

Artículo de investigación

**Introduction of International Financial Reporting Standards in Ukraine:
Problems and Prospects**

Впровадження Міжнародних стандартів фінансової звітності в Україні: проблеми та перспективи

Introducción de las Normas Internacionales de Información Financiera en Ucrania: Problemas y perspectivas

Recibido: 1 de junio del 2019

Aceptado: 7 de julio del 2019

Written by:

Tetyana Shulga (Corresponding author)¹⁰⁰<http://orcid.org/0000-0001-8223-5812>**Liudmyla Tovkun**¹⁰¹<http://orcid.org/0000-0002-4769-9379>**Mariia Perepelytsia**¹⁰²<http://orcid.org/0000-0003-4648-1789>**Pavlo Duravkin**¹⁰³<http://orcid.org/0000-0002-4151-9621>**Abstract**

The article presents an analysis of problematic issues concerning the adaptation of the national accounting and financial reporting system of Ukraine to the International Financial Reporting Standards (IFRS). The chosen topic is relevant because of the fact that the domestic economic system is increasingly dependent on the globalization of economic processes and information technologies in the world. The transition of Ukraine to the specified standards is a requirement of time and is conditioned by the necessity to fulfill the country's contractual obligations for further integration with the European Union. The authors considered such world systems as IFRS and the Generally Accepted Accounting Principles (GAAP). The general features of these systems were analyzed. The authors have identified both the systematic advantages and the problems of adaptation of IFRS in Ukraine. Advantages include: providing more detailed, transparent, truthful and accessible information for users; raising the level of investment attractiveness of economic entities through the possibility of their entry into new capital markets, etc. Problems include: the complexity of the practical application of standards through the introduction of new terms, the need for restructuring the philosophy of

Анотація

Стаття представляє аналіз проблемних питань щодо адаптації національної системи бухгалтерського обліку і фінансової звітності в Україні до міжнародних стандартів фінансової звітності (МСФЗ). Актуальність обраної теми пов'язана з тим, що вітчизняна економічна система все більшою мірою залежить від глобалізації економічних процесів і інформаційних технологій в світі. Перехід України до МСФЗ є вимогою часу і зумовлений необхідністю виконання договірних зобов'язань країни щодо подальшої інтеграції її до Європейського Союзу. Автори розглянули такі основні світові системи як МСФЗ та Систему загальноприйнятих принципів бухгалтерського обліку (ГААП). Були проаналізовані їх загальні особливості. Авторами були виявлені як систематизовані переваги, так і проблеми адаптації МСФЗ в Україні. Серед переваг: надання більш детальної, прозорої, правдивої і доступної інформації для користувачів; підвищення рівня інвестиційної привабливості суб'єктів господарювання через можливість їх виходу на нові ринки капіталу та ін. До проблем можна віднести: складність практичного застосування стандартів через впровадження нових термінів, необхідність перебудови

¹⁰⁰PhD, associate professor of the department of financial law, Yaroslav Mudryi National Law University, Kharkiv, Ukraine.¹⁰¹PhD, associate professor of the department of financial law, Yaroslav Mudryi National Law University, Kharkiv, Ukraine.¹⁰²Doctor of Law, professor of the department of financial law, Yaroslav Mudryi National Law University, Kharkiv, Ukraine.¹⁰³PhD, associate professor of the department of financial law, Yaroslav Mudryi National Law University, Kharkiv, Ukraine.

accounting and management personnel, and so on.

The paper notes that the successful adaptation of IFRS in Ukraine should be consistent with the general economic priorities of the country's development and is possible only under condition of well-considered actions of state legislatures and executive authorities, international cooperation within the framework of specialized professional organizations on the issues of elaboration of international standards of financial reporting.

Keywords: International Financial Reporting Standards (IFRS); harmonization of the Accounting and Financial Reporting System; adaptation of national legislation to IFRS; EU Directives; international investments, International Accounting Standard Board.

філософії облікового і управлінського персоналу та інше.

В роботі зазначено, що успішна адаптація МСФЗ в Україні має відповідати загальноекономічним пріоритетам розвитку країни і можлива лише за умови виважених дій державних органів законодавчої і виконавчої влади, міжнародної співпраці в рамках спеціалізованих професійних організацій з питань опрацювання міжнародних стандартів фінансової звітності.

Ключові слова: міжнародні стандарти фінансової звітності (МСФЗ); гармонізація системи бухгалтерського обліку і фінансової звітності; адаптація національного законодавства до МСФЗ; директиви ЄС; міжнародні інвестиції; Рада з міжнародних стандартів бухгалтерського обліку.

Resumen

El artículo presenta un análisis de los problemas problemáticos relacionados con la adaptación del sistema nacional de informes contables y financieros de Ucrania a las Normas Internacionales de Información Financiera (NIIF). El tema elegido es relevante debido a que el sistema económico interno depende cada vez más de la globalización de los procesos económicos y las tecnologías de la información en el mundo. La transición de Ucrania a los estándares especificados es un requisito de tiempo y está condicionada por la necesidad de cumplir con las obligaciones contractuales del país para una mayor integración con la Unión Europea. Los autores consideraron sistemas mundiales como los IFRS y los Principios de Contabilidad Generalmente Aceptados (GAAP). Se analizaron las características generales de estos sistemas.

Los autores han identificado tanto las ventajas sistemáticas como los problemas de adaptación de las NIIF en Ucrania. Las ventajas incluyen: proporcionar información más detallada, transparente, veraz y accesible para los usuarios; elevar el nivel de atractivo de inversión de las entidades económicas a través de la posibilidad de ingresar a nuevos mercados de capital, etc. Los problemas incluyen: la complejidad de la aplicación práctica de los estándares a través de la introducción de nuevos términos, la necesidad de reestructurar la filosofía de contabilidad y gestión personal, y así sucesivamente.

El documento señala que la adaptación exitosa de las NIIF en Ucrania debe ser consistente con las prioridades económicas generales del desarrollo del país y es posible solo bajo la condición de acciones bien consideradas de las legislaturas estatales y las autoridades ejecutivas, la cooperación internacional en el marco de organizaciones profesionales especializadas. En los temas de elaboración de normas internacionales de información financiera.

