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THE NON-LINEAR RELATIONSHIP BETWEEN INFLATION AND ECONOMIC GROWTH

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1. Introduction

Economic growth refers to an increase in a country's real Gross Domestic Product (GDP) over time. According to the World Bank (2023), the global average economic growth rate was 2.6% in 2022.

Inflation, on the other hand, is defined as a sustained increase in the general price level of goods and services in an economy over a period of time. The International Monetary Fund (2023) reports that the average inflation rate for advanced economies was 1.7% in 2022.

The relationship between inflation and economic growth is complex and multifaceted. According to a study by the Organisation for Economic Co-operation and Development (OECD, 2023), there is a positive relationship between low and stable inflation and strong economic growth, while high inflation can lead to lower economic growth.

Threshold effects in the relationship between inflation and economic growth refer to the idea that there is a certain level of inflation beyond which further increases in inflation have a negative effect on economic growth.

1.1. Motivation

The study of the relationship between economic growth and inflation is important for policymakers, as it can provide valuable insights into how to promote sustainable economic development. Understanding the threshold effects in this relationship is crucial for policymakers as it can help them determine the optimal level of inflation that will not only control price stability but also support economic growth.

Moreover, the relationship between inflation and economic growth has important implications for the well-being of citizens, as economic growth leads to increased job opportunities and higher living standards, while high inflation can erode purchasing power and reduce economic stability.

Therefore, by studying the relationship between inflation and economic growth, as well as the threshold effects in this relationship, policymakers can make informed decisions to achieve their economic goals and improve the standard of living for their citizens.

It is considered a highly debatable issue. Despite the fact that many studies have been carried out on the current topic there is a space for econometric investigation of the non-linear relationship between inflation and economic growth of all 217 countries (selected by World Bank as of 2023).

1.2. Objectives

The objective of this paper is to empirically investigate the non-linear relationship between inflation and economic growth of all 217 countries by Quadratic Regression model using panel data and to find out the threshold level of inflation.

1.3. Literature review

Several researchers examined on this issue. Asaduzzaman (2021) determined non-linear relationship between inflation and economic growth in Bangladesh by OLS method using time series annual data

covering the sample period from 1980 to 2017 and found that threshold level of inflation was 7.84% at which the economic growth of Bangladesh was in peak position.

Furthermore, Tarawalie and Kamara (2022) studied the relationship between inflation and economic growth, and determined the threshold level of inflation in Sierra Leone, using a non-linear model with time-series data from 1980 to 2020. They found that there was the presence of a nonlinear relationship in the inflation-growth nexus and the threshold level of inflation favorable for economic growth was 10.3%.

Moreover, Azam and Khan (2022) empirically investigated the threshold effect of inflation on economic growth for 27 countries (16 developing and 11 developed economies) over 1975–2018.

They showed a significant negative association between inflation and growth above the threshold level of inflation which was 12.3% in developing economies; was 5.4% in developed economies. In addition, the effects of government effectiveness, credit to private sector, school enrolment and FDI on economic growth have been studied by many researchers.

Anyanwu (2014) determined the positive significant effects of government effectiveness and school enrolment on economic growth using cross-sectional data from 53 African countries between 1996 and 2010.

Additionally, Nistor (2014) found the positive significant effect of FDI on economic growth in Romania using time series annual data for the period from 1980 to 2017.

2. Methodology

To examine the non-linear relationship between inflation and economic growth of all 217 countries using panel data over the period 1997–2021, and to estimate threshold level of inflation I will use the following quadratic model:

$$y_{it} = \beta_0 + \beta_1 inf_{it} + \beta_2 sq_inf_{it} + other\ control\ variables + \varepsilon$$

where, y_{it} – gross domestic product growth (GDP), inf_{it} – inflation representing the annual percentage change of the Consumer Price Index (CPI), sq_inf_{it} – the square of inflation, $i = 1, 2, 3, \dots, 217$ countries, $t = 1997, 1998, \dots, 2021$ years and ε – error term.

As control variables I will use the following variables: government effectiveness, credit to private sector, school enrolment and FDI.

- “fdi” - Foreign Direct Investment (FDI). It refers to the investment made by a foreign entity into a domestic company or establishment, either through the acquisition of a stake in the company or through the establishment of a new business in the domestic market. It is considered a control variable for economic growth because it can bring capital, technology, and job creation to a country. As stated by World Bank (2023), FDI can play a significant role in promoting economic growth and development. It can provide access to capital, technology, and new markets, which can improve the competitiveness of domestic businesses and promote job creation. Besides, Nistor (2014) showed that it had the positive significant effect of FDI on economic growth.

- “hc” - School enrolment. It is considered a control variable for economic growth because it has a direct impact on the human capital development of a country. As reported by the World Bank (2023), the quality and quantity of education are key determinants of economic growth. Higher levels of school enrolment can lead to increased human capital development, which can result in improved productivity and innovation. In addition, Anyanwu (2014) found that it had a positive significant impact on economic growth.

- “credit” - Credit to private sector. It refers to the flow of financing from banks and financial institutions to businesses and households in the form of loans, mortgages, and other forms of credit. It is considered a control variable for economic growth because it can have a significant impact on the level of investment and consumption in an economy. As indicated by (2023), access to credit is a crucial factor in promoting economic growth. It allows businesses to invest in new projects and expand their operations, which drives job creation and increases productivity. It also enables households to finance their consumption and investment in education and housing, which boosts overall economic activity.

- “gov_eff” - Government effectiveness. It refers to the ability of a government to formulate and implement policies and regulations that promote economic growth and development. It is considered as a control variable for economic growth because it has a significant impact on the ability of a country to achieve sustainable and inclusive economic growth. According to the World Bank (2023), government effectiveness is a crucial factor in determining the level of economic growth in a country. An effective government can create a favorable business environment by reducing corruption, ensuring property rights, and promoting competition. This can lead to increased investment, innovation, and job creation, which drives economic growth. Based on the finding of Anyanwu (2014) it had a positive significant impact on economic growth.

Hence, the model I will use as follows:

$$y_{it} = \beta_0 + \beta_1 inf_{it} + \beta_2 sqr_inf_{it} + \beta_3 fdi_{it} + \beta_4 hc_{it} + \beta_5 credit_{it} + \beta_6 gov_eff_{it} + \varepsilon$$

3. Results

3.1. Estimation tests

In general, the following section highlights some prior insight of those included variables in the models and the results of specific empirical techniques to address the appropriate models as stated in the previous section.

Moving on to the detection of heteroskedasticity, the absence of the following condition $V_j(\varepsilon) = \text{for all } j \text{ in the panel data}$, Breusch-Pagan / Cook-Weisberg can be applied. According to the results of test (see table 2 Appendix), there is sufficient evidence to confirm the presence of heteroskedasticity as seen significant p-value of the test. It affirms the null hypothesis refers to constant variances across the panel, which is not desirable for all econometric analyses. It may lead to deriving biased standard errors of the coefficients.

