Ministry of Education and Science of Ukraine

Ternopil National Economic University

On the 50th anniversary of the Ternopil National Economic University

ACCOUNTING IN UKRAINE UNDER IMPLEMENTATION OF THE EUROPEAN LEGISLATION

Monograph

Ternopil
TNEU
2017

ББК 65.052.2+65.052.201У(0)
Б-94

УДК 657
JEL M40; M41; M48

Autors:

M. Luchko, N. Khorunzhak, I. Benko, N. Zoriy, S. Sysiuk, N. Melnyk, I. Lukanovska, L. Shtymer, O. Adamyk, S. Yatsyshyn, V. Rozeluk, S. Zhukevych, T. Burdeniuk, L. Savchuk, A. Farion

Reviewers:

Kuzminskyy Y. A., Doctor of Economics, Professor,
Head of Department of Accounting, Kyiv National Economic University, named after Vadym Hetman;

Pylypiv N. I., Doctor of Economics, Professor,
Head of Department of Theoretical and Applied Economics, Vasyl Stefanyk Precarpathian National University;

Khomyn P. Ya., Doctor of Economics, Professor
of Department of Accounting and Auditing, Ternopil National Technical University

The monograph approved for publication
by the Scientific Council
of Ternopil National Economic University
on Novemder 16, 2016, minutes # 3.

Б-94 **Accounting in Ukraine under implementation of the European legislation** : monograph / Under the guidance of Doctor of Economics, Professor Mykhailo Luchko. – Ternopil : TNEU, 2017. – 232 p.
ISBN 978-966-654-446-2

The monograph is devoted to problems of development and improvement of the accounting system in Ukraine in accordance with European legislation and implementation of principles and approaches recommended by the International Financial Reporting Standards. The research provides the theoretical study of improvement of the legal framework and practice of accounting, ways of solution of organizational issues and reasoning for the use of modern accounting methods and advanced information models. The monograph is intended for researchers, practitioners and students, who take economics courses.

ББК 65.052.2+65.052.201У(0)
УДК 657

ISBN 978-966-654-446-2

Contents

Preface

The growth of capital mobility, the expansion of interconnections between individual countries, the increase in international trade, the establishment of international and transnational corporations and many other factors contribute to the progressive development of economic relations which are established to date in the global economy and are characterized by the further development of globalization processes. The creation of the global financial information system leads to a change in requirements that are faced by accounting, analysis and audit. One of the main international processes occurring in the world today is the harmonization of national systems of accounting and financial reporting in different countries.

Widespread use of positive international experience in issues of accounting system formation plays very important role. In this context, the study of problems of the implementation of international accounting standards into the national accounting system is sufficiently urgent because it enables to evaluate the real chances of implementing international requirements and the effect of their application in practical area of a specific country.

An important feature of Ukraine joining to the EU is compliance of national goals, principles and norms of policy and legislation with law and order of the EU, which is based on the so-called «common heritage» (acquis communautaire). The particular importance of acquis communautaire concept consists in ensuring uniformity of the legal system of the European Union, providing the integrity of the system and obligation of identical application of law in all EU member states. Successful implementation of international accounting experience is possible only in case of improvement of the business climate in Ukraine, as well as establishing effective and constructive partner relations between institutions that are appointed to control the process of adaptation and implementation of IFRS.

The monograph deals with the problems of development and improvement of the Ukrainian accounting system with European legislation and implementation of principles and approaches recommended by the IFRS.

The monograph was prepared by the academic staff of the Department of Accounting in the Public Sector of Economy and Service Sector under the guidance of Doctor of Economics, Professor, Head of Department Mykhailo Luchko.

Authors:

Chapter 1.
1.1. Mykhailo Luchko, *Doctor of Economic Sciences, Professor*
1.2. Nadiya Khorunzhak, *Doctor of Economic Sciences, Associate Professor*
1.3. Iryna Benko, *PhD, Associate Professor*
1.4. Nadiya Zoriy, *PhD, Associate Professor*
1.5. Svitlana Sysiuk, *PhD, Associate Professor*

Chapter 2.
2.1. Nataliya Melnyk, *PhD, Associate Professor*
2.2. Iryna Lukanovska, *PhD, Assistant Professor*
2.3. Lesya Shtymer, *PhD, Assistant Professor*
2.4. Oksana Adamyk, *PhD, Associate Professor*
2.5. Svitlana Yatsyshyn, *PhD, Associate Professor*
2.6. Viktoriya Rozeluk, *Doctor of Economic Sciences, Associate Professor*

Chapter 3.
3.1. Svitlana Zhukevych, *PhD, Associate Professor*
3.2. Taras Burdeniuk, *PhD, Associate Professor*
3.3. Leonid Savchuk, *PhD, Associate Professor*
3.4. Antonina Farion, *PhD, Assistant Professor*

Chapter 1

GLOBAL ASPECTS OF THE ADAPTATION OF ACCOUNTING IN UKRAINE WITH EU LEGISLATION

1.1. EXTRAPOLATION OF PARTICULAR PROBLEMS OF ACCOUNTING

Ukraine is on the threshold of European Union. Exactly this way is possible to define and describe present time, businesses situation and that place, where we are. All economic indicators and rating are disconsolate. There is no way to move back. So, not only legal platform of changes process, desire and willingness of parties, political and economic mechanisms must take an important place. The main idea here is a psychology of such transition, aspiration of adopting leaders' experience of economic and political reforms, fundamental changes of worldview, mentality of European Union leaders.

Before explaining the topic it is important to mention that systematic approach is inherent to the accounting. System is defined as totalities which are in relations and connections between themselves, creating certain integrity and unity. There is certain goal for which the system is created. Only essential elements in terms of goals are included to the system. The goal determines setting and solving certain tasks which mean ways and means of goals achieving.

Simple phenomenon or a category is a starting point of every science. In physics or chemistry it is atom, in biology it is a cell, in an economic theory, going out its classic principles, a primary category is a commodity. There are three interrelated ideas in the basis of neoclassical economic theory: the idea of equilibrium, the idea of possibility mathematically strict interpretation of economic phenomena and the idea of clean economic science.

The initial point of researches in accounting is a fact of business activity, its cost. It identifies and represents only economic, or only legal, or economic and legal phenomenon simultaneously, or doesn't carry any subject matter.

Consequently, accounting system is based on the facts of business activities of all subjects, on data, which make the information. Elements of this system are accounts in which process of connection disclosure takes place through the double entry as the first methodological level of an accounting system. Herewith, the second level of accounting system is accounting form and the third level is organizing of accounting.

The methodology of science is thinking and world, perceived through the thinking. In accounting methods of reflection of facts in particular accounting entries is usually called methodology. At this stage, when all types of accounting are integrated, we should say that the cognition of its limits can only be obtained from the exploration of an overall cycle of management and directly management itself. It becomes primarily a system of an observation, measurement and classification facts of business activity, which creates, summarizes, organizes and transmits information in the form of knowledge for the management of business processes.

The following should be highlighted regarding this connection: the goal of accounting is to manage business processes, its content are knowledge about the facts of business activity, its operating function is monitoring, measurement, classification, generalization, transferring and using of information. Therefore, it becomes clear that the goal of accounting lies beyond it. It's designed to manage business processes, and not only to display them or recreate.

A set of interrelated principles (concepts), definitions, statements and opinions that form system of notions about phenomena is called a theory in the broad sense [96; 103; 121]. It permits us to explain such phenomena and prevent them. Thus, the theory is firstly and foremost the system. At the present stage of scientific research in theory and practice of accounting in Ukraine only a small number of works is characterized by such approaches, in which all of the theoretical and empirical advances would be summed up. It was noted in the statements of scientists at many conferences and also at articles of some local scientists.

It should be emphasized that accounting in the USA is considered to be an independent science, while in the Polish Republic it is one of the economic sciences and in Germany it is one of the management sciences. Perhaps such realities of scientific existence should create tasks for researches of the theory of accounting in these countries. Whether they should be common to all countries?

What is the accounting theory? It can be explained in different ways; there are a lot of approaches to it. There are also a significant number of definitions. For example, the famous Ukrainian scientist-accountant A.M. Halahan in his book «Textbook on Accounting» in 1916 tried to define the theory and indicate the nature and types of it.

