Officers of the relevant executive authority exercising the state regulation of accounting shall not be a member or Chairperson of the Advisory Council for Accounting.
- 5.6. The Charter, Chairperson and members of the Advisory Council for Accounting will be approved by the relevant executive authority.

5.7. Funding for the Advisory Council for Accounting shall be made in the form of assignments from the budget of the relevant executive authority exercising the state regulation of accounting and from other sources not prohibited by the legislation.

### **III. ACCOUNTING STANDARDS**

#### **Article 6. Accounting Standards, applied in the Azerbaijan Republic.**

The Accounting Standards, applied according to this law, shall consist of:

6.1. “International Financial Reporting Standards” are hereby adopted in their entirety for use by the subjects of accounting mentioned in article 8.1. of this law; Modifications to these standards can only be made by the International Accounting Standards Board and such modifications shall be effective when they are officially adopted by the International Accounting Standards Board.

6.2. “National Accounting Standards for Commercial Organisations” adopted by the relevant executive authority for use by the subjects of accounting specified in article 10.1. of this law. These standards prepared on the basis of International Financial Reporting Standards shall cover all subjects regulated by the International Financial Reporting Standards. If it is necessary not to incorporate into the “National Accounting Standards for Commercial Organisations” any of the International Financial Reporting Standards as whole or any provision of it or to modify them before incorporation the relevant executive authority shall disclose the reason on which the International Financial Reporting Standard has not been used in its original formulation and any other existing differences between the National Accounting Standards for Commercial organisations and the International Financial Reporting Standards in an appendix to the relevant National Accounting Standard.

6.3. “National Accounting Standards for Budget Organisations” adopted by the relevant executive authority for use by the subjects of accounting mentioned in article 13.1. of this law; These standards prepared on the basis of International Public Sector Accounting Standards shall cover all subjects regulated by the International Public Sector Accounting Standards. If it is necessary not to incorporate into the “National Accounting Standards for Budget Organisations” any of the International Public Sector Accounting Standards as whole or any provision of it or to modify them before incorporation the relevant executive authority shall disclose the reason on which the International Public Sector Accounting Standard has not been used in its original formulation and any other existing differences between the National Accounting Standards for Budget Organisations and the International Public Sector Accounting Standards in an appendix to the relevant National Accounting Standard.

6.4. “National Accounting Standards for Non-Government Organisations” adopted by the relevant executive authority for use by the subjects of accounting mentioned in article 13.2. of this law.

## **Article 7. National Accounting Standards development and adoption.**

7.1. The relevant executive authority exercising the state regulation of accounting, with the advice of the Advisory Council for Accounting shall organize the publication of the exposure draft of any proposed new National Accounting Standard or Amendment to the existing National Accounting Standard, and the collection within a period of 60 days comments to this draft of all interested parties.

7.2. The relevant executive authority exercising the state regulation of accounting shall, in result of review of the comments referred to in Article 7.1, makes the decision on the adoption of the proposed exposure draft. The relevant executive authority exercising the state regulation of accounting when approving the proposed new National Accounting Standard or Amendment to the existing National Accounting Standard as published in the form of an exposure draft, shall determine the date from which this Standard or Amendment comes into operation.

7.3. When the relevant executive authority, exercising the state regulation of accounting decides to amend the proposed exposure draft, it shall develop and approve the updated draft of the new National Accounting Standard or Amendment to the existing National Accounting Standard and determine the date from which this Standard or Amendment comes into operation.

7.4. In determining whether a proposed exposure draft should be approved with or without amendment, the relevant executive authority exercising the state regulation of accounting must take into consideration the compatibility of this exposure draft with the International Financial Reporting Standards or with the International Public Sector Accounting Standards and the comments of the Advisory Council for Accounting. If there is a difference between the National Accounting Standard or Amendment to the existing National Accounting Standard adopted and the International Financial Reporting Standards, International Public Sector Accounting Standards or comment of the Advisory Council for Accounting, the relevant executive authority exercising the state regulation of accounting shall state the difference and explain the reasons for the difference in the appendix to the Decision on adoption of the proposed National Accounting Standard or Amendment to the National Accounting Standard.

7.5. The regulations on National Accounting Standards development and adoption are approved by the relevant executive authority exercising the state regulation of accounting.

