



ACCOUNTING AS THE MIRROR OF ECONOMIC ACTIVITY

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ABSTRACT

The article analyses the role of accounting in reflecting the economic activities of a business entity, the movement of economic resources, the formation of income and expenses, and the close relationship between these processes and financial results. It examines the features of accounting as an integrated information system that goes beyond recording economic processes and reveals their substance. The reliability of accounting information, the professional judgement of accountants, and the importance of regulatory requirements are considered in connection with economic processes.

Economic activity is, by its very nature, a continuous process in which the formation, allocation and processing of economic resources, their use in production or service delivery, and their transformation into final economic outcomes are interconnected. A business entity conducts its activities by attracting funds, acquiring resources, organising production, selling goods or services, and generating income. Each of these processes affects the entity's financial position, while changes arising at one stage may become apparent in the outcomes of subsequent stages. A full understanding of an entity's economic activity therefore requires not only knowledge of individual transactions, but also an assessment of their interrelationships and their impact on the final result.



Accounting plays an important role in consistently representing these relationships. The Law of the Republic of Uzbekistan No.404 of 13 April 2016, "On Accounting," regulates relations concerning the organisation and maintenance of accounting and the preparation of reports. Under Article 4, accounting is a regulated system for the complete, continuous and document-based recording of business transactions, as well as the collection, recording and summarisation of accounting information and the preparation of financial and other reports on that basis [1]. This definition shows that accounting is not limited to recording transactions. A business transaction becomes structured information that can be used for analysis and management only after it has been documented and reflected in the accounting system in accordance with its economic substance.

Accounting is called the mirror of economic activity because it reflects economic changes occurring within an entity in monetary terms. However, this comparison does not mean that accounting merely shows the existing state of affairs. Accounting records economic events on the basis of supporting documents, determines their value, reflects them in the relevant accounts and summarises them in connection with other transactions. As a result, an entity's activities are presented not as a collection of isolated events, but as a system of interrelated economic processes. For example, when an entity purchases raw materials for production, funds move from one form to another: cash decreases while inventories increase. Once the raw materials are used in production, their value contributes to the cost of the finished goods. When the finished goods are sold, sales revenue and the cost of goods sold are compared, providing a basis for determining the financial result.

Thus, although purchasing, production and sales are separate transactions, their economic substance is closely interconnected. Accounting preserves this sequence and shows how the movement of resources is transformed into income and a financial result.

International accounting literature also links the value of accounting information to its usefulness in decision-making. Weygandt, Kimmel and Kieso discuss financial accounting in connection with analysing business transactions, recording them in the accounting system and presenting the results in financial statements [5]. This approach shows that the essence of accounting cannot be reduced to the accumulation of figures; it is also necessary to understand the economic substance of transactions and present their consequences consistently.

In our view, the main feature of accounting as a "mirror" is its ability not only to show the results of economic activity, but also to make it possible to understand how those results were formed. A figure reflected in the accounts is not the economic event itself, but an informational representation formed on the basis of documentation, measurement and accounting principles. Therefore, the reliability of accounting information depends not only on technical accuracy, but also on whether the economic substance of the transaction has been correctly identified.



To reflect economic activity consistently in accounting, business transactions must be classified and summarised according to an established procedure. National Accounting Standard No. 21, “Chart of Accounts for Accounting by Business Entities and Instructions for Its Application,” approved by Order No. 191 of the Minister of Economy and Finance of the Republic of Uzbekistan dated 14 November 2024, serves this purpose. The document was registered by the Ministry of Justice on 27 December 2024 under No. 3593 [2]. The chart of accounts makes it possible to reflect transactions according to their economic substance and consolidate the relevant information. Although the purchase of raw materials, their use in production, the formation of finished goods and their sale are recorded in different accounts, these entries together show how the entity’s economic activity has unfolded. The chart of accounts brings dispersed information into a unified system and provides the basis for forming financial statement indicators.

The importance of the accounting system is not limited to classifying information. It also helps preserve the relationships among business transactions. The receipt of resources is linked to their sources of financing; the use of resources is linked to expenses; and expenses, in turn, are linked to the goods produced and their sale. When information is properly reflected in the accounts, it becomes possible to trace the relationships between the separate stages of an entity’s activities and identify the reasons behind the final financial result [2]. The figures generated by accounting are monetary representations of economic processes. However, an individual indicator cannot, on its own, provide a complete description of an entity’s financial position. Its meaning becomes clear through the circumstances in which it was formed, its composition and its relationship with other indicators. Accordingly, when analysing accounting information, attention should be paid not only to quantitative changes, but also to their causes and their connection with other economic outcomes. For example, an increase in expenses may at first appear to be an unfavourable change. If expenses have increased alongside an expansion in production volume, however, it would be inappropriate to assess the change solely on the basis of the amount of expenses. In such circumstances, production volume, product cost and revenue from sales should be analysed together. An increase in revenue does not always mean that financial performance has improved, since expenses may increase at a faster rate than revenue.

Therefore, an accurate assessment of an entity’s economic position requires not simply examining individual figures, but identifying the relationships among them and the dynamics of change.

In his 1986 letter to shareholders, American investor and entrepreneur Warren Buffett described accounting figures as the “language of business.” He noted that these figures are useful in assessing a company’s value and tracking changes in its activities. At the same time, Buffett viewed accounting as a tool that helps people think about business, rather than as a substitute for independent economic judgement [4].