Interestingly, in Webster's Dictionary (An American Dictionary of the English Language), which is republished almost every year and its last publication contains 450 thousand terms of English language, known since 1755, it is stated that «The theory of accounting is consistent, internally non-contradictive and logical set of hypothetical, conceptual and pragmatic principles that form the overall frame of reference for the study of the nature of accounting». According to the book of Eldon S. Hendriksen and Michael F. Van Breda accounting theory may be defined as logical reasoning in the form of a set of broad principles that provide a general frame of reference by which accounting practice can be evaluated, and guide the development of new practices and procedures [84, p. 23].

Highlight characteristic features that distinguish science of accounting from other sciences: 1) is a complex linear science which is built on cause-and-effect relationship and refers to special, functional sciences; 2) has its subject, research method with its elements; 3) has its objects, the list of which expands with time; 4) is active towards the practice; 5) has developed system of scientific theories; 6) has invariant nature.

To our opinion, under consideration of accounting theory, it is necessary to be attended to its functions. Functions of accounting are investigated sufficiently. Their meaning in the accounting theory consists in the explaining how phenomena and events that are studied by accounting are connected and represented by means of it. Based on the foregoing, the functions of accounting theory are: generalizing, communicative, predictive and practical. Each function executes only inherent to it task. Thus, function of generalizing is axioms and theoretical conceptual positions formation for accounting policies and its practice. Communicative function is a kind of «language» of accounting. Its essence consists in creation of conceptions, definitions and concepts that will be used in future. The meaning of predictive function is studying of changes in accounting and their prediction in the future for the purpose of general strategies creating. The practical function of account theory consists in coordination among the tasks of previous functions, harmonization without conflict, and thus it folds integrated system of knowledge to achieve general goals of activity. In the narrow sense, for achieving management purposes today or in the future, and thus in close interconnection.

What do we have in reality? Look at the picture 1 to reduce the description and generalize the accounting reality. So, due to the elements of accounting theory its legislative, normative and subjective regulation is formed. In practice all types of accounting are formed for users in accordance with the set of principles. Further, there are only abstractions because the users of accounting do not influence on its theory. And it’s not the best result for its existence, research and development.

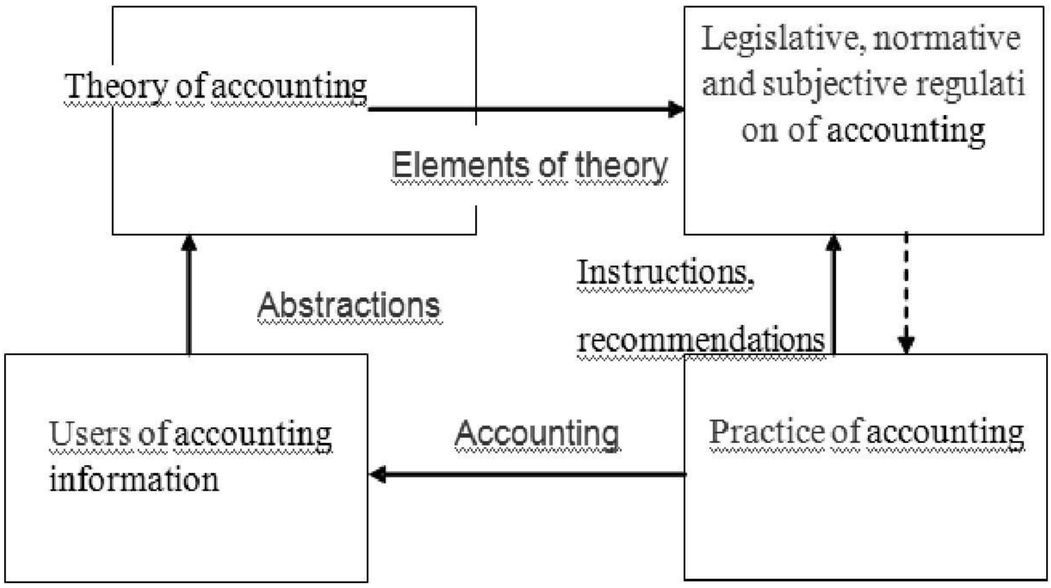

Figure 1.1.1. **Generalization of empirical data in accounting theory**

The business process as objective reality must set requirements to the accounting and they are changeable. It includes people, who are involved in it and resources that form its material basis. Such essence of business process stipulates dual nature of accounting that must represent facts and control activity of people and resource efficiency. Therefore it's logical that accounting is, first of all, the integrated informative system which recreates the facts of business activity with the purpose of choosing and realization of administrative decisions. The rules of such recreation fold the subject of accounting as a science about the content of business activity facts. Its goal is revealing the meaning of legal and economic categories with the help of which these facts are studied. In this determination, essence is semantics of business activity facts, and structure of content is syntax. «If the theory is not supported with the facts, is empty, the facts are not confirmed by a theory, are blind», said Imanuyil Kant. Therefore, it can be not always permanent, dynamic and operative development of science, and if it stops in the motion of theory for a small period of time, it does not mean that it is absent, or it's necessary, like fashion, to change its name.

It is clear that countries of European Union take the International standards of financial statements (IAS–IFRS) for the basis of systems construction of accounting and statements. They are built on certain principles of their preparation and stowage which form the main purposes of the financial statements and general conceptions that are the basis of their stowage and presentation. The main principle is accounting using the method of charges and assumption of continuous activity in accessible for a review future. However, it should be noted that IAS-IFRS is not obligatory for the application and is not used in a number of countries or its application is limited. Thus, statements in the USA are made in accordance with Generally Accepted Accounting Principles (GAAP), and these standards are significantly different from International Accounting Standards (IAS). In the recent years the processes of accounting and financial statements harmonization were notably accelerated at the international level. The process of rapprochement of two most widespread in the world systems IAS–IFRS and US GAAP deserves the most attention in the questions of convergence.

Great experience is accumulated in the theory and practice of accounting in Ukraine, but also there are a lot of problematic questions which with no doubt must be solved for the true statements and management requirements forming. In scientific literature great attention is paid to necessity of development of accounting theoretical principles and methodology. First of all, it is appropriately related to those alterations that constantly take place in the general cycle of management and to the necessities of their informative providing. Changes of institutional character that are related to including subjects of ménage in Ukraine to European economic space should be taken to consideration. To our opinion, there is a necessity to research the risks in the conditions of uncertainty of business activity and instability of macro- and microenvironment, state economic policy, especially in a transition adaptation period. Exactly the uncertainty of the state of environment, in which business functions, and of internal production situations, that have mostly strained character, causes management to take a significant risk. The mentioned action is directed both to the profit and to the additional costs of activity, and then to the losses, as a result of business activity. This cause and effect relation mostly influences financial property state and obligation.

Risk, which is one of the most complicated economic categories and related to the results of economic activity, is characterized by the following features: probabilistic and economic nature, variability and alternativeness, uncertainty of results, fluctuation of level and conditional constancy. Risk is an objectively-subjective category and in many cases can be mathematically calculated. A fundamental value for understanding the nature of enterprise risk and its meaning has a connection with risk over time, costs and profit. One of the main conceptions of enterprise production and business activity and of management tasks is a problem of interrelation of these categories [118]. Management of economic risk is made by means of such methods: risk avoiding, risk localization, risk desiccation, compensation of risk losses [144]. In the process of European legislation implementation a question of external and internal activity risks value that have bilateral connection is extremely important. In such case internal risks are the centers of forming losses (internal production accounting) and factors as risk groups (Table 1.1.1).

Table 1.1.1

Types and groups of risk as centers of losses forming and production factors

Centers of losses forming – types of risk	Transport Supply Industrial Saving of products Sale Logistic Administrative
Production factors – risk groups	Labor force Objects of labor Means of labor

The transition of accounting to a new economic level of management system service undoubtedly leads to the appearance of its new facilities. The general «turbulence» and accordingly disappearing totality of separate known parameters put in the basis of all innovations the demand of changes in accounting ideology that is formed on the generally accepted basis of quality. IAS–IFRS are formed on such fundamental principles of accounting stowage (Figure 1.1.2).