## **IV. FINANCIAL STATEMENTS OF COMMERCIAL ORGANISATIONS.**

### **Article 8. Preparation of the Financial Statements of the Public Interest Entities**

8.1. Public interest entities shall prepare their financial statements required under this law solely in conformity with International Financial Reporting Standards.

8.2. Any public interest entity, which has one or more subsidiaries, must prepare consolidated financial statements in conformity with International Financial Reporting Standards, in addition to its own financial statements as a legal entity.

8.3. A public interest entity need not prepare consolidated financial statements if all four below mentioned conditions are realised:

- (1) it is a subsidiary and all owners, including those not otherwise entitled to vote, unanimously agree that entity need not present consolidated financial statements;
- (2) its securities are not publicly traded;
- (3) it is not in the process of issuing securities in public securities markets; and
- (4) the immediate or ultimate parent publishes consolidated financial statements that comply with International Financial Reporting Standards in accordance with requirements of the article 12 of this Law.

### **Article 9. Preparation of the Financial Statements of Subjects of Small Entrepreneurship**

9.1. Subjects of small entrepreneurship:

9.1.1. must prepare their financial statements in compliance with the “Simplified Accounting Rules for Subjects of Small Entrepreneurship” or

9.1.2. at their election, may apply the “National Accounting Standards for Commercial Organisations” for preparation of their financial statements.

### **Article 10. Preparation of the Financial Statements of the Commercial Organisations other than Public Interest Entities and Subjects of Small Entrepreneurship**

10.1. Commercial organisations other than public interest entities and subjects of small entrepreneurship:

10.1.1 must prepare their financial statements in accordance with the “National Accounting Standards for Commercial Organisations” ; or

10.1.2. at their election, may prepare their financial statements in conformity with International Financial Reporting Standards.

10.2. Any commercial organisation other than a public interest entities and subjects of small entrepreneurship, which has one or more subsidiaries, shall prepare consolidated financial statements in conformity with International Financial Reporting Standards, if on the date to which the financial statements are prepared, the group exceed two of the thresholds (for consolidated annual revenue, average number of group employees during the financial year and total consolidated balance sheet) in an amount determined by the relevant executive authority.

10.3. Any commercial organisation other than a public interest entities and subjects of small entrepreneurship, which has one or more subsidiaries, shall prepare consolidated financial statements in conformity with National Accounting Standards for Commercial Organizations, if organization is not required to present consolidated financial statements in conformity with International Financial Reporting Standards, as required in Article 10.2. of this law.

10.4. Commercial organisations other than a public interest entities and subjects of small entrepreneurship, which has one or more subsidiaries, need not prepare consolidated financial statements if all of four below mentioned conditions are realised:

- (1) it is a subsidiary and all owners, including those not otherwise entitled to vote, unanimously agree that organisation need not present consolidated financial statements;
- (2) its securities are not publicly traded;
- (3) it is not in the process of issuing securities in public securities markets; and
- (4) the immediate or ultimate parent publishes consolidated financial statements that comply with International Financial Reporting Standards or National Accounting Standards for Commercial Organisations in accordance with requirements of the article 12 of this law.

## **Article 11. Reporting Period for Financial Statements of Commercial Organisations**

11.1. The following reporting periods are stipulated for annual financial statements:

11.1.1. For subjects of accounting, which were established before October 1, first reporting period is considered from the date of their state registration according to the legislation, to December 31.

11.1.2. For subjects of accounting, which were established after October 1, first reporting period is considered from the date of their state registration according to the legislation, to December 31 of the next year.

11.1.3. For the other subjects of accounting the reporting period is considered from January 1 to December 31.

## **Article 12. Rules for the Submission and Publication of Financial Statements of Commercial Organisations**

12.1. Commercial organizations shall submit their annual financial statements and consolidated financial statements to the state organs in the cases, terms and order as defined by legislation and to other individuals and entities in the cases, terms and order determined by the organization's Charter.

12.2. The subjects of natural monopolies and commercial organizations that attract credits with the state (government) guarantee or participate in the projects related with allocation of state borrowings and also commercial organizations that receive from budget subsidies, subventions, grants or budget means related to the implementation of appointed activities shall submit their annual financial statements and annual consolidated financial statements, to relevant executive authority on request. The relevant executive authority, shall submit these financial statements and consolidated financial statements, with an auditor's opinion when required by law, to all interested parties.