Palabras clave: Normas Internacionales de Información Financiera (NIIF); armonización del Sistema de Información Contable y Financiera; adaptación de la legislación nacional a las NIIF; Directivas de la UE; Inversiones internacionales, Junta Internacional de Normas de Contabilidad.

Introduction

At the current level of economic integration of countries, accounting is considered as one of the means of international communication. It is an extremely important component of the country's economic life. As for today it is common that most large corporations are joint ventures. For the modern business, the investment flow erases all boundaries, although there are some

difficulties with the particularity and adequacy of information display in certain countries. Therefore, today there is a need for the financial reports of enterprises to be understood by other market participants from different countries.

Financial reporting is a structured reflection of the financial position and financial performance

of the enterprise. The purpose of the financial reports is to provide information about the financial position, financial performance and cash flows of the enterprise that is useful to a wide range of users when making economic decisions. Such reports also show the results of how the resources of the enterprise are managed. For this, the financial reports should provide the information about: assets, liabilities; equity; income and expenses, including profits and losses; contributions and payments to owners; cash flows.

The development of globalization in the world creates prerequisites for the development and implementation of generally accepted requirements for accounting and financial reporting. With the aim of joint economic interests, the leading countries apply specific measures in order to harmonize national accounting systems on the basis of regulatory support. So, the European Union has implemented IFRS as the only accounting rules for business entities. The purpose of the introduction of these standards is to ensure comparability and clarity for international investors' reports of business entities from different countries, which is very relevant during the cooperation of these countries, especially in the economic sphere. Standards have some flexibility to take into account the peculiarities of national economies, which is very important, since there are many differences between countries in all areas of the functioning of enterprises.

Many countries use IFRS and approve them at the legislative level. In some states, the implementation of IFRS involves various government and non-governmental organizations, audit firms, as well as profile organizations that act as a kind of "bridge" between standard developers, users and supervisors. This need was conditioned by the development of international trade, transnational corporations and globalization of financial markets.

International standards not only generalize the accumulated experience of different countries, but also actively influence the development of national systems. Ukraine is increasingly dependent on these processes, which necessitates the formation of an adequate information environment. The development of Euro integration processes and the active policy of Ukraine for entering international markets require some changes in various areas, including accounting and financial reporting. One of the

problems of attracting foreign investment is the inaccessibility and non-transparency of information for foreign partners. One of the solutions to this problem is the introduction of IFRS, which ensure clarity and availability of accounting information for other international market participants, eliminate economic and trade barriers between countries, increase the inflow of foreign investments, and enable to form a competitive market environment.

Today in Ukraine there are National Accounting Standards, approved by orders of the Ministry of Finance of Ukraine. At the same time, the program of reforming the accounting system with the application of international standards has become part of the measures aimed at conducting economic relations of market orientation. But at this stage of Ukraine's development there is a need not only in reforming accounting system, but about the unification of domestic standards with IFRS as a result of Ukraine's economic integration with the European Union.

Although this area has become the subject of research by many scholars, there are still problems that remain unclear and require urgent solutions. For example, for over ten years, the issue of transition to IFRS has been studied, but there is no well-defined and legally grounded decision that would permanently remove this shortcoming of modern national accounting. Issues related to the organization, methodology and development of accounting and auditing of enterprises have not received appropriate coverage in the scientific and practical domestic literature, the current legislative framework and become of particular relevance.

Despite some advantages and disadvantages in this way, we note that the process of transition to international standards is quite logical, since the accounting and reporting data of domestic entities should be comparable in the framework of international practice. Therefore, it is important to identify issues regarding the theoretical and practical bases of the implementation process of IFRS at the national level, analysis of the general conditions and prospects of the development of legal framework for accounting and financial reporting and the further implementation of international financial reporting standards in Ukraine. This way is a prerequisite for the strengthening of relations between Ukraine and the world community.

Methodology

The methodological basis of the article is determined by the nature, purpose and ways of solving the tasks, as well as the complexity and multidimensionality of the object and subject of the study. In the article the authors use the general scientific and special-legal methods of scientific knowledge. Among the general scientific methods, the following were used: the dialectical method accompanied the entire process of this study and has allowed considering the development of the accounting and financial reporting system in Ukraine, formulate points of view for their improvement within the current legislation of Ukraine and propose ways to achieve these goals. With the help of the simulation method, the forecast of the impact of the proposed changes and additions to the current legislation of Ukraine on the regulation of the investigated social relations and on the processes of harmonization of the legislation of Ukraine with the law of the European Community was made. With the help of historical method, processes of formation of international standards of financial reporting in different historical periods were investigated. The method of system analysis gave an opportunity to investigate the conceptual principles of financial reporting. In turn, the method of synthesis, as reciprocal and pair to the analysis, allowed to consider investigated legal conceptual principles as a whole, in the unity and interconnection of their constituents. The special-legal methods include: the method of comparative legal analysis allowed comparing the system of accounting and financial reporting in Ukraine with international systems. With the help of the formal legal method, the content of norms of law that regulates social relations in this area is disclosed.

The dogmatic method was used in formulating the conclusions and suggestions for improving the accounting and financial reporting system in Ukraine. The choice and use of these methods in the article is sometimes combined in nature, depending on the decision of specific research tasks. The use of the complex of these methods allowed exploring the subject of the article in all its interrelations and interdependencies, to identify certain trends, make generalizations and formulate theoretical conclusions and practical suggestions. In addition, the studied phenomena were considered in their totality.

When writing the work, an interdisciplinary approach was used, which consisted in considering issues of regulating relations in the field of accounting and financial reporting from

the standpoint of various legal sciences (financial, international, administrative law, etc.) and other areas of humanitarian knowledge (history, economics and others).

The legal and regulatory framework for the study was made up of the provisions of the IFRS, National Accounting Standards of Ukraine and a number of other normative legal acts, as well as the legislation of foreign states.