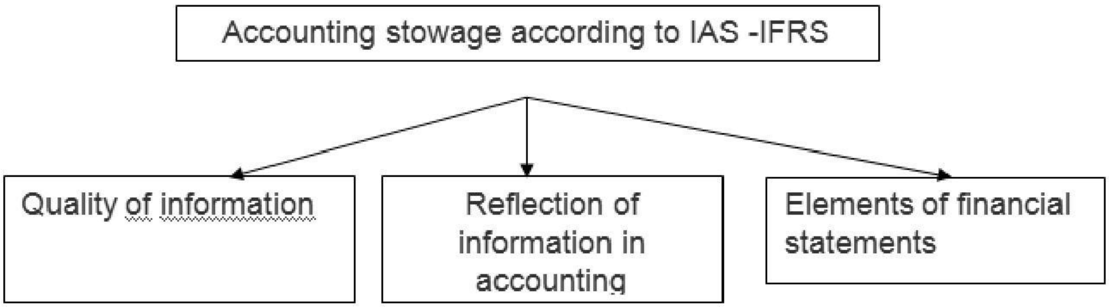

Figure 1.1.2. **Principles of accounting stowage according to IAS–IFRS** [18]

In our view, the quality characteristics of accounting, as bases of accounting stowage are basic requirement, and thus need detailed analysis. They include the interpretation of such concepts (see Figure 1.1.3).

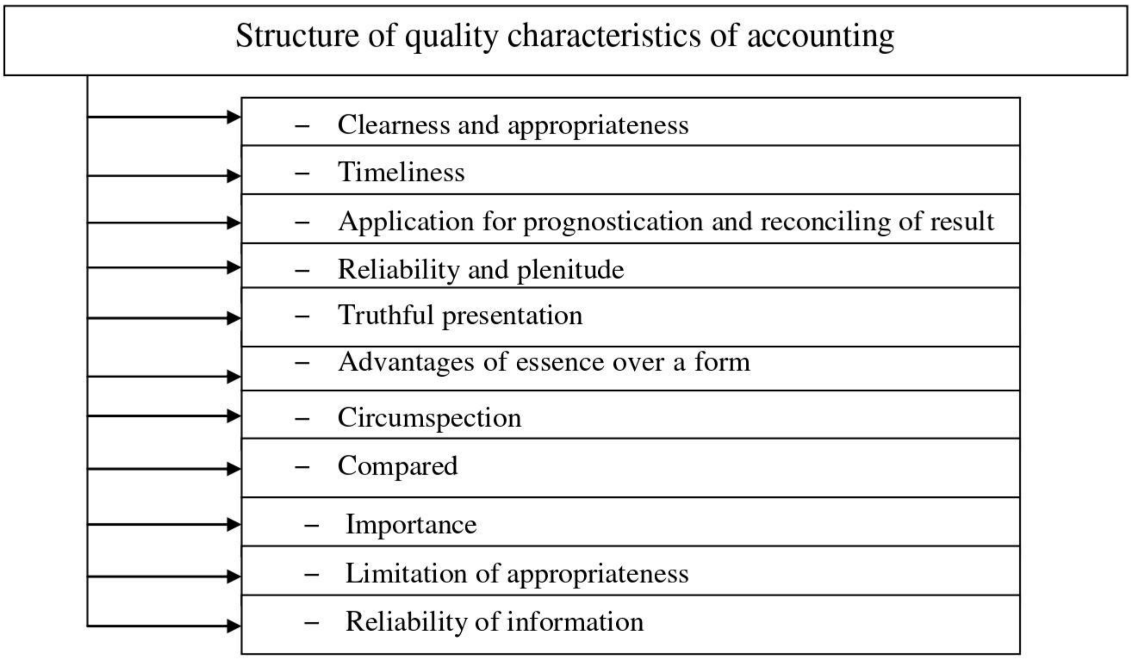

Figure 1.1.3. **Elements of quality characteristics of accounting**

In classic works of accounting, the determination of quality characteristics of accounting and statements are presented by the number of works. Some of them are in table 1.1.2.

Table 1.1.2

Quality characteristics of accounting and statements

Author	Definitions of quality characteristics
H. Van Hryuninh M. Coen [164]	The characteristics which make the accounting statement information useful for the user.
E.C. Hendriksen, M.F Van Breda [88]	The accounting information attributes, which have a tendency to promote their availability.
L.M Kramarovskyy, V.F Maximova [110]	The system of quality exponent of accounting and control process.

In a Large Ukrainian explanatory dictionary the quality has a few definitions, in particular: 1) an internal object definiteness, that present a specific which distinguishes it from the others; 2) the degree of cost, value, availability something for its using as intended; 3) any given specific feature, characteristics, quality of someone or something; 4) the totality of products or services characteristics concerning its standard norms [74, p. 1655]. The only one method must be used for the facts estimation and reflection of business activity.

To our opinion, the using of identical methods of quality estimation of accounting information is logical for the forming of accounting exponents. By reference to general principle of clearness of account data (to availability them for perception) it is necessary to announce that the quality of accounting information is: firstly, the totality of suitable properties that satisfy necessities as intended; secondly, the quality estimation of conformance of their properties and exponents to the requirements and expectancies according to the intended using.

The category «quality» relates to all parties of activity [37]. Therefore, its subject matter is considered in a theory from the philosophical and economic points of view. The philosophical concept of quality was first investigated by the ancient Greek thinker Aristotle who asserted that quality is that, thanking why object has a name. From the economic point of view quality is an object, process or action ability to satisfy public, productive or personal necessities, thanking to properties that fold its consumer cost. Based on the above, it is possible to form of the third conclusion that the quality of accounting information is an object (commodity) in the form of invisible asset which is able to bring benefits in the future, as the confirmed information of quality has a consumer cost and positively influences on all parties of business activity and diminishes their risks. Therefore, on our point of view the accounting information quality is expediently defines as a notional invisible asset, and expenses on its forming and supporting must set a new object of accounting.

All expenses incidental to quality of accounting information should be divided into such groups: expenses for the prevention of defective information formation and its internal auditing; expenses for the quality level evaluation and for its providing; expenses for the quality of innovative accounting information.

Certainly, the management of accounting information quality should be based on the systems and processes concepts; and the main object should be associated with the customer targets. Exactly, the customer must estimate accounting information on all levels of hierarchical pattern of consuming information, cost of creating and using, economic values in the general cycle of management. In our view, this approach corresponds and meets fully the definition, given in the international standard ISO 8402:1994, that quality is the total object characteristics which are able to meet the established and foreseen requirements. It is necessary to pay attention to the international standard ISO 9001: a 2008 (E) where the definition of quality is more requirement-oriented, i. e.: quality is a level, where totality of inherent characteristics satisfies requirements.

It should be mentioned question of forming expenses to provide the system of accounting information quality which envisages the minimization of combined production expenses due to its effective using.

The total worth of expenses to introduce and apply the management system of accounting information quality is defined by the formula:

$$Z_s = Z_k + \sum_{s=1}^{n} \frac{Zpi}{\left(1+r_q\right)^i} \tag{1}$$

where: Z_s is a total worth of management system implementation of accounting information quality; Z_k is capital expenses for management system development and application of accounting information quality; Zpi are current expenses in a ni-period, connected with management system functioning of accounting information quality; r_q is a minimum level of profitable enterprise expenses; I is a number of period; n is an amount of periods.

The capital expenses for development and application of the management system of accounting information quality is defined by the formula:

$$Z_k = \sum_{j=1}^{m} Z_{kj} \tag{2}$$

where: m is an amount of expenses directions for the development and implementation of products quality management system; j is a certain type of expenses for the management system implementation of accounting information quality.

The sum of current expenses is defined by:

$$Z_{pi} = \sum_{i=1}^{n} \frac{Z_{pi}}{\left(1+g\right)} = \sum_{i=1}^{n} \sum_{k=1}^{k} \frac{Z_{pki}}{\left(1+g\right)^i} \tag{3}$$

where: Z_{pi} are current expenses of k-kind in the i-period, UAH; k is a type of current expenses; K is a common amount of expenses.

The European legislation strengthens requirements to rational organization of accounting in small and middle enterprises. Therefore the question decision of its keeping by specialized enterprises and auditing firms, and practice of outsourcing is very applicable. Thus it is necessary to pay attention on the responsibility for implementation of complex accounting procedures; forming of basic data, synthetic accounting, forming of accounting statements and presenting interests of businesses.

To our point of view, we should pay attention to an open question of philosophical (psychological) theory of accounting, statistical possibilities and theory of dynamic balance, balances construction of business processes, separating of business processes as accounting objects (the process of enterprise setting up, the process of enterprise activity, the process of suspending of enterprise activity), which are distinguished in the cycle of capital and business resource.

The questions of managerial accounting process, formation of accounting policy, methods of supplies estimation and ways of amortization expenses accruals are in need of researches. The decision of these problems allows using invariant methods of account, caused by the certain special branch aspects, technological process, seasonality, management tasks, and taxation.