12.3. Public interest entities and other commercial organisations, which prepare consolidated financial statements, are also required to:

12.3.1. post in the terms of free access their annual financial statements and consolidated financial statements, with an auditor's opinion when required by law, on their website, if they have one; or

12.3.2. publish their annual financial statements and consolidated financial statements, with an auditor's opinion when required by law, in the press; and

12.3.3. make a copy of their annual financial statements and annual consolidated financial statements, with an auditor's opinion when required by law, available to any person on request, without charge.

12.4. The governing body determined by the Charter of the subject of accounting is responsible for the preparation, presentation and publication of the financial statements and the consolidated financial statements of subject of accounting.

## **V. FINANCIAL STATEMENTS OF NON-COMMERCIAL ORGANISATIONS.**

### **Article 13. Preparation of the Financial Statements of non-commercial organisations**

13.1. Municipal organs, budget organisations and off-budget state funds shall prepare their financial statements required under this law in accordance with the National Accounting Standards for Budget organisations.

13.2. Non-government organisations shall prepare their financial statements required under this law in conformity with National Accounting Standards for Non-government organisations.

### **Article 14. Reporting Period and the Rules of the Submission and Publication of Financial Statements of Non-commercial Organisations**

14.1. The rules concerning the submission, reporting periods and the publication of financial statements by budget organisations and off-budget state funds are determined by the relevant executive authority exercising the state regulation of accounting.

14.2. The rules concerning the submission, reporting periods and the publication of financial statements by municipal organs are determined by the municipalities.

14.3. Financial statements submitted by budget organisations and off-budget state funds in accordance with this law will not replace but supplement the financial reporting required under the Law of the Republic of Azerbaijan on Budget System, laws of the Republic of Azerbaijan on annual State Budget and other relevant regulations, related to budget system.

14.4. The reporting periods for non-government organisations are stipulated in accordance with article 11 of this law.

14.5. Non-government organisations shall publish their annual financial statements in accordance with the requirements of article 12 of this law.



## **VI. CLOSING CLAUSES.**

### **Article 15. Protection of confidentiality of accounting data**

15.1. The contents of source documents, accounting registers and other documents are a commercial secret.

15.2. Courts, prosecutor's office, tax authorities and in the cases determined by legislation other plenipotentiary authorities shall have access to all accounting documents pursuant to procedures authorized by law.

15.3. The duly appointed auditor of a subject of accounting has the legal right of access to all accounting documentation as defined by legislation.

### **Article 16. Responsibility for infringement of the legislation on accounting**

The guilty persons shall bear responsibility, in accordance with the legislation, for the infringement of the legislation related to the preparation and submission of the subject's of accounting financial statements and consolidated financial statements and the maintenance of its books and records.

### **Article 17. Implementation dates**

17.1 Subjects of accounting shall implement requirements mentioned in articles 8, 9, 10 and 13 of this Law for all reporting periods beginning not later from the dates determined below:

- (a) all subjects of accounting stipulated in articles 8 and 10 – from January 1, 2008,
- (b) all subjects of accounting stipulated in article 9 – from January 1, 2006,
- (c) all subjects of accounting stipulated in article 13– from January 1, 2009.

### **Article 18. Transitional provisions**

18.1. Until the effective date of the National Accounting Standards and Rules of Bookkeeping, stated in this law, the existing legal acts related to accounting shall remain in force.

18.2. In the case of contradictions between effective normative-legal acts and National Accounting Standards and Rules of Bookkeeping, the National Accounting Standards or Rules of Bookkeeping should be applied.

18.3. The terms of phased introduction of National Accounting Standards, that will be developed until the full set of National Accounting Standards come into effect are determined by the relevant executive authority.

18.4. During one year after adoption of this law the relevant executive authority shall determine the list of public interest entities which required to conduct accounting for their activity and to prepare their financial statements under the International Financial Reporting Standards before January 1, 2008 and makes changes and additions to it, if necessary.

### **Article 19. Validation of the Law**

This Law comes into effect from the date of its publication.