Result and discussion

Harmonization of financial reporting

Historically formed national models of accounting and reporting cannot always provide a reflection of global economic phenomena and processes. They do not create appropriate conditions for the mutual exchange of economic information. Although these financial reports, which are compiled by many business entities and provided to external users in different countries of the world, may look similar, they are different from each other due to the social, economic and legislative features inherent in each country. In addition, the needs of different users of these reports are taken into account, when setting national requirements. For example, in the United States and the United Kingdom, financial reports were first made and sent to the owners of the company – both present and potential stock market participants, who need the most reliable and detailed financial information. In Germany, there was a practice of cross-ownership of share capital, when banks and insurance companies owned shares of industrial enterprises. The information provided to such owners was not detailed, since a large shareholder often held a board of directors of the company and could directly obtain operational information and influence the decisions made. In France, the government defined the composition and amount of data included in the financial reports. Such a situation greatly complicated the analysis of information and decision-making in the context of the development of international trade and the globalization of financial markets. In these conditions, the most recognizable approach was the formation and development of international accounting, called harmonization (Hubacheva, Melnyk, 2012).

In general, harmonization of accounting systems can take place in various forms (adaptation of legislation, unification of law, implementation, standardization, etc.). It leads to a process of reducing the differences between the principles of accounting in different countries. However, in

each country there may be some differences in accounting and the system of standards that they regulate. The main thing here is that these standards do not contradict the same in other countries, that is, they were in “harmony” with each other.

Harmonization can be considered at the regional and global level. The European Union directives can be considered as an example of harmonization of accounting at the regional level. The latter are legislative instruments that define the general requirements for the compilation, content and presentation of financial reports. Thus, at the regional level within the group of countries similar in national traditions, in our case, the European Union countries, the tendency for harmonization is clearly defined. That cannot be said about its global level. Harmonization at the global level is connected with the fact that in different regional groups there are significant differences in the accounting traditions of the countries of different regions. Therefore, the systems of standards differ from each other. For example, the existence of such supranational systems of standards as: 1) Generally Accepted Accounting Principles (GAAP); 2) International Financial Reporting Standards (IFRS).

In view of the expansion of integration processes, more and more attention is being paid to the processes of standardization of accounting and reporting. Standardization of accounting refers to the order in which countries adopt rules, for example, IFRS, without any changes. It should be noted that the idea of accounting standardization has been successfully implemented within the framework of unification, namely, the exclusion of alternative methods of accounting for business operations. The unification is carried out by the International Accounting Standard Board (IASB). The logic of this approach is as follows: there should be a unified set of accounting and reporting standards that is acceptable to any situation in any country, which eliminates the need for the establishment of national standards. Terminology, as well as the definition of various concepts and categories, is of great importance in such standards. As a rule, three types of standards are used for accounting purposes: 1) international – developed by the IASB on the basis of existing national standards and practices of their application in different countries; 2) regional – developed for groups of countries in the region, for example, the directives of the member states of the European Union (the first directive contains provisions for the registration and publication of key

information about companies, the second – determines the issue of limited liability companies, the third - regulates the aspects of the merger of companies in the European Union member states, etc.); 3) national – developed for use in a particular country to account for the features of economic development. They are mandatory for use in the territory of this country.

As for Ukraine, it, like most other countries, chose the path of convergence of the national accounting system and financial reporting to international standards through harmonization. Today, the term of “harmonization of the accounting system” in Ukraine is not legally defined, so there are different views on the disclosure of its content. However, official documents often use the term “adaptation”. In the international law the adaptation is understood as “a consistent process of approximation of the state’s legal system, including legislation, lawmaking, legal technique, practice, law enforcement with the European Union legal system in accordance with the criteria put forward by the European Union to the states which intend to join it”(Yakoviuk, 2012). In the Law of Ukraine “On the National Program of adaptation of the Ukrainian legislation to the law of the European Union” No. 1629 dated March 18, 2004, it is stated that the aim of approximation of the legislation of Ukraine to the European Union legislation is to achieve the conformity of the legal system of Ukraine with the “*acquis communautaire*”, taking into account the criteria put forward by the EU States intending to join it. The term “*acquis communautaire*” (from French “joint work”, “property”) is used in the context of the accession of new states, when it comes to the conditions that a candidate country must correspond. Also, by signing an Association Agreement between the European Union and Ukraine in 2014, Ukraine has undertaken a number of commitments, including the harmonization of legislation regulating economic activity. Article 387 of the Agreement provides for further reform of accounting and auditing with the transition to international standards. Using the experience of European countries Ukraine may subsequently take a decision on full implementation of IFRS.

As a conclusion we note that despite the fact that the forms of harmonization differ both in terms of ideology and principles of implementation, but at present, these terms are used as complementary concepts. This is due to the fact that during its implementation it is essentially about the same process of bringing national legislation in line with international standards.

Main accounting and financial reporting standards in the world

The question of choosing accounting and financial reporting standards is faced by each country that chooses the path to transition to harmonization of the accounting system at the international level. There are currently two main accounting standards in the world: American (GAAP) and international (IFRS). In order to understand which financial reporting standards to choose for application, it is necessary to determine the purpose of reporting, as well as understand what the difference between each standard is.

For the first time the question of the need to introduce a standardized accounting system in the United States arose after the Great Depression of the 30's. At that time, the first attempts were made to eliminate varying interpretations and inconsistencies in accounting practice. Thanks to its many years of experience, the US has developed an operating system of GAAP. This is a system of rules, requirements and practices for the preparation of financial reports adopted and applied in a particular jurisdiction and the designation of the state before the abbreviation determines this jurisdiction, for example, the US GAAP. Since in many countries accounting regulation is largely carried out not by the government, but by professional organizations, the abbreviation of GAAP is often used outside the United States, for example, UK GAAP (UK standards), RUS GAAP (Russian standards). Compared to other standards, GAAPs are stricter in terms of investor interest. These standards are approved by the Financial Accounting Standards Board (FASB).