It is necessary to pay attention on the managerial statement preparation as a basic of financial statement preparation. The biggest part of the accepted management decisions depends on the quality of its structure and detailed forming of separate articles in an analytical estimation. Its structure and application will allow tracing the changes in account-technological processes, redistributions, certain business processes, and also in interior structural subdivisions; and expediency is determined by the necessities of taxation differentiation and the choice of its rational configurations. The managerial statement allows showing the preparation process of product cost, educing influence of external and internal factors. The determination of efficiency of subdivisions business activity in the general hierarchical structure of enterprise is as a result.

The practical importance in the analytical accounting acquires the inclusion specification of financial expenses according to the targets of their acquisition. In the long-term financial investments it is important to separate the highly liquid valuable securities with a real current profitability. Their purchase carries a strategic character for business, allows temporally saving of free cash flow, and excludes their depreciation as effected of inflation. The inflationary changes of the position of business resources and capital must find their inclusion in the system of accounting.

The other group of financial investments, for the purpose of providing the corporate influence expansion, is not highly liquid assets and is subject to general inclusion. It is necessary to pay attention on the specification of accounts receivable inclusion. It allows envisaging of consistent relationships with contractual counterparties, finding out the presence of problem partners, looking after the terms of debts origin and expiration. The reappraisal of fixed assets is conducted for adducting residual cost of the fixed assets (if it differs for more than 10%) to their fair value. Let's concentrate our attention on the definition «fair value», which is the basic term of the reappraisal order. According to the article 4 of NR(S)A 19 (National Regulation (Standards) of Accounting) «Association of enterprises» in Ukraine a fair value is determined as a sum for asset exchange or obligation payment as a result of informed, interested and independent parties' transaction. The order of the fair value determination of fixed assets in Ukraine is the appendix to NR(S)A 7(National Regulation (Standards) of Accounting) the «Fixed assets» (Table 1.1.3).

Table 1.1.3

Fair value determination of fixed assets

Fixed assets	Determination of fair value
Land and facilities	Market value
Machines and equipments	Market value. In case of insufficiencies data about market value is a replacement cost (acquisition cost) without depreciation on date of estimation.
Other fixed assets	A replacement cost (acquisition cost) without depreciation on date of estimation.

This table is evidence that to calculate fair value of the fixed assets, it is necessary to know their market (in most cases) or replacement cost.

The information about new objects market value of the fixed assets can be obtained from magazines and information sources. As for the fair value determination of fixed assets that are in an enterprise (already were in exploitation for a certain period, partly threadbare) it is necessary to:

1) set up a committee of the competent enterprise specialists, which would be able to give the most exact fair value estimation of the used fixed assets;

2) conceive aim and methods of commission members' work;

3) collect information about the estimation objects, accomplish their analysis and define the fair value of fixed assets.

According toUA-GAAP7 «Fixed assets» in Ukraine the fair value of fixed assets in general is their market value.

According to the article 3.1 of the International Valuation Standard (International Valuation Standards 2000), «Market Value is defined for the purpose of these Standards as follows: Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transactions after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion».

In accordance with this definition, market value is an estimated amount. As to the article 1.3 IVS (International Valuation Standards 2000) the «the most common methods used to estimate Market Value include the cost approach, sales comparison approach, and income capitalization, including discounted cash flow analysis».

Note that most common method is a discounted cash flow analysis, as it has two variants of application that give an opportunity to define both market and replacement cost.

A discounted cash flow method is base on principle of substitution, which means that for the object of property a customer will not pay more that amount which is necessary to replace it by other analogical object.

According to a discounted cash flow method the cost of object estimates by a formula:

$$Vzm = Vv - Vv \times Kz, \text{ [88]}$$

where, Vzm is an object value by a discounted cash flow method; Vv are expenses for the object recreation on the date of valuation; Kz is an object reserve ratio.

The formation of consolidated financial statements in the format of GAAP allows enterprises to enter the high-efficiency international markets. Therefore this question will establish high priority in accounting process organization. For this purpose is necessary to:

- optimize the management of business entities corporately-consolidated financial capital of different types of ownership;

- activate of capital investing due to the financial capital market instruments mobilization;
- develop the matrix-balance model of cash flows in the holding for financial flows stabilization of consolidated enterprises group;
- apply methodologies of program-oriented and goal-oriented approach in the process of strategy development of industrial and financial infrastructure;
- develop systems of business transactions documentation in the consolidated enterprises groups;
- develop methodology of external and internal audit in the consolidated enterprises groups;
- analyze the financial activity of consolidated enterprises group.

To sum it up, it is necessary to define methodological and methodical instruments for the decision of more specific actual and theoretical applied tasks associated with the structure of consolidated financial statement. Primary accounting in the consolidated enterprises groups, organizing and methodology of assets and liabilities accounting and audit, separate accounting objects in the consolidated enterprises groups are the basis of researches.

1.2. PROBLEMS OF FORMATION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS OF ACCOUNTING

The process of modifying the management information system is quite difficult, but progressive because it indicates the transition from traditionalism to rationalism, which has balanced economic foundation. It should be noted that changes occur in various directions (ranging from the organizational principles and ending with methodological and social) that are combined into certain integrity and aimed at changing the characteristics of accounting. The main criterion is the growth efficiency of the latter and the aim is to achieve improving the quality, integrity, information content, effectiveness, availability, transparency and analyticity of accounting information. Famous domestic scholars and practices draw attention to this premise in modern conditions [69; 93; 100; 118; 155; 169].

In general, it should be emphasized that the formation of scientifically based provisions regarding the development and improvement of theoretical and methodological, organizational and applied practical principles for improvement of information management system where the foundation is certainly accounting, promote to improving the effective activity and achieving of the global economic effect. Moreover, the last is characterized by multiplicative content because existing positive changes have no less essential value than explicit. In particular they should include:

- increasing the country's image at the international level thanks to its positioning as an open subject through the formation of unified information system of accounting on the basis of requirements of international standards;
- improving the quality of goods and services, which allows you to achieve a higher quality of life and human development (better level of education, science, medicine, administrative management, etc.); strengthening trust to the domestic business entities and increasing their image and competitiveness;
- savings of natural resources on a global scale through rationalization of their use at the micro level and a number of other positive consequences.

Especially significant multiplier effect is obtained through the widespread use of modern computer systems and networks (Figure 1.2.1).

Moreover, the unification of the accounting system through the use of technical facilities on the basis of using standard software is not only the lever that can affect, first of all, the effectiveness of management and results of activity of business entities and the national economy as a whole. Widespread use of positive international experience in issues of accounting system formation plays very important role. In this context, the study of problems of the implementation of international accounting standards into the national accounting system is sufficiently urgent because it enables to evaluate the real chances of implementing international requirements and the effect of their application in practical area of a specific country.