Another specific test to be considered is Wooldridge test for autocorrelation in panel data or Cumby-Huizinga test for q-ordered autocorrelation. The reason why there is a need to apply this test is that serial correlation (also called autocorrelation) may result in a number of issues in terms of estimation. For example, it may lead to the standard errors of the coefficients to be smaller or larger than they actually are. At the same time, it may cause regression coefficients to be statistically significant when they actually are not. When it is tested against autocorrelation, it is found that there is evidence at 5% significance level to confirm the presence of autocorrelation as shown table 3 (appendix).

For simplicity at this level, we have not applied any specific panel models, instead running simple pooled OLS. Therefore, to relax the presence of heteroskedasticity we presented the regression results with robust option.

3.2. Discussion of empirical results

The following tables indicate the corresponding coefficients of each regressor included in the model and their robust standard errors in the parentheses. Significance levels are depicted by the stars, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ respectively.

	(1)	(2)
VARIABLES	I	II (robust std. e)
inf	0.0606***	0.0635***
	(0.00978)	(0.00965)
sqr_inf	-0.000870***	-0.000892***
	(0.000170)	(0.000173)
fdi	0***	0***
	(0)	(0)
hc	0.0279***	0.0272***
	(0.00188)	(0.00184)
credit	0.00732***	0.00716***
	(0.00150)	(0.00149)
gov_eff	0.00383*	0.00455**
	(0.00211)	(0.00203)
Time	-0.0105	
	(0.00647)	
Constant	43.75***	22.59***
	(13.02)	(0.0895)
Observations	2,137	2,137
R-squared	0.409	0.408

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Before turning to the discussion of findings, it is highly essential to note that the interpretations of the obtained results will be based OLS estimation technique as evaluated their appropriateness it in the previous part. Overall, it is important to highlight some general features of the constructed model. The

variables included in the model as regressors explains around 41% variation in GDP.

Following the objective of the study, it is plausible to note the impact of inflation on GDP. As seen by the table, we report the evidence for a non-linear effect of inflation on the regressand.

This is evident from the significance of the associated coefficients of inflation rate and squared inflation. Calculating the threshold based on the formula below, we may derive the value of threshold is equal to about 34,8% meaning that the impact of inflation of GDP is positive until the point where the rate of inflation is below the threshold.

$$infl^* = -\frac{\beta_1}{2\beta_2} = \frac{0.0606}{2 * (-0.000870)} = 34,8\%$$

However, as the rate of inflation increases beyond 34,8%, then its impact becomes negative. It implies the fact that a higher rate of inflation (beyond moderate rate of inflation to hyper-inflation) severely affects the activity of the economy, namely the transaction. It could be somehow explained by the loss of investment confidence during the course of high inflation.

Moving on the discussion of control variables, as confirmed with significant corresponding p-values in the table above, there is statistically sufficient evidence to conclude that the impact of human capital on GDP is significant and positive. Namely, 1% increase of unitary schooling coverage is found to lead to 2.7% rise in real GDP level. In fact, our results do correspond with the result of Anyanwu (2014).

Another determinant of GDP, foreign direct investment is also estimated to positively affect GDP at 1% significance level. In particular, it was found that inflow of FDI at amount of \$1 billion into host economy on average keeping other factors constant resulted in 1.39% increase real GDP during the analyzed period. Expectedly, our findings highly confirm the positive relationship between FDI and GDP in the same line with other studies such as Nistor (2014).

Hypothetically, as a proxy for the quality of institution, the government effectiveness should be positively correlated with GDP. The results of this study also found the evidence to support it at 5% significance level.

The last but not the least, crediting economy was also estimated to contribute real GDP. In particular, the increase of private credit stock ratio to GDP by 1% unit was found to lead 0.7% rise in real GDP during the period of the estimation.

In short, the study found a significant non-linear effect of inflation real GDP. Besides, we also found the evidence to reclaim that human capital, FDI, institutional quality and crediting the economy have been also important determinants for GDP growth.

4. Potential sources of bias

One can be acknowledged that every econometric model is not possibly free from deriving bias estimates. It could happen due to a number of reasons ranging from estimations techniques used. Turning to the potential sources of bias that can appear in our empirical work, the first source might be the heterogeneity bias that occurs when there is a noticeable association between countryspecific fixed effects and explanatory variables. This bias, in turn, might cause to derive inconsistent pooled OLS estimates. In this case, the use of the Fixed-effect model can address the underlying issue.

The second potential issue could be the endogeneity problem that arises owing to the possible relationship between independent variables and error terms. This issue also causes to led inaccurate and biased estimates of Fixed-effects models. Employing the GMM model (Arellano-Bond, 1991) or two-step GMM in our research work might solve the issue to some extent.

However, it is beyond the scope of the course so far.

Appendix

Table 1. Data Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
country	5425	109	62.648	1	217
year	5425	2009	7.212	1997	2021
gdp	5028	3.153e+11	1.398e+12	25909153	2.053e+13
ln gdp	5028	23.902	2.359	17.07	30.653
inf	4412	7.077	26.575	-10.067	1058.374
fdi	4868	8.681e+09	3.538e+10	-3.444e+11	7.338e+11
hc	3038	36.57	27.357	.092	150.876
credit	3734	49.209	43.691	0	304.575
gov eff	4337	49.054	28.904	0	100

Table 2.

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of ln_gdp

chi2(1) = 25.21

Prob > chi2 = 0.0000

Table 3.

Wooldridge test for autocorrelation in panel data

H0: no first-order autocorrelation

F(1, 150) = 1618.638

Prob > F = 0.0000

Table 4.

Variable	VIF	1/VIF
-----+-----		
inf	3.12	0.320773
sqr_inf	2.81	0.355948
gov_eff	2.52	0.396387
credit	2.35	0.425393
hc	1.81	0.552753
fdi	1.15	0.867687
-----+-----		
Mean VIF	2.29	

Table 5.

Jarque-Bera normality test: 5.254 Chi(2) .0723
Jarque-Bera test for Ho: normality:

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SPECIFIC CHARACTERISTICS OF FINDING NON-DETECTION RISK ON THE AUDIT OF INTANGIBLE ASSETS IN AUDIT INSPECTION

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Abstract

This study analyses the methods for identifying non-detection risk, which is regarded as a component of assessing audit risk, in detail. The paper conducts its research on industrialized nations with advanced accounting and auditing professions. The research work employed the methodologies of observation, data collecting, generalization, grouping, comparison, and monographic observation. In the course of the audit, the auditor writes and completes a questionnaire on control tests to identify non-detection risk of the client-enterprise. The purpose of this is to prevent client firm employees from using subjective auditing methods. The high, middle, and lower classes of assessing the risk levels are emphasized in a categorized manner based on the economic processes performed and being performed in the business entity in the control tests created by the auditor. We believe that when the concept of importance (materiality) is assessed in terms of amount (percentage) and quality, these indicators are only transferred to the indicator of amount (percentage). Based on calculations, one of them is a separate internal economic risk (IR), control risk (CR), and nondetection risk (DR), and it is appropriate to attribute the reduction of this amount to the proportional reduction of these risks. We think that the auditor must make multiple attempts to reduce the audit risk and important indicator values to the absolute minimum before this can be accomplished.