Another system of standards, the IFRS, was established by professional accounting organizations with a high level of experience in the development of accounting standards, financial reporting and auditing from Australia, the United Kingdom, Canada, France, Mexico and other countries. This is a system of principles (standards and interpretations) that defines the structure of financial reports. The development of such standards began in the 60's, because there was a need of "universal language of business communication" for the successful functioning of new relationships. Accounting and financial reporting were identified as such language. In 1961, a research group on accounting issues was formed in the framework of the European Union in order to solve the problem. As a result of the work, a number of directives have been

published, representing in some way a set of community laws, which member countries integrate into the systems of their national laws. In response to this, taking into account the growing need for the development and harmonization of standards in Europe, in 1973, the Committee on IAS (IASC) was created. By the beginning of the 21st century, the IASC approved more than 40 standards, some of which were subject to change, and some were so updated that they had to change their name. In 2001, the IASC Committee was reorganized into the IASB, which endorses IFRS.

Advantages and disadvantages of transition to IFRS

IFRS not only summarize the experience gained, but also actively influence the development of the national accounting and financial reporting system in Ukraine. Therefore, it is important to analyze the advantages and disadvantages of introducing IFRS into national law. The advantages are that the preparation of financial reports according to international standards permits:

- To compare financial reports based on common accounting reporting principles;
- To attract investment through the transparency and clarity of reporting, which is ensured by adherence to the rules for its compilation, as well as the availability of numerous explanations for reporting;
- To obtain the necessary information (which is described in more detail in such reporting) for making managerial decisions;
- To reduce the value of attracted capital (there is no need to perform unnecessary procedures for analysis, comparison and translation of reports under investor-understandable standards);
- To increase international investments and to enter foreign markets, taking into account that the Ukrainian stock market is currently unable to ensure the implementation of long-term investment strategies;
- To facilitate the standardization of information systems for accounting;

- Based on the fact that IFRS are less strict in comparison with national standards, they give the accountant some freedom of action within their defined parameters;
- To ensure greater trust from potential investors for which the application of IFRS is an evidence of the reliability and transparency of the information received;
- To conduct an audit in accordance with IFRS that is more effective through the interconnection of IFRS and International Accounting Standards (IAS), a unified understanding of the objectives of financial reports, and so on.

In summary, we note that the advantages of compiling financial reports according to international standards are indisputable for Ukraine. As a result, Ukrainian enterprises are gradually increasing use of IFRS in their activities. Such a transition would avoid “accounting chaos”: when one enterprise generates reporting simultaneously in accordance with national and international standards; when Ukrainian companies report exclusively to regulators, and the whole truth about business lies only in the so-called “managerial reporting” which is confirmed neither by documents nor by regulated accounting rules, and so on.

The implementation of financial reports according to IFRS has also some problems for countries. Their source is the process of implementing IFRS. The latter requires the involvement of highly skilled personnel, because such standards are not written as instructions, they are written as a philosophy. Therefore, it is not only about the preparation of IFRS reporting, but also about its understanding and use. It is also necessary to mention the financial difficulties associated with the cost of transition to IFRS, the need for institutional arrangements to ensure the development, implementation and supervision of IFRS. It is also difficult to resolve issues of legal implementation of IFRS in national legislation and the development of new standards for financial reporting. And, in the end, we note that the negative facts include the fact that the IFRS is updated and translated rather slowly. Often there is a delay in the translation of the text, or, the incorrectness of the existing translation.

Having analyzed the advantages and disadvantages of preparing financial reports in accordance with IFRS, countries independently choose the models for implementing these standards. They included four referrals for:

- 1) Countries that implement full-scale IFRS for all companies, whether or not they are included in stock listing;
- 2) Countries that enforce IFRS mandatory for only companies included in stock listing;
- 3) Countries whose legislation permits the application of IFRS or other internationally recognized reporting principles instead of national rules;
- 4) Countries whose national financial reporting standards are approaching IFRS, with the various degree of approximation of national standards to IFRS (FCSM, 2003).

Despite the fact that after the publication of such a classification has passed a lot of time, it has not lost its value and its basic foundations can be traced in modern conditions. At present, the implementation of IFRS is mandatory for all economic entities in 91 countries of the world, for a part of business entities it is mandatory in 6 countries of the world, and in 25 countries (including Ukraine), IFRS are allowed to be used along with national standards. At the same time, in many countries public companies, included in stock listing, are required to report in accordance with IFRS (Calinescu, 2016).

Political, economic and cultural factors influence the choice of a particular IFRS model in different countries. The political factors include the organization of political power in the country, a characteristic of the country in terms of political stability and power. The economic factors are: inflation, the level of business activity, the regulatory role of the state on economic relations, the tax system, the ownership of enterprises, the openness of the economy. The cultural factors include the level of education in society, the development of national culture, and so on.

System of IFRS. Conceptual basis of financial reports.

IFRSs are a special package of documents containing a brief and simple disclosure of financial reports with certain explanations. Such

a package of documents should be considered as a holistic system, which consists of certain elements (standards), has a main goal for all elements and it clearly traces the structure and interconnection between the elements. Also, this system may have certain subsystems. Analyzing the system of IFRS as of 2019, we will mention the following elements: IAS (25 standards); IFRS, or International Financial Reporting Standards (18 standards); Interpretations created by the IFRIs (Committee for the Interpretation of the ICSF) – 14 interpretations or SIC (Interpretation Standing Committee that worked before the IFRIC) – 5 interpretations.

As we see, the IFRS system is a rather complex and dynamic mechanism. It consists of standards, where each standard has its own established structure, which includes: introduction, content, purpose and tasks of the standard; explanations that disclose basic concepts and their interpretation in terms of the purpose of which users of credentials have; description of methodological problems, ways and possibilities of their solution; requirements related to the implementation of the requirements and the date of entry into force. All standards are united by the common goal, which is reducing differences in the forms of financial reporting; improve the quality and comparability of information, standardization. Each of these standards has its own meaning, but since it is an element of the system, it is not used separately from other components of the system. In addition to the standards, interpretations are also included in the IFRS. They are developed as responses to financial reporting issues that arose after the introduction of IFRS and which were not dealt with in detail in existing standards.