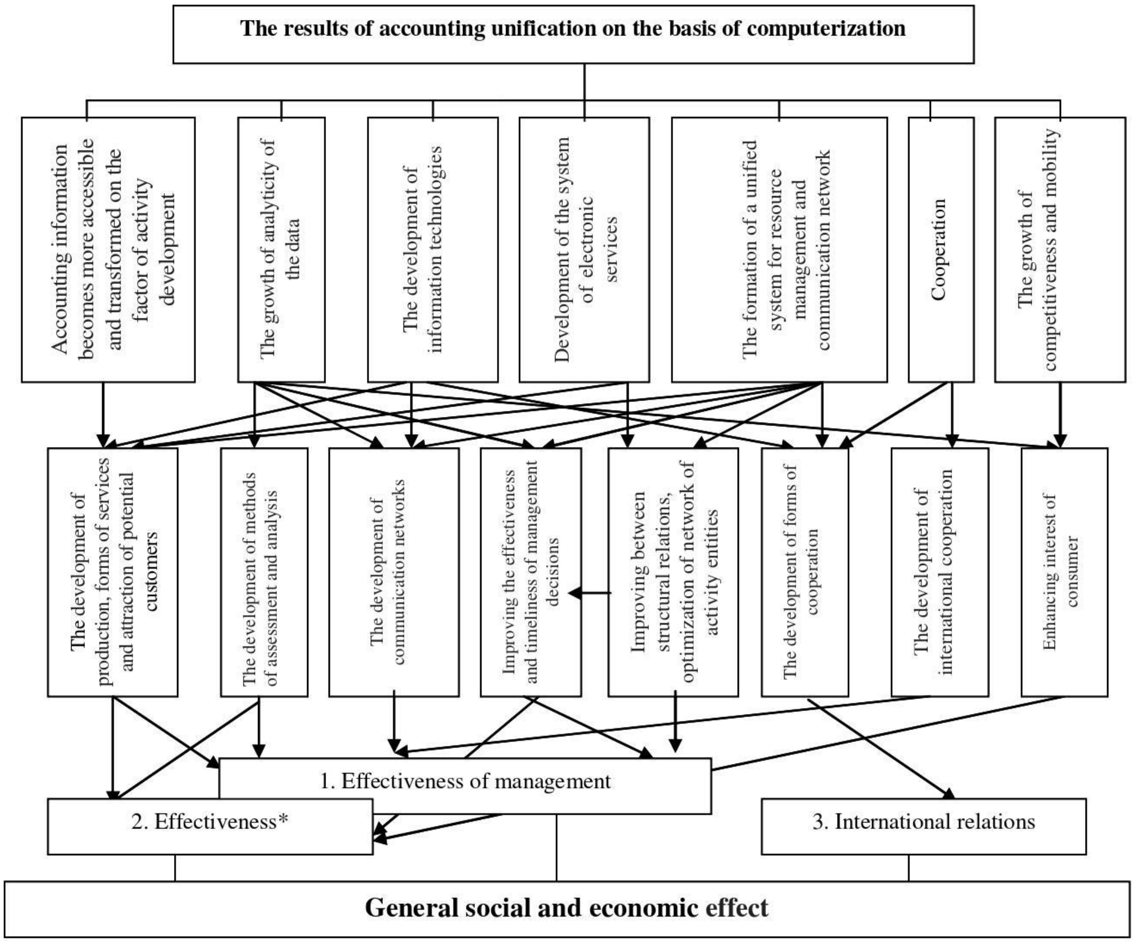

Figure 1.2.1. **Systemic multiplicative effect from computerization of accounting**

Notes: * direct, individual, industrial, nationwide, as well as an indirect effect from providing improvement of living standards (growth the level of education, qualification, health, level of culture).

Development of methodology and organization of accounting, especially when they are considered in historical terms, indicates the initial complexity of forms for presentation of information and constant striving for their simplification. The majority of scientific researches on accounting and practical searches are aimed at this fact.

Achievements of avoidance of data duplication, improving their presentation format, taking into account needs in detail or any other results of research in order to be considered appropriate should bring positive economic impact resulting from its application. In conditions of informative providing in modern society such effect can be obtained through unification and standardization of accounting and by achieving optimization and simplicity of accounting without compromising its control and analytical functions. Providing efficiency growth of accounting is also associated with urgency of its impact on the processes that occur in activity of business entities.

It is rightly to note that study of ways for improving accounting in general and its individual parts (objects) are distinguished by scientific and practical value. Their application provides the improvement of information base for acceptance of administrative decisions, improving affective activity, saving financial and material resources.

Consideration of effectiveness of developed proposals in their implementation in practice should be a basic requirement for scientific results. The difference between the initial and final levels of effectiveness indicates on explicit effect obtained as a result of improving measures. However, it should be recognized that the results of such calculations are not always sufficiently persuasive.

In fact, the actual effect is determined not only through receiving saving of working time (reducing labor intensity) or obtaining the savings from innovations.

The desire of Ukraine to international integration in issues of accounting that has emerged in recent years also requires adequate assessment. The results of the assessment of such integration, obtained through the use of specified criteria in table. 1 in spite of some subjectivity, indicate the existence of opportunities for positive results (Table 1.2.1).

The outlined approach, without pretending to exclusivity, can serve as a development basis of assessment for all other improving measures because gives the opportunity at the initial stage without any detailed mathematical calculations to establish the expediency or inexpediency of their implementation.

Positive assessments predominate by selected criteria in general therefore you should recognize that the development of accounting in Ukraine towards convergence and adaptation to international standards has an objective basis.

Table 1.2.1

The effect from implementation of international approaches to the organization and keeping accounting*

Criterion	Promoting efficiency (yes, no, partially)
Accounting information becomes more accessible and transformed on the factor of activity development	yes
The growth of analyticity of the data	partially
The development of information technologies	partially
Development of the system of electronic services	partially
The formation of a unified system for resource management and communication network	no
Cooperation	partially
The growth of competitiveness and mobility	partially
The development of production, forms of services and attraction of potential customers	partially
The development of methods of assessment and analysis	partially
The development of communication networks	partially
Improving the effectiveness and timeliness of management decisions	partially
Improving between structural relations, optimization of network of activity entities	yes
The development of forms of cooperation	yes
The development of international cooperation	yes
Enhancing interest of consumer	yes

Notes*: developed by the author

However, a further deeper analysis can give somewhat different results, since the implementation of tasks related to the implementation of the international principles and approaches to accounting in practice requires much more effort than the effect obtained from their implementation. National peculiarities inherent to the accounting system are the reasons for this.

Speaking about Ukraine, the main one is that the accounting system (Figure 1.2.2) is characterized by stability of relationships and the basic foundations that matches the architecture of the pyramidal type.

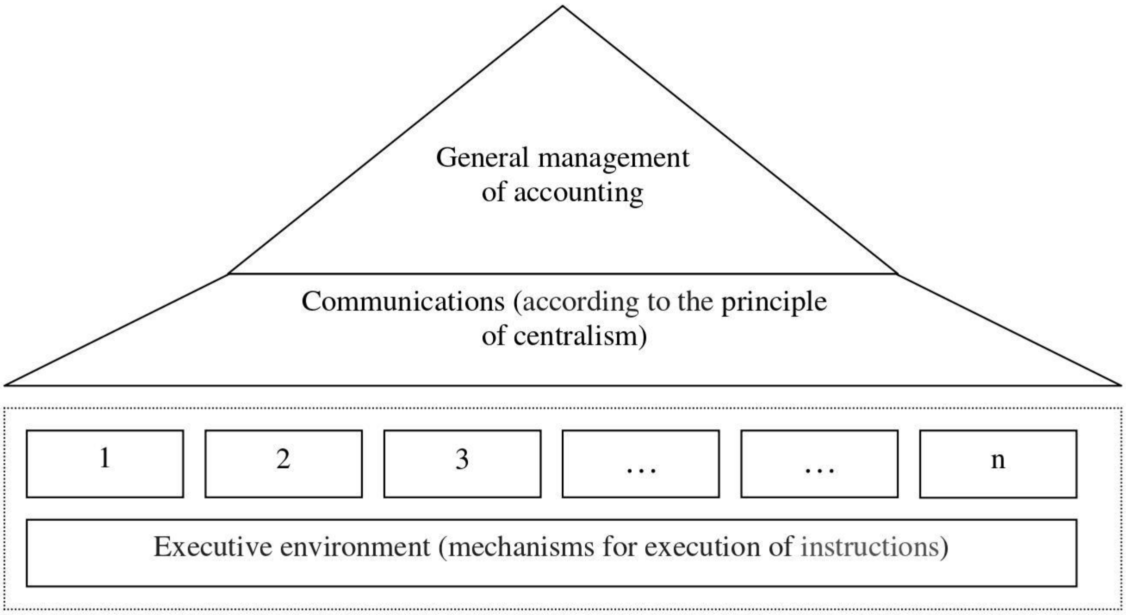

Figure 1.2.2. **Architecture of the accounting system of pyramidal type**

Notes: 1,2,3, ..., n – structural subdivisions and responsible persons

The main its disadvantage is the flow of information to senior management only after passing all levels of management hierarchy with strict compliance of the schedule of document circulation.

The multiplication of false representations and distortion of information can occur in this case (including even through objective and subjective reasons, in particular reluctance of the leadership of grassroots links to show own shortcomings) (Table 1.2.2).

In general, the pyramid structure of the accounting system that is inherent to the domestic practice remained from the planned economy and the command-administrative management. In modern terms it is characterized by increasing negative traits, but in its time it has played an important historical role in ensuring the effectiveness of the entities.

Such system is not adapted for application in market conditions because it is not enough flexible and not capable to self-development and openness. However, certain of its characteristics are advisable to use nowadays. In particular such accounting system is enough powerful source of information for analysis, planning and forecasting. Thus, improving the methodological, organizational and methodical foundations enables to suggest that in the process of evolution of its social role varies and from quantitative parameters gradually moves into the plane qualitative approaches. The transition of quantitative changes into qualitative changes in accounting provides a higher level of adaptability credentials to management requests convenience of the presentation format, efficiency of formation and accuracy. The general purpose of approximation of domestic accounting system to international standards is subordinated to this.