Keywords: *audit risk, non-detection risk, significance, international standards of financial reporting, national standards of financial reporting, transformation, amortization, risk levels*

1. Introduction

Today, according to Article 9 of the Law of the Republic of Uzbekistan "On Auditing Activities", the national standards of auditing activities have been abolished, and it has been established to conduct auditing activities on the basis on international standards of auditing instead[1]. The main reason for this is that according to the decision of the President of the Republic of Uzbekistan, it is mandatory for large taxpayers in Uzbekistan to submit financial reports based on international standards. In this article, the processes that occur in the practice of calculating nondetection risk, which is a component of determining the general audit risk in the Republic of Uzbekistan today, are analytically highlighted on a situational basis. The goal is to effectively use the international standards of audit on audit risk in the audit of financial statements prepared in accordance with international standards of financial reporting in the Republic of Uzbekistan and to reduce the audit risk to the lowest level in the audit of intangible assets. At present, the national standards of audit activities have been canceled and international standards of auditing have been adopted In the Republic of Uzbekistan. This requires auditors to study

international audit requirements more widely and use them effectively.

The article thoroughly analyses the practice of calculating audit risk researching the experience of developed countries with advanced accounting and auditing fields, and the procedures for finding non-detection risk, which is considered a component of determining audit risk.

Methodology. The methods of observation, data collection, generalization, grouping, comparison, and monographic observation were used in the research work.

Results. In the course of the audit, the auditor creates a questionnaire on control tests to find non-detection risk of the client-enterprise and fills out the questionnaire on those control tests. The reason for this is to avoid subjective approaches in the audit by the employees of the client company. In the control tests prepared by the auditor, the high, middle and lower classes of determining the risk levels are highlighted in a classified manner on the basis of the economic operations carried out and being carried out in the business entity.

According to the questionnaire, the auditor finds indicators of non-detection risk based on the evidence collected by the client-enterprise, questionnaires, primary accounting documents, main register and financial reports. In this case, the number "1" is put to the description of non-detection risk analytically found by the auditor. This number "1" is assigned to only one of the high, medium, or low descriptions of a particular of non-detection risk. The number "0" is assigned to the remaining two, i.e., the descriptions that the auditor found to be wrong in the description of a certain nondetection risk (Table 1).

We use the basic formula known to us for calculating the general audit risk:

$$AR = IR * CR * DR$$

Here:

AR- audit risk

IR- domestic (non-separable) risk

CR- control risk

DR- non-detection risk

Let's say that we have calculated internal economic risk and control risk during the audit, and the next step is to calculate the non-detection risk and determine the overall audit risk. Let's assume that according to our previous calculations, the level of internal economic risk was 30.0 percent, and the level of control risk was 29.8 percent.

To find the non-detection risk, we put the previously obtained results into the formula: $DR = AR / (IR * CR)$ and 55.93% ($5\% / (30.0\% * 29.80\%)$); $0.05 / (0.30 * 0.298) = 0.05 / 0.0894 = 0.5593 * 100 = 55.93\%$, we get the expected non-detection risk.

We can check the result:

$5\% = 30.0\% * 29.80\% * 55.93\%$ ($0.30 * 0.298 * 0.5593 = 0.0500 * 100 = 5\%$).

It should be considered that any expected accounting figures for the audit of intangible assets should be checked against the actual accounting figures.

Table 1

On the calculation of the non-detection risk in audit of the accounting of intangible assets

QUESTIONNAIRE

T/r	Risk factors	Risk classes						Control graph	
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting	Grade	
1	2	3	4	5	6	7	8	9	10
A1. On the account of economic classification of intangible assets									
1.	(DR101, test) What kind of asset is the right to use the property, which is included in the charter capital as a share, reflected in the enterprise?	Featured as the main tool		Only goodwill value is included		In accordance with the current regulation, the right to use the property, which is included as a share in the authorized capital, is reflected as an intangible asset in the enterprise. However, in cases where the right object appeared on the basis of the merger of companies, in accordance with the corresponding contribution of the founder in the purchase price, this right object was added to the goodwill.		1	1
2.	(DR102, test) According to the procedure, one of the main criteria for including assets in intangible assets is that it should be possible to identify them. According to what criteria is an intangible asset considered identifiable in an enterprise?	No specific information		It is considered identifiable only if it is possible to separate it from the enterprise		According to the regulation, an intangible asset in an enterprise is considered to be identifiable according to the following criteria: if the intangible asset is separable, that is, if it can be separated from the enterprise, it can be sold, transferred, leased, exchanged separately or together with related assets, contracts or liabilities (except for goodwill). if		1	1
3.	(DR103, test) Organizational expenses (expenses related to the establishment of a legal entity) recognized in the enterprise in accordance with the founding documents are included among what assets?	Included among the basic tools	1	9430-"Other operating expenses" are reflected in the account		No. 38 In accordance with the BHSS entitled "Intangible assets", expenses for advertising, training, business start-up costs, research and experimental design work (only if it can be justified that these expenses will bring economic benefits in the future) are considered as intangible assets, since they require mental work.	Organizational expenses (expenses related to the establishment of a legal entity) are excluded from intangible assets (2009; 2017) in Uzbekistan. In accordance with the procedure, it is necessary to keep accounts in analytical accounts 9410 or 9411, but this procedure has not yet been included in the 21st BHMS, but this procedure is specified in its own way in the 54th "Regulation on the composition of expenses".		1
4.	(DR104, test) What assets are included in the intellectual and working quality of employees, their qualifications and ability to work in the enterprise?	Included among the basic tools		The process of transformation in the company is not finished		Expenses for advertising, training, business start-up costs, scientific or technical knowledge, relations with customers and suppliers, research and experimental construction work (only if the expenses can be justified by	Due to the fact that intellectual and working qualities of employees, their skills and ability to work are considered inseparable from their owners and cannot be used without their owners, they cannot be	1	1
A2. On the account of the income of intangible assets									
5.	(DR105, test) What is the useful life of the goodwill or other intangible asset at the customer-enterprise if it is not possible to determine it reliably?	40 years	1	The process of transformation in the company is not finished		In this case, according to the regulation, the reliable period of the goodwill or other intangible asset is determined based on the best estimate of the management, but this period should not exceed 10 years.			1
6.	(DR106, test) Where are the costs incurred as a result of the capitalization of pilot-construction work at the client-enterprise reflected?	It is reflected in account 1120-"Other intangible assets".	1	Sometimes reflected in the 1120 account, sometimes in the 1180 account		Account 1180-"Capital investment in intangible assets" accounts for them.	Account 0830-"Purchase of intangible assets" accounts for them. In addition, components, special equipment, instruments, devices and other valuables purchased from abroad for conducting scientific and experimental work on scientific		1