A rather important role in understanding the content of IFRS plays the Conceptual framework of financial reporting, despite the fact that it is not included in the system of IFRS. Here it is considered as of 2010. It contains a summary of the concepts underlying the preparation and presentation of financial reports for external users. The purpose of the Conceptual Framework is: assist the Board in developing future IFRSs and in reviewing existing IFRSs; the further harmonization of the regulatory provisions, accounting standards and procedures related to the presentation of financial reports by providing a basis for reducing the number of alternative accounting approaches permitted by IFRSs; assistance to national standards bodies in developing national standards; assistance to individuals who make up the financial reports to apply IFRS and consider issues that have yet to

be subject to IFRS; assistance to auditors in preparing an opinion on the compliance of financial reports with IFRS; assistance to users of financial reports in interpreting information contained in financial reports prepared in accordance with IFRS; providing information to those who are interested in the activities of the IASB, about its approaches to the formulation of IFRS (IASB, 2018). Taking this into account, we can determine the place of the Conceptual Framework in the IFRS system: it is a certain basis that combines IFRS as a whole. It should be noted that the Conceptual Framework is not an IFRS and, accordingly, does not define standards for a particular valuation or disclosure of information. There is nothing in it that can cancel any specific IFRS. Instead, the Board recognizes that in some cases there may be contradictions between the Conceptual Framework and relevant IFRS. In case of such a contradiction, the requirements of IFRS are dominant and prevail over the requirements of the Conceptual Framework. The Conceptual Framework, like the standards, is constantly updated in accordance with the requests of interested parties, as well as taking into account a variety of economic, social, legal and cultural factors (IASB, 2019).

Conceptual basis of financial reports

The peculiarity of the IFRS is the procedure for explaining the underlying moments of financial reporting, namely, their division into general principles and qualitative characteristics of financial reports, which in turn are divided into fundamental and reinforcing.

The general principles of IFRS include:

1. **Going concern** – continuity. It involves the preparation of financial reports based on the assumption that the enterprise will continue to operate. Consequently, it is assumed that the enterprise has neither intentions nor the need to eliminate or substantially reduce the scope of its activities. If not, then report should reflect such intentions and it should be made with the observance of another principle.
2. **Accrual basis** – accounting by the accrual method, according to which, business transactions are accounted at the time of their commission, and not at the time of receipt or payment of cash or cash equivalents. Thus, transactions are reflected in the reporting period in which they were committed. This

provides an opportunity to get objective information about future obligations and future cash inflows, so it allows you to predict the future results of the enterprise.

Compliance of information to qualitative characteristics makes it more interesting and accessible and important for the user. Qualitative information contains fundamental and reinforcing characteristics. *The fundamental qualitative characteristics include: relevance, true representation of reporting.*

Indicator of the relevance of information is its ability to influence the decisions that will be taken on its basis. Financial information on this principle has a predictive and confirmatory value. Predictive value is reflected in the fact that such information can be used by users to predict their future earnings.

Confirmatory value is connected with the fact that it confirms or modifies previous estimates of financial information. These two types of values of financial information are interconnected. Information of a predictive value often has confirmatory value. For example, information on income for the current year, which can be used as a basis for predicting future earnings, can be compared with income information for past years (IASB, 2018). This comparison is important for users, because it allows analyzing and using the information with a benefit for them. An important aspect of relevance is *the substantiality of information*. Information is considered as substantial if its silence or distortion affects a decision taken on its basis. Only the financial reporting user can determine the level of substantiality. Therefore, the IFRS Board has determined that there is no single “threshold of substantiality”, and that this issue should be approached individually.

An important characteristic of the information is its true presentation. In financial reporting it refers to the completeness, impartiality and absence of errors in the financial reports. Reporting users should be able to verify that they have received true information that reflects the actual state of the enterprise. Therefore, the IFRS Board strives to ensure that all these qualitative characteristics are reflected as much as possible in the financial reports. If the process of securing the fundamental characteristics of financial reporting has reached its goal, that is, the information provided was relevant, truthful, accessible and substantial, so it ends. If not, then the attention has to be paid to a more detailed

consideration of information. This opportunity is provided by enhancing the qualitative characteristics of financial reporting that enhance its usefulness. *These include: comparability, the ability to verify, timeliness, clarity.*

Comparability of information makes it possible to compare financial information of two companies or one company at different periods, allowing users to identify and understand the similarities of the articles and the differences between them. Unlike other qualitative characteristics, comparability does not apply to only one article. There is a need at least of two articles to compare. Consistency is also closely related to the comparability. It suggests the use of identical methods for analyzing one economic phenomenon. In the opposite case, that is, when alternative accounting methods are used, this greatly reduces the comparability of this economic phenomenon and reduces the economic effect. The comparability and consistency are correlated as follows: comparability is a goal, and consistency helps to achieve this goal.

The next characteristic is the ability to check information that helps assure users that information (both quantitative and qualitative) accurately reflects economic phenomena. The possibility of such verification means that various informed and independent observers can reach consensus (or incomplete agreement) on the truth of a particular description (IASB, 2018). Verification can be direct and indirect. The use of direct verification reduces both partiality and possibility of distortion of information. The action of indirect verification aims at minimizing biased judgments, rather than eliminating the distortion of information due to incorrect selection of accounting methods and procedures.

Information should be timely. Because the information received in a timely manner implies the possibility of its influence on decision-making by interested persons. Users conclude on the degree of timeliness of information based on their own needs. The usefulness of information contained in the financial reports is eventually lost. Although, some information may remain a timely for long period of time and can be used to compare economic performance for different periods. If the information provided is clear and concise, it makes it *understandable*. Based on the fact that some phenomena are complex in nature and cannot be easily understood, it is assumed that the information displayed in the reporting must be clear to the user. In order to do this, the user must have sufficient knowledge in the field of accounting, reporting and auditing.