Table 1.2.2

Characteristics of the accounting system of pyramidal architecture

Features	Characteristics	
	negative	condition
Unitary management	Low systemic intellect, low emergence (κ_i). Isometric morpheme content. Absorption of a significant part of resources.	$\kappa_i \leq 2$
Communication environment	Significant communication environment (κ_{is}). Automatic error propagation through the chain of management in the accounting documentation. Non-cybernetic system (backward linkages exist only within the system).	$\kappa_{is} = (\mathrm{N}-1) \div N ... \langle 1$
Executive environment and mechanisms	Low efficiency of functioning. The growing influence of errors (κ_p) in moving information from bottom to top.	$\kappa_p \rightarrow \max$

However, market dynamics and instability requires significant higher level of adaptability of accounting data to administrative requests. This, in turn, affects the improvement of the convenience of the representation formats, efficiency and accuracy of the data formation. The overall objective of approximation the domestic accounting system to international standards is subordinated to this.

However, it is important in this process not to lose the key methodological requirements lying in the basis of accounting. The need for deepening its focus on administrative inquiries is actualized in recent years. On this occasion, M.R. Luchko notes that accounting as an independent economic science is a practical social human activity and so it arranges, systematizes and groups the facts of economic activity and becomes an information base which is used to manage the business.

Scientist quite reasonably establishes that today accounting is a complex system, created with knowledge, intelligence and human consciousness measurement system, registration, collection, processing, analysis and presentation of data on assets, capital and liabilities of the enterprise under the influence of economic events [118, p. 101–102].

Accordingly, all efforts to improve accounting must satisfy the criteria of usefulness for business (performance, effectiveness entities, etc.). Thus, implementing the principles of international standards should also be considered in such a key interest, as maximizing the adaptation of the domestic accounting system to the needs of management and formation of optimization models and strategies of activity.

I. D. Benko and S. V. Sysiuk assert on this matter that in order to meet the requirements of the accounting system to ensure efficiency, effective control and efficient management of all processes, it is necessary: to improve the normative and legal base regarding terminology in the part of developing a unified approach to the definitions that will enable to fully regulate the issue of harmonization of interests of government and business representatives; to improve the existing forms of documentary provision of accounting for their greater adaptation to the needs of management; to strive for more transparent and understandable approach to the formation of information base on income and expenses; to direct the research to find possible ways of optimizing the system documentation and simplification of its forms [69, p. 224–225].

Despite that above mentioned scholars make such conclusions regarding small business entities, they are relevant for domestic accounting in general.

Theoretical and methodological foundations for further development of accounting in Ukraine, as rightly argues N. M. Maliuha, taking into account global, international trends and experiences and also national social and mental specifics are the philosophical basis of this science. The main determinative direction for development of domestic accounting, according to the scientist, has become a methodological unity. In accordance with this, you should carefully follow normative nature of accounting theories [123, p. 35–36].

Fully supporting the first portion of the scholar's position, we should indicate that further categorical conclusion, in a certain way, contradicts to the thesis about the development of theoretical and methodological foundations of accounting in Ukraine taking into account global trends, as well as puts the development of the national accounting theory in certain framework. Such approach despite the existence of a real basis (i. e. strict regulation) significantly reduces the possibility and prospects of harmonizing accounting, particularly on the basis of the recommendations of international standards. The conducted above assessment confirms this position. Many countries, including Ukraine, have chosen such direction as the basis of the formation of national accounting concepts as adaptation to international standards precisely because of this. However, you should not consider this approach most reasonable and balanced, because the practice shows that the particular rise of economic indicators after the implementation of the national accounting standards, which are based on the provisions of international, does not occur.

One of the reasons is the failure to comply with common fundamental principles that should be taken into account to improve accounting on the basis of international standards. These principles include higher efficiency of the accounting system and better organizational structure (the basis of which is the optimal balance of powers of regulation and keeping records, semantics of formation of information flows and effective data etc.).

Thus, despite the certain progress in the ensuring achievement of goals through implementing National regulations (standards) of accounting, for example, a number of problems were unresolved in the public sector. These problems, in turn, arise precisely from the contents of the latest and possibilities of their effective implementation in the practice.

Firstly, there is no clear positioning of the competences of various bodies and organizations to regulate conducting and organization of accounting. On the background of the fact that the International professional accounting organizations mainly cooperate with national organizations of similar profile, putting obligations on formation of legislative regulation for the government institutions, particularly the Ministry of Finance, in a certain way will slow down the integration and approval processes.

Secondly, the analysis of the content of the developed national standards enables to state that despite the desire to ensure methodological unity and efficiency they have actually ignored the national traditions of accounting. Although we should recognize the fact that they have always been, are and will be. And not all that is borrowed from international experience is really effective and appropriate for use in Ukraine.

If we take for example the method of calculation, which is highly recommended for use by business entities, including those that belong to the public sector of the national economy, it is the most acceptable for legal states. In the conditions of the countries where legislative instruments do not have sustainable and effective positions, i. e. in countries that are developing and have the corruption problems and the problems associated with frequently changing legislation and so on, the application of this method does not meet the interests of business entities.

The effective levers of influence on those business entities that do not fulfill their contractual obligations are absent today in Ukraine. Therefore, the use of the calculation method may be accompanied by negative consequences. The recognition of revenue at the moment of conducting business transaction can not subsequently to turn into its actual receiving because persuasive leverage of incentive for fulfillment of obligations by counterparty of business entities has no.

The use of the payment in advance, which proved not only means of insurance against unscrupulous partners, may not be possible due to lack of funds. In this context, along with the introduction and legislative formulation of requirements regarding the application of the calculation method, it was necessary to consider a mechanism of protection against risks that arise in this case. The development of their insurance could be one of the possible ways. However, as practice shows, such its direction in the public sector, and specifically in budgetary institutions, currently almost is absent.

The following example that illustrates certain incompleteness and imperfection of developed national approaches is particularly substantial filling of practically all the approved standards for the public sector. Thus, one of the most important of these is the National provision (Standard) of accounts in the public sector 135 «Costs» because the basis of Chart of Accounts for entities of this sector is costly base.

The title of this standard defines the term that should be used for positioning the object of accounting. Thus, the use of another term «expenses» is considered outdated that in its essence and value of semantic indicates on the process feature regarding budget institutions, including their functioning from budget funds. To consider the use of the term «expenses» more appropriate is a rather controversial statement.

The essential difference between both terms is that the first – costs – describes cost options aimed at creating new product of resources, and the other – expenditures – determines the source from which they are covered, i. e. the state or local budgets. From this position the term «cost» is more appropriate to position with the implementation of budget institutions or the provision of paid services and expenditures – with using budget funds. Confirmation of the last is to determine the expenditure envisaged in the Budget Code of Ukraine: the expenditures are funds spent on the implementation of the programs and activities provided by the appropriate budget, except funds for repayment of debt and return of overpaid amounts to the budget [43].

The exceptional importance of costs as an object of accounting is in the fact that the final results of business entities depend from their volume. This importance is a clear identification of the costs as an economic category. Clear identification of costs as an economic category is very important in this case.

Investigated NP (S) of accounting does not contain a definition of the term «costs». However, it is contained in the Glossary of Terms outlined in International accounting standards for the public sector [17]: costs – reducing the economic benefits or potential of usefulness during the reporting period in the form of disposals or consumption of assets or in the form of commitments, leading to a decrease in net assets / equity capital, except for the reduction that is associated with payments to owners. In this case, you should either duplicate the definition in NP(s) of accounting 135 «Costs» or indicate that the source which you should be guided, for example, Glossary of Terms of International standards. For improving the content of NP(s) of accounting of state standards 135 «Costs» you should also complement it by a number of definitions. In particular, to position of such economic terms as cost (planned and actual) (including service costs), article of costs, overhead costs, etc.

Also, due to the increasing the role of internal economic (management) accounting in the activity of entities of the public sector in terms of instability and fiscal deficit you should expand the boundaries and intensify the using of its principles. In this regard studied NP (S) of accounting of state standards 135 «Costs» should be supplemented by the relevant provisions. In particular, it is necessary to outline the conditions for conducting managerial accounting of costs. For this purpose you should submit recommendations regarding the permission of the use of appropriate classification into the section 2 «Classification of costs».