T/r	Risk factors	Risk classes							Control graph
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting	Grade	
1	2	3	4	5	6	7	8	9	10
							research and design topics by research and design organizations according to the national standard 1020-"Purchased semi-finished products and components" is taken into account in the account," it was quoted. It mainly depends on the creation of an intangible asset.		
7.	(DR107, test) Although the company started producing the intangible asset itself, when it was ready, it found that there was no way to determine its true value. In this case, the costs incurred for the production of this intangible asset in the enterprise are added to which costs?	It is reflected in account 1120-"Other intangible assets".		The process of transformation in the company is not finished	1	In accordance with the procedure, in this case, these costs are added to the costs of scientific research and experimental construction work and are regulated by BHXS No. 38 "Intangible assets".	In accordance with the procedure, in this case, these costs are added to the costs of scientific research and experimental design works and are regulated by BHMS No. 11 "Expenditures for scientific research and experimental design development".		1
8.	(DR108, test) Is the value of an intangible asset received for free in	The value of any intangible		In the usual case, sometimes it is	1	Usually, the value of such assets is included in the taxable base as income, but intangible assets given to ecology, health care, educational institutions,			1

T/r	Risk factors	Risk classes							Control graph
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting	Grade	
1	2	3	4	5	6	7	8	9	10
	an enterprise included in the taxable base when calculating turnover tax or profit tax?	asset received for free is not included in the taxable base		included, sometimes it is not		intangible assets received based on the decisions of the President of the Republic of Uzbekistan, the Cabinet of Ministers of the Republic of Uzbekistan, subsidies received from the budget are not considered as income of the taxpayer and are not included in the taxable base .			
A3. According to the accounting of intangible assets									
9.	(DR109) When an intangible asset (for example, software) has been used for a certain period in the organization's balance sheet, when it is determined that the organization does not expect any future economic benefits from the use or write-off of this intangible asset, what changes have occurred in the organization's account of this intangible asset?	Used as an intangible asset		Used as an intangible asset in some cases, derecognized as an intangible asset in some cases for other intangible assets	1	In this case, the organization canceled the recognition of this intangible asset as an intangible asset. In addition, in cases where the organization has income as a result of this change, this income is not considered as taxable income. ² .			1
A4. According to the calculation of amortization of intangible assets									

T/r	Risk factors	Risk classes							Control graph
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting	Grade	
1	2	3	4	5	6	7	8	9	10
10.	(DR110, test) Does the client-enterprise have points that have been realized, given free of charge, and otherwise disposed of within three years from the date of application of the investment discount on the intangible asset to be amortized in the client-enterprise?	One year after the investment deduction is applied, the intangible asset is disposed of for free		The investment deduction has been canceled once, but the organization is prone to abuse again		In cases where these circumstances exist, the validity of the investment deduction in accordance with the current Tax Code is canceled by deducting it from the amount of accumulated amortization during the reporting (tax) period in which the outflow of such an asset occurred.		1	1
11.	(DR111, test) Are there cases where the enterprise changed the method of calculating depreciation when there was a significant change in the expected economic benefit from the use of intangible assets in the enterprise?	Although it is not justified to change the method of calculating depreciation, it has been changed		The method has been changed in accordance with the established procedure, but the economic effect has not been disclosed in the accounting policy.	1	Usually, if it is justified to change the depreciation calculation method in such a case, the method is changed. In this case, the reasons for the change and the resulting economic effect should be disclosed in the company's accounting policy.			1
A5. On revaluation of intangible assets									

T/r	Risk factors	Risk classes							Control graph
		High		Medium		Lower			
		Description	Grade	Description	Grade	In accordance with the international standard of financial reporting No. 38 "Intangible assets".	In accordance with the national standards of financial reporting	Grade	
1	2	3	4	5	6	7	8	9	10
12.	(DR112, test) In the event of an increase in the value of an intangible asset in the client-enterprise, is its increased value not included in the taxable base when calculating the profit tax?	Specific information is not available	1	The process of transformation in the company is not finished		In this situation, in the case of an increase in the value of an intangible asset in the corrections for the revaluation of intangible assets in client-enterprises transferred to MHXS, its increased value is included in the taxable base when calculating the profit tax.	In this situation, in the case of an increase in the value of an intangible asset in the corrections for revaluation of intangible assets in client-enterprises that have not transferred to MHXS, its increased value is not included in the taxable base when calculating the profit tax.		1
	Number of responses	x	4	x	4	x		4	12

In case of difference of the actual accounting indicators to non-detection risk materially (significantly) from the expected accounting indicators, then the auditor has to make a decision on conducting additional measures in order to bring the level of risk to an acceptable (acceptable) level. In this case, we are talking about the implementation of additional audit procedures for materiality (significance). When the auditor has the expected accounting indicators for non-detection risk, he must make calculations to determine the actual accounting indicators (see Table 1). The calculation of non-detection risk in the audit of intangible assets is carried out in a similar way to the calculation of the above two methods (internal risk and control risk calculations) that make up the overall audit risk project. Intuitive, quantitative, predictive, anticipation, determining the levels of audit determining the level of importance, finding the level of non-detection risk, comparison, calculation, planning, analysis and synthesis were used.

Results

According to the results of the questionnaire presented in Table 1, we obtained the following indicators:

- According to 4 response indicators – there is a high level of risk (100%);
- According to 4 response indicators – there is a moderate risk (50%);
- According to 4 response indicators – there is a low level of risk (0%).

We calculate the risk of non-detection according to the obtained results.

Table 2

Non-detection risk on audit of intangible assets calculation

T/r	Risk level	Number of responses received by risk levels	Calculation formula
1.	High	4	$= 100 - [(n1 * (100/N) + n2 * (100/N/2))]$
2.	Medium	4	
3.	Lower	4	

Based on the information in Table 2, we calculate the non-detection risk:

$$= 100 - [(4 * (100/12) + 4 * (100/12/2))] = 100 - (4 * 8.33 + 4 * 4.17) = 100 - (33.32 + 16.68) = 50.0$$

Based on the results of the control tests, the actual calculated value for the non-detection risk is 50.0 percent. This shows that it is lower than the expected value (55.93%).

According to the obtained indicators, the total audit risk project is equal to: $30.0\% * 29.80\% * 50.0\% = 0.0447 * 100 = 4.47\%$

In fact, the total audit risk project indicator should not exceed a maximum of 5 percent.

If we had a result of more than 5%, the auditor would have to increase all (the number of) measures from the point of view of materiality, taking into account that the auditor can accept the total audit risk

indicator for intangible assets up to 5%. The reason for this is that the estimated non detection risk is considered to be higher than the acceptable level of the overall audit risk project. Our results are as follows: the true level of the risk of non-detection is 50.0%, that is, $50.0\% < 55.93\%$ (the difference is 5.93%). In fact, it should have given the result that the expected total audit risk indicator is less than or equal to the determined total audit risk indicator.