It should be noted that the Conceptual Framework is constantly updated. This has both positive and negative effects. At present, a number of important principles have been excluded from the Conceptual Framework, which, in our opinion, would have a positive impact on the qualitative characteristics of financial reporting. These include the principle of *predominance of the essence over the form and the principle of prudence*. The content of the principle of the predominance of the essence over the form is that transactions carried out by economic entities are reflected in accordance with their economic content, and not in legal form. Accordingly, the disclosed information should truly reflect the economic transaction in the financial reports. For example, simplification of the requirements for the registration of primary documents, namely, insignificant shortcomings in the primary documents henceforth are not grounds for non-recognition of a business transaction. That is, if such shortcomings do not prevent the identification of the person who participated in the business transaction and contain information about the date of the document, the name of the entity on whose behalf the document is prepared, content and volume of the business transaction, then such primary documents are considered as confirmation of the economic transaction. It is important to note that this norm changes the long-standing practice of the controlling bodies of non-recognition of business operations due to minor mistakes in the design of primary documents.

The principle of prudence is the most controversial in accounting. The content of this principle is associated with a certain careful application in the accounting of methods of valuation that must prevent the overestimation of assets or income and the reduction of liabilities and expenditures. This principle was present on the Conceptual Framework, issued in 1989 and adopted by the IASB in 2001, as one of the factors that can make financial information useful. In paragraph 37 of the Conceptual Framework of 1989, he was described as the use of a “cautious” approach when making judgments under uncertainty. However, users have interpreted it differently, but most inclined to that the company would more readily recognize the losses, not profits. This attitude was due to the fact that the Conceptual Framework indicated the need for the value of assets and income not to be overestimated, and the obligations and costs were not underestimated. This, according to some experts, was at odds with another principle – neutrality.

Critics (mostly American) have noticed that understatement of assets or overstatement of liabilities leads to distortion of data in the financial reports of later periods. That’s why such reporting can be called neither impartial nor neutral. In this regard, the mention of prudence was excluded from the Conceptual Framework of 2010. However, “caution” is mentioned in Part 1 (c) of Article 6 of Directive 2013/34/EU “On the annual financial statements, consolidated financial statements and related reports of certain types of undertakings as one of the main principles for the preparation of financial reports” (EP, 2013). Thus, we can summarize, that both the fundamental and qualitative characteristics of financial reporting are important for a true understanding of the standards and help to resolve issues that are not explicitly disclosed in IFRS.

The principles serve as the basis for financial reporting in Ukraine. They are enshrined in the Law of Ukraine “On Accounting and Financial Reporting” No. 996 dated July 16, 1999 (hereinafter the Law on Accounting) and in the National Accounting Standards (Standards) “General Requirements for Financial Reports”. The analysis of these legal acts provides the basis for the conclusion that the principles of formation of financial reports in their composition and content are generally in line with IFRS. Taking into account that the process of adaptation of Ukraine’s legislation to IFRS takes place in very short terms, comparing with other countries where it was significant in time and carefully thought out, it is possible to identify certain differences between national standards from IFRS. First of all, the fact should be noted that since 2018 national standards in Ukraine are developed on the basis of international standards (and before 2018 they should not have been contrary to IFRS). As national can be considered those standards that are based on rules. They are lawful and binding. At the same time, international standards are based on concepts, principles and recommendations, allowing the accountant to act freely within the specified parameters in each practical situation. IFRS do not directly determine the accounting procedures, but only describe the general rules for evaluating and reporting information in the financial reports, and include a large number of notes detailing the essence of the transaction.

After analyzing the differences between national and international standards in relation to the fundamental requirements of financial reporting, it can be concluded that the national principles are not sufficiently detailed. The main

differences between them are due to different interests of users. Therefore, one of the areas of regulation of the accounting and financial reporting system in Ukraine is the further harmonization of national standards and IFRS. National standards are compact in scope and do not contain explanations. They are characterized by strict regulation and the establishment of rigid forms of financial reporting. There is also a significant difference in the satisfaction of users' reporting information needs: for international standards, the needs of investors and owners are decisive, and financial reports are prepared according to national standards aimed at satisfying, first of all, the information needs of public authorities. There are also differences in the disclosure of qualitative characteristics of financial reports that are disclosed in Ukraine, primarily in National Accounting Standard. They are less detailed than IFRS, because reporting is primarily aimed at public authorities. They do not have such requirements for information as neutrality, application of professional judgment of the accountant and others.

Ukrainian system of accounting and financial reporting and its compliance with IFRS.

Considering the introduction of IFRS in Ukrainian legislation, it should be noted that the IFRS Board is a non-governmental organization. Therefore, it cannot demand the application of international standards for any country. In turn, IFRS are not normative legal acts. Therefore, the obligation to apply them in Ukraine may arise only when these standards are endowed with a special status by the law or decision of the national regulatory authority. Today Ukraine has developed a multilevel system of accounting and reporting which affected the formation implementation of IFRS. It can be divided into the following levels:

- Creation of legislative and organizational prerequisites for the implementation of IFRS;
- Improvement of the system of national legislation, which regulates accounting and financial reporting in accordance with IFRS;
- Formation of normative base and methodical maintenance of accounting and financial reporting based on IFRS;
- Expansion of international cooperation and application of world experience.

Thus, Ukraine has taken important steps forward transition to IFRS. The normative legal acts regulating the process of implementing IFRS into Ukrainian legislation include:

- Decree of the President of Ukraine No. 303 dated May 23, 1992 "On the transition of Ukraine to the generally accepted international accounting and statistics system practice" and the adoption of a number of important government resolutions;
- Program for reforming the accounting system with the application of international standards (Resolution of the Cabinet of Ministers of Ukraine No. 1706 dated October 28, 1998);
- Strategy for the application of International Financial Reporting Standards in Ukraine (Resolution of the Cabinet of Ministers of Ukraine No. 911-r dated October 24, 2007);
- Strategy for modernization of the accounting system in the public sector for the years 2007-2015 (Resolution of the Cabinet of Ministers of No. 34 dated January 16, 2007);
- Law on Accounting;
- National Accounting Standards, approved by orders of the Ministry of Finance of Ukraine and other normative-legal acts.