In general, the study of the content and recommendations of NP (S) of accounting of state standards 135 «Costs» enables to make a conclusion about the necessity of making some other refinements. Structural additions and clarifications should cover practically all sections of the normative document.

In particular, we are talking about the need to supplement the list of terms (Section I. «General Provisions») establishing the classification criteria and delineation of the respective groups of costs (Section II. «Classification of costs») and expanding the system of cost estimates in the context of management needs (Section III «Recognition and measurement of costs») and so on.

Also, the question of approach to determining the cost of services remains open, which is lowered in the approved standard, and requires coordination in the current domestic legislation. In fact, according to the paragraph 138.8 article 138 of the Tax Code of Ukraine cost of provided services consists of costs directly related to their provision: direct material costs; direct labor costs; depreciation of production fixed assets and intangible assets directly related to the provision of services; cost of purchased services directly related to the provision of services; other direct costs, including costs of purchasing electricity (including reactive) [48]. Despite the fact that budget organizations in their activities shall be guided by the Tax Code, however, these organizations should take into account the Budget Code of Ukraine [43], which contains several other recommendations regarding composition of expenditures of budgetary institutions for provision of services. In particular, we speak about the budgetary classification, a list of services and such specific feature of researched entities as unprofitability. The need for improved categorical definitions presented in the NP (S) of accounting of state standards 135 «Costs» indicates the presence of discrepancies in the provisions of existing domestic normative acts, such as Tax and Budget codes (Table 1.2.3).

Table 1.2.3

The composition of the cost of services according to the current legislation

Normative and legal act of Ukraine	The requirement regarding the components of the cost price
The Tax Code of Ukraine	The cost of provided services consists of costs directly connected with their provision: direct material costs; direct labor costs; depreciation of production fixed assets and intangible assets directly connected with the rendering of services; cost of purchased services directly related with the provision of services; other direct costs, including the costs for purchasing electric power (including reactive)
The Budget Code of Ukraine	It does not give the concept of service costs (the term «costs price» is generally absent). It determines the list of services, budget classification of expenditures (including services) and focuses on the non-profit of entities

Note: * – formed on the basis of the study of normative acts of Ukraine/

Critical evaluation and comparison of existing legislative requirements of certain concepts and approaches to their identification and information filling indicates on insufficient balance and consistency of domestic legislation in the issues that are related with accounting. Thus, despite the length of the implementation process of National Regulations (Standards) of accounting (including the public sector) and other normative legal acts and their coordination and harmonization with international requirements, should indicate on the incompletion of this process and the availability of a number of other problems concerning it, including organizational character. In connection with this, further analysis that has been conducted by scientists regarding ways for improvement of domestic legislation and development of proposals to eliminate the existing gaps and differences that negatively impact on effectiveness of innovation implementation is valuable.

1.3. PECULIARITIES OF APPLYING IFRS IN DOMESTIC PRACTICE: PRESENT DAY REALITIES

The growth of capital mobility, the expansion of interconnections between individual countries, the increase in international trade, the establishment of international and transnational corporations and many other factors contribute to the progressive development of economic relations which are established to date in the global economy and are characterized by the further development of globalization processes. The creation of the global financial information system leads to a change in requirements that are faced by accounting, analysis and audit. One of the main international processes occurring in the world today is the harmonization of national systems of accounting and financial reporting in different countries [125].

In the global accounting system there is a problem of harmonization and standardization of accounting practices namely accounting of revenues and expenditures [68].

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Revenue is recognized when:

- economic benefits are possible in future;
- revenue can be recognized authentically;
- there are costs associated with this income, and they can be recognized authentically.

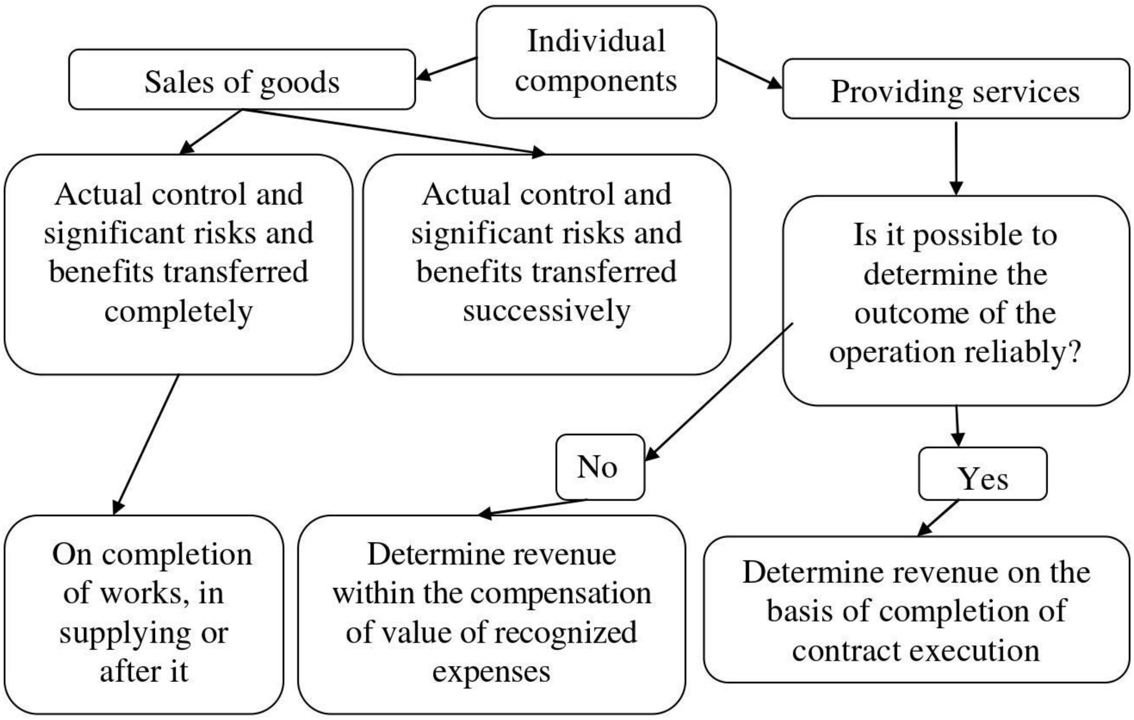

Figure 1.3.1. **Determination of the components for operations**

IAS 18 «Revenue» in item 20 says: «When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period». In some cases, two or more transactions can be interconnected and should therefore be considered as a whole. The main criteria for this are:

- agreement about operations are concluded simultaneously or within a continuous sequence, while the implementation of one transaction envisages the implementation of another;

- operations are essentially the only agreement that achieves or aims to achieve the commercial effect
- one or several operation do not have commercial sense if we consider them separately, but have it, if we consider them in the aggregate;
- contracts contain one or more options or conventional provisions for which there is no real commercial opportunities that these options or conditional provisions will not be implemented or performed;
- emergence (or impossibility to cancel) of one transaction depends on the occurrence of one or several other operations.

Individual components determine when the component has a separate value for customers and carries out sales of the equipment:

- if the equipment can be purchased from another person than the seller of the appropriate service and the operator of service allows you to use this equipment in your network;
- existence of the market for secondary sales of the equipment;
- availability of competitive tariffs and the absence of contractual terms that require the consumer to purchase the equipment;
- when fair value of the component can be reliably determined.

Determination of the components is appropriate only if income by the components is recognized in different periods of time.

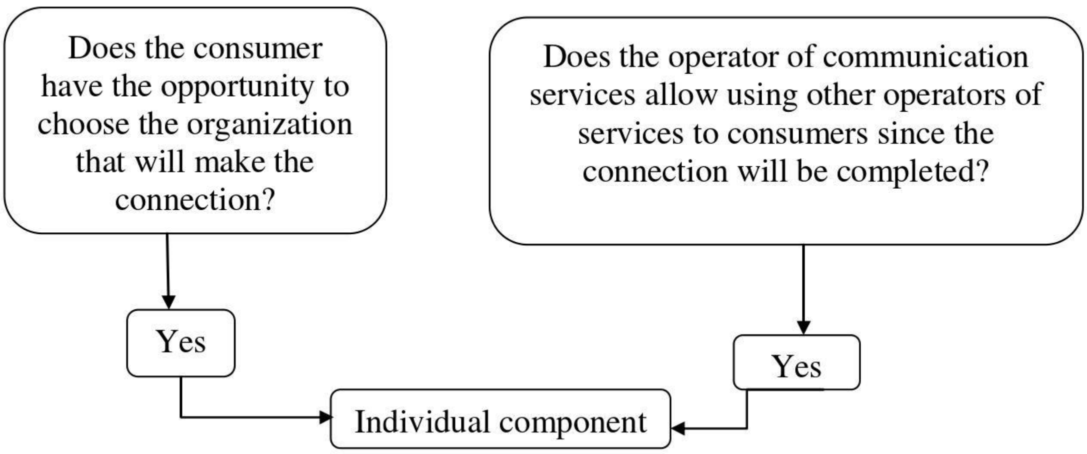

Figure 1.3.2. **Distribution of income and expenses (single component)**

Distribution of income (individual components):

- determination of fair value, if fee is determined by market value for all components:
- relative fair value: if the individual components in the package of services provided free of charge or at a price lower than the market;
- expected expenditures plus reasonable rate of return: if fair value of the individual components can not be reliably determined [66].