In situations of the overall audit risk is greater than 5 percent, the auditor may decline the audit due to the presence of high audit risk or may reduce the level of risk through additional audit procedures. In practice, it is not easy to refuse an audit and perform duties. Not all audit organizations can refuse the client and his money. In such cases, the question arises: how much should the amount of food be increased? Of course, the auditor's professional thinking ability is of great importance. Based on the work experience, the auditor independently determines which methods of application should be increased (increase the size of the sample or decrease the importance and thereby include the objects of analysis in the scope of the audit, etc.).

The importance of identifying non-detection risk is very high. According to foreign experience, if the auditor cannot reduce non-detection risk on financial reports to an acceptable level, he should give a conditional positive conclusion (opinion) or refuse to give a conclusion (express his opinion).

The materiality control tests and procedures used in the audit of intangible assets differ from each other in terms of their objectives, but the results of some procedures may help to achieve other objectives. Cases of abuse of materiality detected during the application of audit procedures may cause the auditor to change the results of control risk that he previously assessed. In addition to the assessed non-detection risk and the level of control risk, it is necessary for the auditor to perform certain tests on the material balances in the accounts and the class of material transactions.

It is important to remember that the assessment levels of audit risk components may change during the audit. In such cases, the auditor should modify the planned measures of materiality based on the results of the assessment of non-detection risk and control risk. The higher the non-detection risk and the control risk assessment results for the audit of intangible assets, the greater the amount of audit evidence the auditor should obtain while performing procedures on materiality.

Conclusions

We came to the following conclusions regarding finding non-detection risk in the audit of intangible assets:

1. How to file information about the accounting and internal control system, in what form and by using which methods - it comes from the auditor's professional analytic ability.
2. The higher the auditor sets the levels of internal risk and control risk, the lower the level of non-detection risk should be set (and vice versa).
3. In our opinion, when the concept of importance (materiality) is evaluated in terms of amount (percentage) and quality, these indicators are transferred only to the indicator of amount (percentage) and on the basis of calculations, one of them is a separate internal economic risk (IR), control risk (CR), non-detection risk (DR) should be reflected in the amounts (percentages) and it is appropriate to attribute the reduction of this amount to the proportional reduction of risk. We believe that this can be achieved only after several attempts by the auditor to bring the indicators of importance and audit risk to the minimum level.

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THE IMPORTANCE OF ACCOUNTING METHODS IN THE PREPARATION OF FINANCIAL STATEMENTS

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Abstract

In the context of the globalization of the economy and the digital economy, it is important to move to international financial reporting standards (IFRS). The use of world experience in accounting enables the formation of transparent and reliable information. In this regard, it is necessary to study the experience of compiling financial statements collected in developed countries. Accounting plays an important role in the management system. Enterprise management must have unbiased and complete information about actual costs, product costs, profits, etc., affecting business processes and financial results. Accounting plays an important role in the collection and processing of such information in the enterprise. Today, the requirements for accounting are increasing: it must meet the requirements of international standards, meet the needs of internal and external users of information, and identify reserves for improving performance. Fundamental changes are being made in the organization of accounting, in particular, in the convergence of accounting with world economic practice in our country. This article discusses in detail the methods of accounting. The importance of these methods in the preparation of financial reports is also highlighted.

Key words. Accounting, financial reporting, accounting methods, documentation, calculation, evaluation

1. Introduction

The accounting service is of great importance in the effective implementation of the activities of economic entities. Accounting reflects business processes, represents the financial status of economic entities and serves as a basis for making management decisions through information provision.

LITERATURE ANALYSIS.

According to Keith A. Houghton “If one accepts that communication is central to the function of accounting and meaning is critical to communication, then the study of meaning is central to the study of accounting” [1].

John Ugoani said that “Accounting information is usually in the form of periodic or annual financial statements which are products of costing, financial and management accounting prepared for the benefit of a number of external interest groups” [2].

According to other economists, “Financial reporting is a dynamic area and we see it as extremely important that the text should reflect this and be kept current” [3].

According to G.S. Allison “Financial reporting is the communication of information regarding a governmental unit’s accounting activities; it encompasses a broad range of reporting activities, including presentation of the government’s annual financial statements, grant applications, and related

reports; financial information submitted to state and federal regulatory and granting agencies; budget-to-actual comparison reports; management reporting; and other financial reports for internal and external use” [4].

ANALYSIS AND RESULTS

Accounting staff must have a thorough knowledge of the accounting and reporting system to determine the financial position. The initial assessment of the financial position relies on the data of the accounting balance.

In the context of the globalization of the economy and the digital economy, it is important to move to international financial reporting standards (IFRS). The use of world experience in accounting enables the formation of transparent and reliable information. In this regard, it is necessary to study the experience of compiling financial statements collected in developed countries.

Accounting has different aspects than other types of accounting. Accounting focuses on continuity of operations. The objects of accounting include:

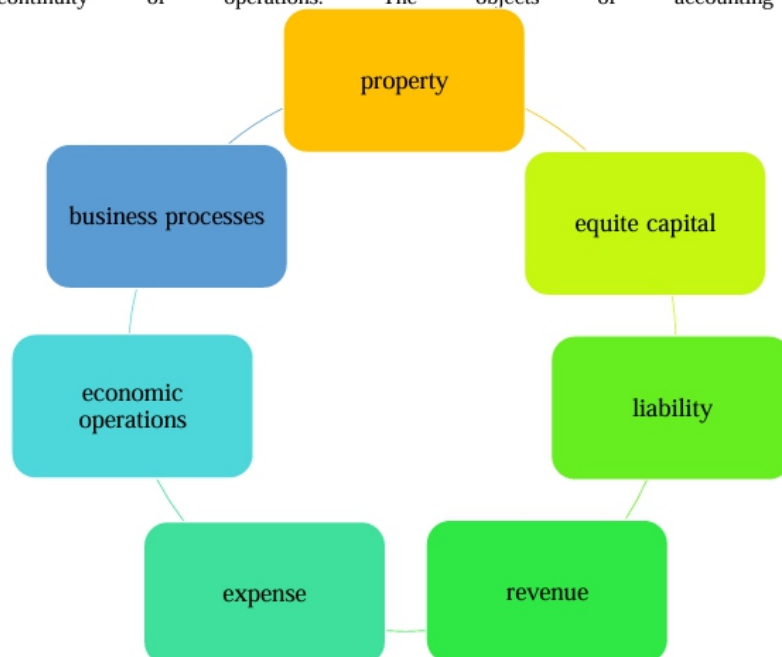


Figure 1. Objects of accounting¹

Accounting plays an important role in the management system. Enterprise management must have unbiased and complete information about actual costs, product costs, profits, etc., affecting business processes and financial results. Accounting plays an important role in the collection and processing of such information in the enterprise.