Their main goal is to organize measures for the implementation of a unified system of accounting and statistics in Ukraine that is in line with generally accepted international practice, legislative regulation of the application of international standards, adaptation of the national legal and regulatory framework for accounting in accordance with international standards and legislation of the European Union, increase of transparency level and openness of accounting and financial reporting, improvement of the system of training and retraining of personnel in this area and other. In general, the idea of using international standards in Ukraine was not a new one. Initially, this was a requirement for entities that compiled financial reports for their foreign investors. Subsequently, in 2011, the Ministry of Finance of Ukraine and the National Bank of Ukraine signed a Memorandum on cooperation and coordination of actions on the introduction of IFRS in Ukraine. This Memorandum was

supported and signed by USAID Financial Sector Development Project, the Federation of Professional Accountants and Auditors of Ukraine, the Academy of Financial Management, the Union of Tax Consultants and other bodies (Calinescu, 2016). The basis of the accounting system is the Law on Accounting. This law applies to all legal entities established in accordance with the legislation of Ukraine, regardless of their organizational and legal forms and forms of ownership, to representations of foreign business entities, which are obliged to keep records and submit financial reports, as well as transactions on execution of state and local budgets and preparation of financial reporting on budget execution taking into account budget legislation. Taking into account the fact that in Ukraine the process of implementation of international standards continues, this requires amendments in the national legislation. In accordance with these amendments, Article 12-1 "Application of International Standards" was added to the Law on Accounting, which came in force in 2012. These changes stipulate that enterprises, for the purpose of drawing up financial reports, must apply international standards set forth in the official language and officially published on the website of the Ministry of Finance of Ukraine. Further changes in the law has expanded list of entities that should make up the reporting by international standards mandatory. These include:

- 1) enterprises of public interest. Such enterprises include companies - issuers of securities whose securities are admitted to stock trading, banks, insurers, non-state pension funds, other financial institutions (despite other financial institutions and non-state pension funds belonging to micro enterprises and small enterprises) and enterprises, belonging to large enterprises (large payers are currently subject to the following criteria: the book value of assets – more than 20 million euro; net income from the sale of products (goods, works, services) – more than 40 million euro; the average number of employees is more than 250 people);
- 2) public joint stock companies (PJSC);
- 3) enterprises engaged in mining activities of national importance (these are enterprises engaged in geological study, including research and development, mineral deposits of national importance and/or mineral extraction of national importance, and/or the execution of works (activities) provided for in the production-sharing agreement for useful fossil fuels of national importance, and/or transportation of pipelines (including for transit purposes) of hydrocarbons and chemical products);
- 4) enterprises, which conduct economic activity by types, the list of which is determined by the Cabinet of Ministers of Ukraine. These include enterprises that carry out economic activities in the following categories: providing financial services, except insurance and pensions; non-state pension provision; auxiliary activities in the fields of financial services and insurance (VRU, 1999).

All other enterprises can independently determine the appropriateness of applying IFRS for the preparation of financial reports. The only thing that is needed for them is to inform the State Statistics Service of such a move. For example, taking into account the updated classification of enterprises by size (they are divided into microenterprises, small, medium and large), for large enterprises it is mandatory to apply IFRS.

For many small, in most cases, the application of international standards is not necessary, although for them there are also IFRSs for small and medium-sized enterprises (they are components of IFRS). This is due to the fact that for small enterprises whose operations do not exceed a certain level of complexity, it makes no sense to rebuild the entire accounting system in accordance with the requirements of IFRS, since the conceptual basis of accounting with a small degree of complexity is insignificant. In accordance with IFRS, the purpose of financial reports is to provide information about the financial position and performance of the enterprise. Therefore, as of January 1, 2018, the Law on Accounting has regulated a new form of the report – a management report submitted by large and medium-sized enterprises. This document contains financial and non-financial information that characterizes the state and prospects of enterprise development and reveals the main risks and uncertainties in its activities (VRU, 1999). The list of directions and indicators disclosed in this report is not exhaustive, since the Law on Accounting sets only general requirements for the information disclosed in the report. Therefore, it is possible to

disclose any information that is appropriate. In essence, this is a document in which enterprises talk about their current affairs and plans for the future. Analogues of the management report can be found in almost every large company focused on the international market. For example, the annual reports of NJSC “Naftogaz of Ukraine”:

- 1) in the report for 2014 there was a section on corruption in the gas industry;
- 2) in 2015 – the separate information on subsidies was explained;
- 3) in 2016 – information on how gas from the deposit comes to consumers;
- 4) in 2017 – about winning the Stockholm Arbitrage. The information disclosed in the management report is individual for every enterprise; therefore, the Ministry of Finance of Ukraine did not approve the form of such a report.

There may be two types of information in the management report: financial and non-financial (medium-sized enterprises may not reflect it). The reflection of financial information is mandatory. The IFRS defines financial information as contributing to an understanding of the enterprise’s financial position, its results and helps to assess the present and future cash flows. Legislation of Ukraine does not explain what information should be considered as financial. Therefore, based on its interpretation in IFRS, we can consider it as certain indicators that affect the financial reports of the enterprise and are important for users, and, in particular, the organizational structure and description of the enterprise’s activities, liquidity and its obligations, results of activities, and so on. Regarding non-financial information, it reveals the impact of the enterprise’s activities on the environment, on the social sphere, including issues of social protection of employees of the enterprise, the fight against corruption and bribery, etc. The management report is an organic addition to the annual financial reports, with which it should be submitted by the enterprise. It is placed in own web page or web-site of the enterprise.