This observation is directly related to the central idea of this article: figures help us understand economic activity, but analysing their meaning is necessary in order to draw appropriate conclusions.

Libby, Libby and Hodge also explain financial accounting in relation to economic decision-making through financial statements [6]. This approach indicates that accounting information should not be interpreted merely as final figures, but as a means of assessing an entity's financial position and operating results. The quality of accounting depends not only on the accuracy of the indicators, but also on how clearly their economic meaning is conveyed to users.

In our view, the true value of accounting figures lies in their ability to reveal the relationships among them. Information about revenue, expenses, assets or liabilities, considered separately, shows only one aspect of an entity's activities. Only when these indicators are analysed together is it possible to draw well-founded conclusions about the efficiency of resource use, the formation of financial results and existing economic problems.

An entity's financial result is formed through the interaction of numerous transactions carried out in the course of its economic activity. The acquisition of resources, their use in production, the determination of product cost, the sale of goods and the generation of revenue should not be assessed in isolation from one another. The final result is determined by the sequence of these processes and the relationships among them.

Accounting reflects these processes consistently through documents and monetary indicators. As a result, management can determine not only how much revenue has been earned or how much has been spent, but also what activities generated the revenue and how expenses affected the financial result. In this respect, accounting information is an essential source for evaluating the results of a past period and substantiating future economic decisions.

The Conceptual Framework for Financial Reporting issued by the IFRS Foundation links the usefulness of financial information to its relevance and faithful representation of economic phenomena [7]. This approach is important when explaining the economic substance of accounting: the mere existence of information in the accounts is not enough; the information must help users understand an entity's financial position and performance. Accounting therefore does not merely record economic events, but also creates the conditions necessary for their reasoned assessment.

The extent to which accounting accurately reflects economic activity depends to a considerable degree on the professional thinking of the specialists working within the system. Even calculations that are technically correct may fail to provide the expected informational value if the economic substance is interpreted incorrectly. When recording a business transaction, an accountant must therefore consider its documentary basis, economic substance and role in the entity's overall activities. This requirement is consistent with the fundamental principles of continuity, reliability and comparability established by the Law of the Republic of



Uzbekistan “On Accounting” [1]. If a transaction is not properly documented or its economic substance is incorrectly identified, subsequent calculations and reported figures may also fail to represent the entity’s activities adequately. Reliable accounting information is formed through the combined application of regulatory requirements, proper documentation and accurate interpretation of economic substance.

In our view, the professional competence of a modern accountant is defined by more than the ability to perform calculations correctly. It is also reflected in the ability to understand the relationships between economic transactions, identify inconsistencies in accounting information and explain the reasons behind financial results. Automated systems can accelerate calculations, but professional thinking remains essential when assessing the economic substance of transactions and interpreting their outcomes. The importance of accounting is also evident in management. Managers may not be able to observe directly every economic process taking place within an entity. The accounting system documents and summarises these processes and converts them into information that can be used for management decisions. Information about trends in income and expenses, resource use, changes in liabilities and financial results helps assess the state of the entity’s activities.

Accounting does not replace management decisions; rather, it provides the economic basis for making them. For example, an increase in expenses may be caused by rising resource prices, an increase in production volume or inefficiency in the use of resources. Distinguishing between these causes requires accounting data to be compared and its economic substance analysed. Only then can accounting information help management identify a problem and make a well-founded decision.

The development of digital technologies is expanding the possibilities for collecting, processing and summarising accounting information. Electronic documents and automated accounting systems help transactions to be reflected promptly, but they do not change the economic substance of accounting. Faster data processing creates opportunities for deeper analysis. For this reason, technological capabilities and the accountant’s economic judgement should complement one another in a modern accounting system.

The improvement of regulatory requirements for financial reporting is associated with raising the quality of accounting information and bringing it into line with international requirements. Resolution No. PQ-282 of the President of the Republic of Uzbekistan dated 15 September 2025, “On Measures to Improve the Financial Accounting System in Line with International Requirements and Standards,” establishes measures aimed at aligning the financial accounting system with international standards [3]. The Resolution addresses the implementation of International Financial Reporting Standards (IFRS), the alignment of national legislation with international requirements, the improvement of financial reporting quality and the development of professional capacity. Its importance lies in the fact that the quality of



financial reporting depends not only on the final indicators, but also on the proper organisation of the accounting process through which they are formed. If economic transactions are not recorded correctly and supported by appropriate documents, it becomes more difficult to summarise them and reflect them faithfully in financial statements. Therefore, adapting to international standards requires attention not only to reporting formats, but also to the formation of accounting information, the identification of transactions' economic substance and the consistency of the data.

Accounting is an integrated information system that links the recording of business transactions, the monitoring of economic resource movements, the summarisation of income and expenses, and the determination of financial results. Its role as the mirror of economic activity is not limited to reflecting the existing state of affairs; it also enables users to understand the economic processes through which that state has been formed.

In our view, the reliability of accounting information is determined by the proper preparation of documents, compliance with regulatory requirements and the accurate interpretation of the substance of economic transactions. The chart of accounts, financial reporting requirements and digital technologies help improve this process, but their effectiveness depends on how accurately the relationships among economic indicators are represented. The value of accounting should therefore be assessed not only in terms of numerical accuracy, but also by the extent to which it provides a coherent explanation of the causes, processes and outcomes of an entity's economic activity.

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