Today, the requirements for accounting are increasing: it must meet the requirements of international standards, meet the needs of internal and external users of information, and identify reserves for improving performance. Fundamental changes are being made in the organization of accounting, in particular, in the convergence of accounting with world economic practice in our country. In particular, it is necessary to improve the accounting and audit organization mechanisms. The main purpose of accounting is to provide information about the company's activities, and it serves to prepare reports necessary for internal and external users. Therefore, it is very important to improve accounting, first of all, from the point of view of information supply.

The property of the enterprise is the main object of accounting. Assets are listed on the asset side of the balance sheet. They include fixed assets, intangible assets, long-term investments, inventories, etc. In the national standards of accounting, separate standards have been developed for the types of assets, and

in these standards, the requirements for their recognition, evaluation and disclosure of information about them in financial statements have been mentioned. Equity is the next object of accounting. Private capital is one of the sources of property formation. Depending on the form of ownership of economic entities, the composition of private capital is different. For example, emission income is available only in joint-stock companies. And not all businesses will have targeted income.

Liabilities are included in the category of main objects of accounting. They are considered debt funds for the formation of property and are mentioned in the 2nd section of the passive part of the accounting balance. Liabilities are classified on the balance sheet according to their maturity. National standards of accounting and international standards of financial reporting have different aspects regarding the classification of obligations. In particular, the categories of conditional obligations evaluated in international practice are mentioned. This type of obligation does not exist in national accounting standards.

Income and expenses are the next object of accounting. They are reflected in Form 2 of the financial statement. There are certain criteria in national accounting standards and international financial reporting standards for the recognition of income and expenses. In addition, it is necessary to comply with the requirements of the tax legislation on the recognition of income and expenses. Business operations are also included in the category of accounting objects. All actions performed in accounting should be interpreted as a business operation and documented in a timely manner.

The last object of accounting is business processes. Supply, production and sales processes in business entities are considered as business processes. In order to ensure the efficiency and continuity of the activity, it is necessary for the management to exercise constant control over the business processes.

Accounting objects are studied through specific methods. Accounting methods include:

By applying the accounting method, information is formed about the state of the property and liabilities of the enterprise. Stakeholders, in particular, founders and owners, need information about the extent to which the property is being used and to what extent it is benefiting from it. Goods suppliers, partners and commercial banks are interested in information such as the state of obligations of economic entities, the presence or absence of overdue obligations in their composition.

Management of economic entities should regularly monitor the composition of funds. In particular, it should assess the level of turnover of current assets. In addition, it is required to study the level of serviceability of the main tools and to constantly modernize them. It is also necessary to pay attention to the sources of funds. An increase in the amount of obligations in the structure of the source of funds can lead to a decrease in the level of financial independence.

At the end of the reporting year, income and expenses should be summed up and profit or loss should be determined based on their differences. The procedure for determining financial results is specified in the "Regulation on the Structure of Costs". When financial results are determined by the accounting service of an economic entity, it is necessary to comply with the requirements of this Regulation.

Cost of goods sold is one of the important indicators in determining financial results. This indicator represents the result of operational activity. If the cost of goods sold has a high weight in the composition of net income, the activity of business entities can be considered unsatisfactory. This situation leads to a decrease in profitability indicators.

SUMMARY

One of the main functions of accounting is to provide users with reliable information. It also serves as a source of accounting information for analysis and control. Reliable and transparent information leads to effective economic decisions.

In accounting, it is necessary to pay special attention to the timely calculation and payment of taxes. In

this process, not only in the field of accounting. Tax compliance may also be required. In practice, there will always be a difference between accounting profit and taxable profit. The requirements of the Tax Code must be followed when determining the taxable profit. All documents prepared in the course of accounting not only serve as evidence in the preparation of financial statements, but also in conflict situations with third parties. For this reason, documents are not created in only one copy. Accounting documents are also used as evidence in audits.

Inventory can be planned or sudden; all types of assets and liabilities are inventoried, they can be transferred in whole or in part.

During the inventory, information on the balance of assets and liabilities is reflected in the inventory documents. If inconsistencies between the actual existence of assets and liabilities and the accounting information are found, it is necessary to draw up reconciliation statements. When the inventory is completed, it can be checked that it was carried out correctly with the help of a check. According to the results of the inspection, a report is drawn up and the correct inventory is recorded in a separate book.

The next method of accounting is valuation. National standards specify the procedure for evaluating fixed assets, financial investments, inventories, liabilities, income and expenses. These rules must be reflected in the accounting policy of each business entity. If it is not possible to evaluate an asset or liability, an alternative evaluation method must be provided in the accounting policy.

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EXTERNAL AND INTERNAL STAKEHOLDERS IN BUSINESS ENTITIES

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Abstract

The stakeholder theory has been advanced and justified in the management literature on the basis of its descriptive accuracy, instrumental power, and normative validity. These three aspects of the theory, although interrelated, are quite distinct; they involve different types of evidence and argument and have different implications. In this article, we examine these three aspects of the theory and critique and integrate important contributions to the literature related to each. We conclude that the three aspects of stakeholder theory are mutually supportive and that the normative base of the theory-which includes the modern theory of property rights-is fundamental.

Key words: shareholder, internal and external stakeholders, investors, owners, directors, managers, and employees, profit, customers and decision-making.

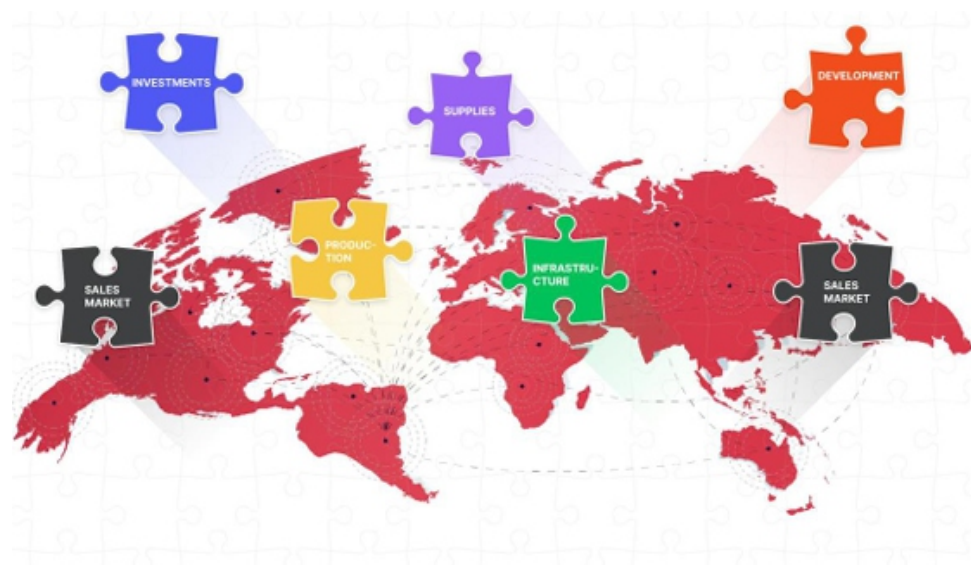
Outline. Stakeholders are individuals, businesses, or organizations that have some connection to your company. More specifically, they have various interests and influences in your company as they interact with it somehow, and the company's state affects them. Several documents outline stakeholder criteria. This broad category includes employees, customers, suppliers, communities, the environment, and competitors. Stakeholders care about the company's overall performance and how its actions might impact them.