One of the areas for further transparency, strengthening financial stability and further integration of Ukraine into the European Union is the compilation and presentation of financial reports based on taxonomy. Taxonomy according to international standards is an interpretation of IFRS standards into XBRL

format. Besides XBRL, there are other standards, such as XML. But Ukraine has chosen XBRL. This is an open standard for the accounting of business information. In Western countries, it is a generally accepted standard for submitting financial reports according to IFRS and US GAAP in electronic form. An important feature of it is the openness of the standard. This means that companies that use XBRL do not need to buy licenses and pay fees for using it. XBRL does not set new reporting standards, but standardizes the information and metrics used to compile reports from different companies for comparison and analysis. The achievement of such a financial reporting system in electronic form is that it simplifies the business of Ukrainian enterprises. Enterprises will submit mandatory financial reports based on the principle of “one window” – in one universal format for all regulators of the financial market (the National Commission for Securities and Stock Market, the National Bank of Ukraine, the Ministry of Finance of Ukraine, the National Commission, which carries out state regulation in financial services markets), although previously the financial reports were submitted to each regulator separately, and the reporting formats differed from one another. This will give new opportunities for the access of all interested users to unified, reliable and high-quality financial reporting. Because analysts of global investment companies, international experts will be able to make more substantiated and accurate analyzes of the current situation and forecasts of the development of both individual Ukrainian enterprises and the national economy as a whole.

Conclusion

As a conclusion we note that the purpose of the reform of accounting and financial reporting in Ukraine was to bring the national accounting system in line with the requirements of international financial reporting standards. This development process is connected with the expansion of Ukraine’s ties in the world. Taking into account that the IFRS system is a rather complex and dynamic mechanism, its development is related not only to the transition of the country to international standards, but also with the availability of a modern audit system, relevant market infrastructure (securities market, markets by type of assets, system development assessments), as well as changes in the legislative framework. At the same time, the restructuring of the national accounting and financial reporting system should be as close as possible to the existing international theory and practice and, at the same time, reflect the economic features of

Ukraine. For this purpose Ukraine, in addition to the above, should take the following steps: 1) to develop methods and recommendations for the application of IFRS; 2) to develop measures for the retraining and training of specialists in international financial reporting standards, taking into account that standards are not written as instructions but written as a philosophy; 3) to ensure cooperation between domestic specialists and specialists in IFRS.

References

- Calinescu T. (2016) Adaptation of International Standards of Financial Reporting to conditions of operation the national enterprises. *Journal of Economic Reforms*. Issue 4 (24). 65-70.
- CMU (Cabinet of Ministers of Ukraine) (1998) Resolution "On Adoption of the Program for reforming the accounting system with the application of international standards" dated October 28, 1998. [Electronic resource]. - Access mode: <https://zakon.rada.gov.ua/laws/show/1706-98-%D0%BF> (accessed June, 2019)
- CMU (Cabinet of Ministers of Ukraine) (2007) Resolution "On Adoption of the Strategy for modernization of the accounting system in the public sector for the years 2007-2015" dated January 16, 2007. [Electronic resource]. - Access mode: <https://zakon.rada.gov.ua/laws/show/34-2007-%D0%BF> (accessed June, 2019)
- CMU (Cabinet of Ministers of Ukraine) (2007) Resolution "On Adoption of the Strategy for the application of International Financial Reporting Standards in Ukraine" dated October 24, 2007. [Electronic resource]. - Access mode: <https://zakon.rada.gov.ua/laws/show/911-2007-%D1%80> (accessed June, 2019)
- EP (European Parliament and the Council) (2013) Directive 2013/34/EU "On the annual financial statements, consolidated financial statements and related reports of certain types of undertakings" dated June 26, 2013. [Electronic resource]. - Access mode: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013L0034> (accessed June, 2019)
- FCSM (Federal Commission on Securities Market) (2003) Report on International experience in the application of IFRS. Part 1. Moscow: FBK-Audit, Financing, Law, 2003. [Electronic resource]. - Access mode: https://gaap.ru/articles/otchet_o_mezhdunarodn
- om_opyte_primeneniya_msfo_chast_i/(accessed June, 2019)
- Hubacheva O., Melnyk S. (2012) Accounting in foreign countries. Kyiv: Center of educational literature. 400.
- IASB (International Accounting Standard Board) (2018) International Financial Reporting Standards (in Ukrainian) [Electronic resource]. - Access mode: <https://www.minfin.gov.ua/news/view/mizhnarodni-standarty-finansovoi-zvitnosti--pereklad-ukrainskoiu-movoiu---rik?category=dohidna-politika&subcategory=buhgalterskij-oblik> (accessed June, 2019)
- IASB (International Accounting Standard Board) (2019) Conceptual Framework of financial reporting (in Ukrainian) [Electronic resource]. - Access mode: <https://www.minfin.gov.ua/uploads/redactor/files/%D0%9A%D0%BE%D0%BD%D1%86%D0%B5%D0%BF%D1%82%D1%83%D0%B0%D0%BB%D1%8C%D0%BD%D0%B0%20%D0%BE%D1%81%D0%BD%D0%BE%D0%B2%D0%B0.pdf> (accessed June, 2019)
- IFAC (International Federation of Accountants) (2006) International Accounting Standards. [Electronic resource]. - Access mode: <https://www.iaasb.org/clarity-center/clarified-standards> (accessed June, 2019)
- Ministry of Finance of Ukraine (2013) Order "On Approval of the National Accounting Standards 1 "General Requirements for Financial Statements" dated February 7, 2013. [Electronic resource]. - Access mode: <https://zakon.rada.gov.ua/laws/show/z0336-13> (accessed June, 2019)
- President of Ukraine (1992) Decree "On the transition of Ukraine to the generally accepted international accounting and statistics system practice" dated May 23, 1992 [Electronic resource]. - Access mode: <https://zakon.rada.gov.ua/laws/show/303/92> (accessed June, 2019)
- VRU (Verkhovna Rada of Ukraine) (1999) Law of Ukraine "On accounting and financial reporting in Ukraine" dated July 16, 1999. [Electronic resource]. - Access mode: <https://zakon.rada.gov.ua/laws/show/996-14> (accessed June, 2019)
- Yakoviuk I.V. (2012) Adaptation of Ukrainian Legislation to the Legislation of the European Union: Problems of Theory and Practice. *European Union and Ukraine: Peculiarities of Relations at the Modern Stage*. Kharkiv: Oberig.