Shareholders are a specific type of stakeholder — they are individuals or institutions who own shares of a company's stock. Their primary interest lies in the company's financial performance, particularly the stock price and potential return on investment (ROI).

There are typically two types of stakeholders: internal and external. Let's below take a closer look at each of them and figure out their role in business.

Analysis of literature on the topic: The idea that corporations have stakeholders has now become commonplace in the management literature, both academic and professional. Since the publication of Freeman's landmark book, *Strategic Management: A Stakeholder Approach* (1984), about a dozen books and more than 100 articles with primary emphasis on the stakeholder concept have appeared. (Significant recent examples include books by Alkhafaji, 1989; Anderson, 1989; and Brummer, 1991; and articles by Brenner & Cochran, 1991; Clarkson, 1991; Goodpaster, 1991; Hill & Jones, 1992; and Wood, 1991a,b; plus numerous papers by Freeman and various collaborators individually cited.) Stakeholder management is the central theme of at least one important recent business and society text (Carroll, 1989), and a diagram purporting to represent the stakeholder model has become a standard element of "Introduction to Management" lectures and writings.

Analyzes and results. One of the central problems in the evolution of stakeholder theory has been confusion about its nature and purpose. For example, stakeholder theory has been used, either explicitly or implicitly, for descriptive purposes. Brenner and Cochran (1991: 452) offered a "stakeholder theory of the firm" for "two purposes: to describe how organizations operate and to help predict organizational behavior." They contrasted this "theory," which they developed only in outline form, with other "theories of the firm," but they did not ask whether the various theories cited have comparable purposes. In fact, different theories have different purposes and therefore different validity criteria and different implications. For example, according to Cyert and March (1963), the neoclassical theory of the firm attempts to explain the economic principles governing production, investment, and pricing decisions of established firms operating in competitive markets. In contrast, their behavioral theory of the firm attempts to explain the process of decision making in the modern firm in terms of goals, expectations, and choice-making procedures. Aoki's (1984) cooperative game theory of the firm attempts to explain internal governance, particularly the balance between owners' and workers' interests.



1-Picture. The types of Stakeholders

There are typically two types of stakeholders: internal and external. Internal stakeholders, also called primary stakeholders, are entities with a direct interest or influence in a company, as all the processes and results of the company's operations also affect them. An example of internal stakeholders are employees of a company and its owners or investors.



2-Picture. Internal Stakeholders

In business, the internal stakeholders are investors, owners, directors, managers, and employees. Obviously, different internal stakeholders have different roles in a company. This depends on their interest, degree of influence in decisions, and responsibility. So, to answer the question, it is necessary to divide them into several types.

Investors or shareholders

Investors or shareholders are internal stakeholders who are only responsible for the funds they invest in the company. Their influence on decisions is indirect, but their interests require a high priority because they must trust the company to invest their money. However, their interest is often solely financial, as the company regularly generates profit, and its capitalization steadily grows.

Owners

The owners are responsible for the company's foundation and existence, and their influence on the decision-making can vary greatly. If they are only interested in ensuring that the company is consistently profitable, then the influence and responsibility for decisions are transferred to the board of directors. However, the company owners may also directly influence decisions if they are interested in ensuring that its core ideas are consistent with all internal and external processes, products, and services.

Board of directors

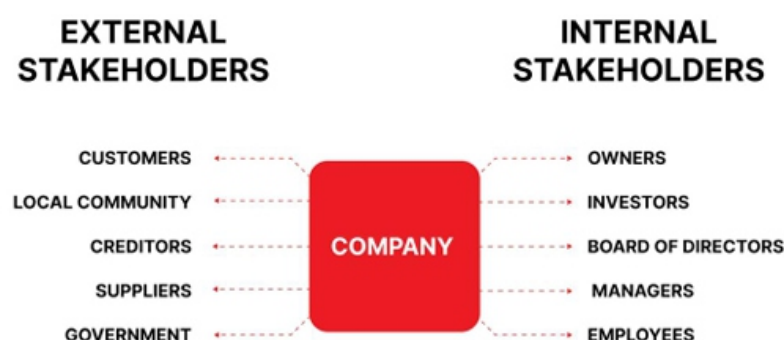
The board of directors is responsible for making strategic decisions and directly influences all operational aspects of the company. They are also responsible for the company's market capitalization, which their decisions affect. Their main interest is to ensure that investors are happy with their investments and that the owners are satisfied with their choice of persons who have taken over the company's management and the extension of its products and services.

Managers

Managers are responsible for the quality of the employees and good performance, and they can also influence tactical decisions and the setting of goals. Their interest is in the no risk of downsizing, good working conditions, decent wages, and bonuses for good work in their departments.

Employees

Employees are responsible for the quality of their jobs and can sometimes be influential in setting tasks. However, employees need to have confidence in their employer rather than check for open positions at other companies. Therefore the interest of employees is in the absence of risks of downsizing, good working conditions, stable pay, and bonuses.



3-Picture- Who are the External and Internal Stakeholders

Stakeholder management principles

Andrew L. Friedman and Samantha Miles have created original principles in the book *Stakeholders: Theory and Practice* (1991). There you can read in detail about their work and get even more information about the intricacies of analysis, models, and operating principles, and they are still relevant today:

• Principle

Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders and consider their interests in decision-making and operations.

• Principle

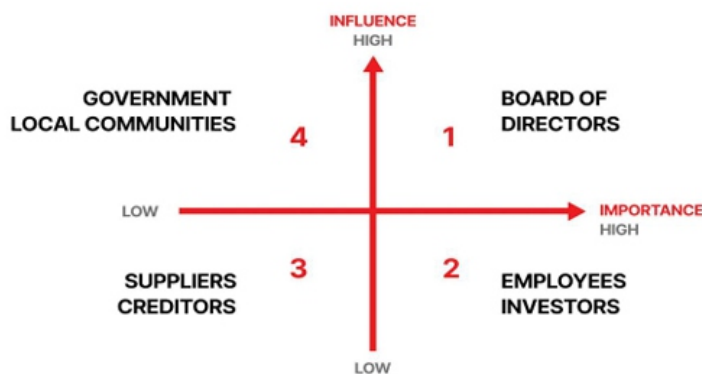
Managers should listen to and openly communicate with stakeholders about their respective concerns, contributions, and the risks they assume because of their involvement with the corporation.

As Oleg Puzanov said earlier, world politics and economics have bound everyone, and now everyone depends on each other. Therefore, it is essential to understand how to manage stakeholders mutually and beneficially. This requires analyzing stakeholders on various aspects and setting appropriate priorities and actions. Here you will find the main steps which will let you do it properly.



4-Picture. The influences of Stakeholders

Based on the early analysis, you can now build a stakeholder influence and importance matrix, which will help you to visualize their place in the hierarchy and choose the best model to interact with them.



5-Picture. The Matrix of Stakeholders

Summary

Now you know all the general information about the role, you will be able to build your hierarchy with much more understanding. Of course, much of this is highly individual and depends on internal company policies, legal relationships with various entities, etc. In some companies, the customers have more influence in decision-making than even the company owners. And this can work if it is not an accident and lack of order but a well-thought-out strategy and a distinctive feature that makes a company successful.

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EVALUATING THE EFFECTIVENESS OF LARGE AND SMALL BUSINESS COOPERATION ACTIVITIES

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Abstract

It is known that in the framework of the macroeconomic policy conducted in our country, in order to ensure economic growth, the creation of new jobs, the solution of the employment problem, the rapid development of small business and private entrepreneurship, which play an increasingly important role in increasing the income and well-being of the population, special attention is paid to tax policy in promotion and support. Due to the opportunities created, the weight of private entrepreneurship in the real sector of the economy is rapidly increasing. Currently, the economic development of our country cannot be imagined without this sector. Therefore, the activities implemented within the framework of the Action Strategy on the five priority directions of the development of the Republic of Uzbekistan in 2017-2021 are aimed at accelerating economic growth by facilitating the conditions for conducting business for the private sector.

Keywords: *small business, clusters, technological parks, macroeconomic policy.*

In the modern economy, the effective use of the opportunities of the industry and its enterprises occupies a very important place. It is true that the initiative of industrial enterprises is necessary for the stabilization and development of the economy. Cooperation between large and small businesses is of great importance in creating the opportunity to optimally use the resources of our country in the conditions of the market economy.

Today, it is necessary to modernize industrial sectors based on technical and technological reequipment in order to take a worthy place among developed countries, to ensure the competitiveness of our national products in the world markets, and on this basis to significantly increase the volume of exports. As the President of our Republic SH. Mirziyoev noted: "More favorable conditions will be created for the development of entrepreneurship and small business.

In 2016-2020, the operational system of regional enterprise associations in the form of special economic zones (SEZ) or small industrial zones (MIZ), technological parks and clusters was formed in the republic. Developed in such a short historical period

creation and development of an effective innovative system of production and territorial structures became possible due to the government's serious attention to the priority development of these structures. In particular, the normative legal framework was formed: the Law of the Republic of Uzbekistan "On Special Economic Zones" was adopted, the program for the creation of small industrial zones and technological parks was launched in all regions of the republic, and a set of documents on the development of clusters was adopted. done. The government's significant efforts to develop modern, market-oriented efficient zoning structures are reflected in the results achieved by enterprises participating in SEZs, MIZs, technology parks, and clusters. If in 2016 there were 7 SEZs in the republic, in 2020 their number was 21, the number of small industrial zones increased - from 63 experimental zones with almost 500 participating enterprises to 77 industrial enterprises, in which 1675

enterprises work. Technological parks have become new structures in the economy, clusters have developed significantly

Only in 2018-2019, the volume of industrial production (works, services) in SEZ at comparable prices (excluding VAT and excise duty) increased by almost 2.5 times, investments in the main infrastructure from all sources of financing increased by 2.2 times, newly established business the number of runs - increased by 3.3 times or 13.8 thousand. The net profit of enterprises operating in SEZ increased almost 1.6 times. The oil refinery also developed at a high pace. The volume of production of industrial products increased by 2 times, investments in the main industry by 1.7 times, new jobs by 2.4 times. In 2019, 14,700 people worked at the oil refinery. Special economic and small industrial zones have shown high resistance to economic shocks. despite the crisis caused by the pandemic, economic and financial indicators of SEZ and MIZ remained stable. In 2020, the growth rate of SEZ and Oil Refinery industrial production was much higher than that of the industry as a whole. Thus, the growth of industrial production by SEZ enterprises of the republic was 55.7 percent, at the oil refinery - 7.1 percent, and the growth rate in the industry as a whole was 0.7 percent. In January-December 2020, the volume of production of industrial products by SEZ, MIZ, technoparks and cluster enterprises made up 7.6% of the total industrial product

The composition of production also changed: the share of clusters increased significantly (1.5 times), the share of SEZs, oil refineries and technological parks decreased accordingly. The volume of industrial production is not very important in MIZ and technological parks, which are mainly produced by small business representatives, but these are the most important developing structures that have opportunities for innovative production of consumer goods aimed at the domestic and foreign markets.

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Uzbekistan has been paying great attention to sustainable development and economic liberalization in recent years. 2017-2021, approved by the Decree of the President of the Republic of Uzbekistan in the Strategy of Actions on five priority areas of development of Uzbekistan Sh.M. Mirziyoev, on February 7, 2017, to deepen the structural changes of Uzbekistan, to continue the policy of promoting the localization of production and the substitution of industrialization in order to increase the competitiveness of the national economy by modernizing and diversifying its leading industries, first of all

goods and components that expand consumer cross-industry cooperation. Taking into account the importance of this issue, in 2019, decisions were made aimed at the development of industrial cooperation and "creating a unified system of localization of industrial production in the republic, accelerating localization processes in industries, and producing components, spare parts and materials through full and effective use of production capacities. mastering production, as well as expanding cooperation in the industry and optimizing the volume of production". Inter-sectoral industrial cooperation is an effective and modern method that allows the country's enterprises to achieve high production efficiency due to the rational use of installed capacities, better use of available resources, and contribution to the growth of employment. It helps to improve the social situation, first of all, in rural areas and small towns. The most important and indispensable factor of ensuring industrial growth is the expansion of inter-sectoral industrial cooperation, including between large enterprises of the republic and small business and private entrepreneurship, deepening the processes of localization of production, ensuring production based on local raw materials. import substitution and localization of production,

ensuring production based on local raw materials. import substitution and filling the domestic market. necessary consumer goods, medicines, industrial and technical products, components and materials. The 2020 coronavirus pandemic has exposed many problems in the global economy. For many industries around the world, the closure of borders and the collapse of supply chains have led to disruptions in the supply of key elements and components. As a result, many countries are abandoning the focus on the import component, expanding the production of products that are very important for their domestic market.

In the current conditions of globalization, the division of labor has become one of the main conditions of economic activity. The division of labor logically creates the need to develop cooperative relations in order to achieve high efficiency in the production of a product. Management of these processes requires the introduction of the following modern technologies:

transition from management to a network system;

replacement of position powers with delegated powers;

rather than creating large production structures (conglomerate),

created to meet the needs of product production or consumption giving priority to small businesses;

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