For example, on the 31st of October, 2014 the company has placed a deposit in a bank in the amount of 5,000 UAH, according to which the interest rate is 12% per annum. Payment and enrollment of percent by the bank on the current account of the company takes place 3 times a year (January 31, 2015, May 31, 2015 and October 31, 2015). It is necessary to determine the total amount of income for the year ended 31.12.2014.

Revenues that are displayed by the company in 31.12.2014:

Debit Accounts receivable 100 UAH

Credit Finance incomes 100 UAH

(5000 x 12% / 12 months) x 2 months = 100 UAH

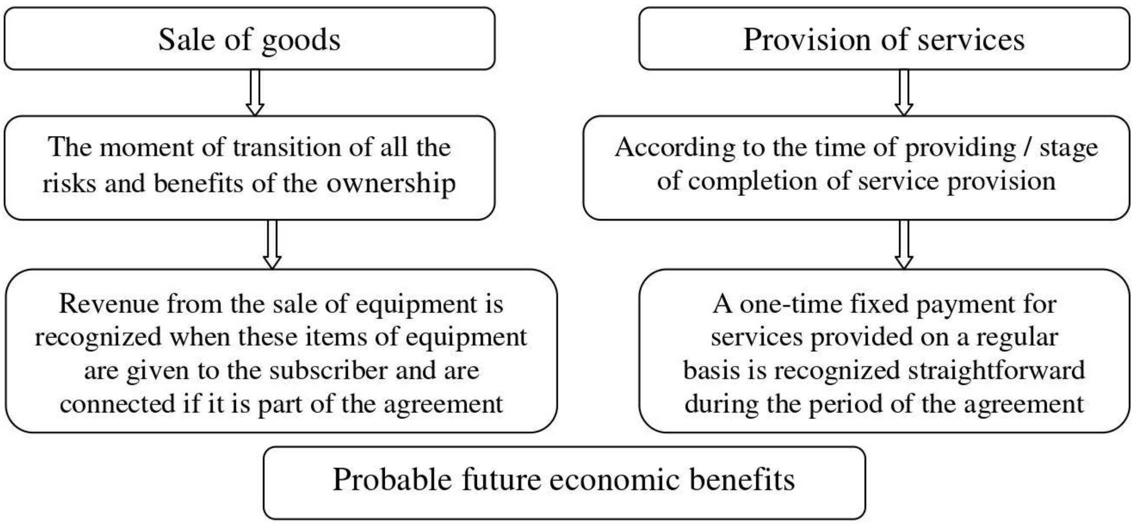

Figure 1.3.3. **Future economic benefits**

According to estimates with international operators it is necessary to define correctly the revenues and expenditures, while management must carry out an analysis of payments to international operators and to offset receivables and payables. Let us consider the procedure for the recognition of revenue on the example of the telecommunications company (Figure 1.3.4).

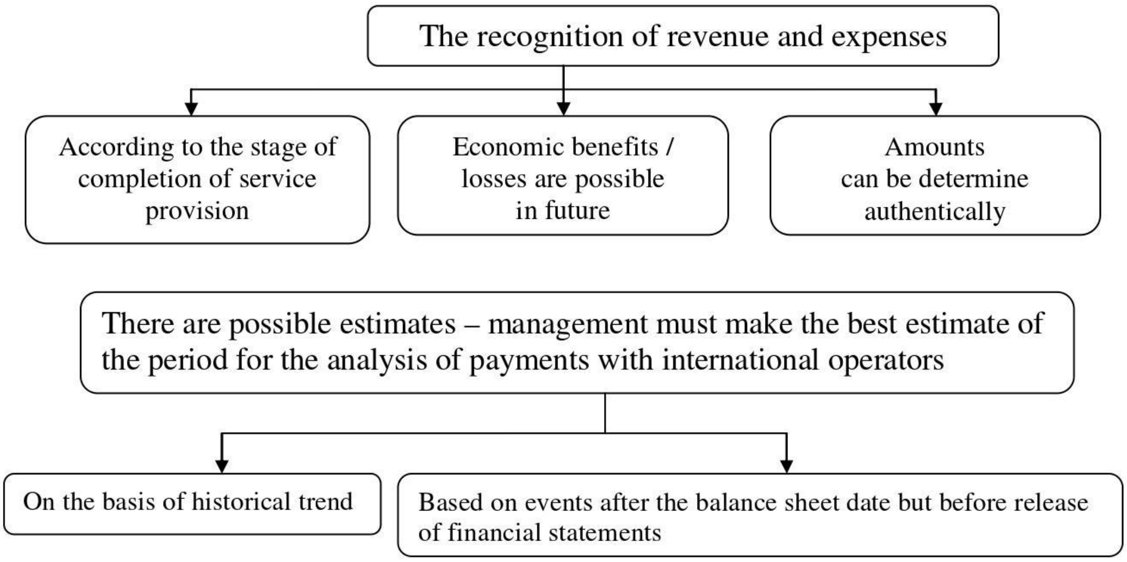

Figure 1.3.4. **The recognition of revenue and expenses**

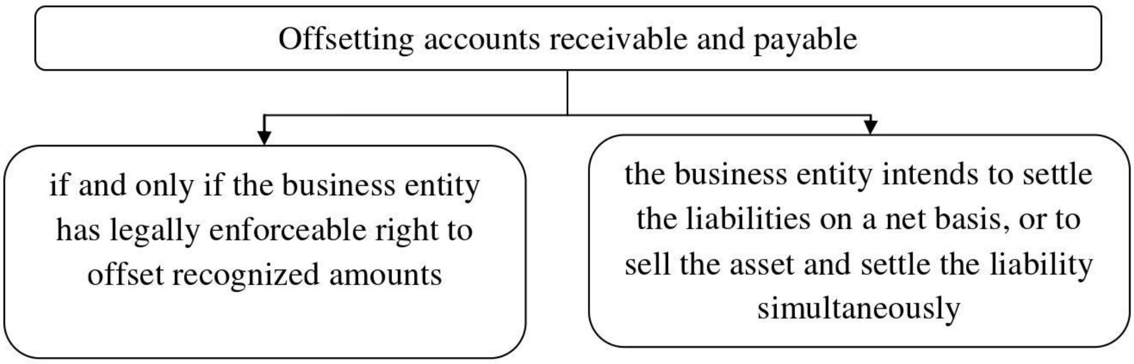

Figure 1.3.5. **The recognition of revenue and expenses [49]**

1. Telephone calls

Does the company control traffic?

Does the company determine the services that were provided to the final consumer?

Is the company responsible for providing poor quality services to the user?

2. Services of interconnection and termination of traffic

Does the company monitor the traffic and bill another operator?

Does the company bear the credit risks?

Does the company define prices?

3. Additional premium class services (additional services, services of lines for voting on TV shoes, etc.)

Does the Telecommunication Company lease some phone numbers to the service provider and receive a fixed fee for each call from consumers of the service?

Does the Company take active part in providing final consumer with services (services of subscribers' poll)?

Figure 1.3.6. **Revenue Recognition**

IFRIC 13 «Customer Loyalty Programmes» requires:

- recognition of bonuses as a particular component;
- diversity of revenues related to the bonuses in the corresponding periods for consumption of bonuses;
- taking into account the level of use of bonuses;
- use of the principle of relative fair value.

IFRIC 13 «Customer Loyalty Programmes»:

Business entity provides its clients with bonuses as a result of operations on implementation of services

At the same time the consumer receives a bonus or can use it in the future when buying goods or services under certain conditions

Figure 1.3.7. **Customer Loyalty Programmes**

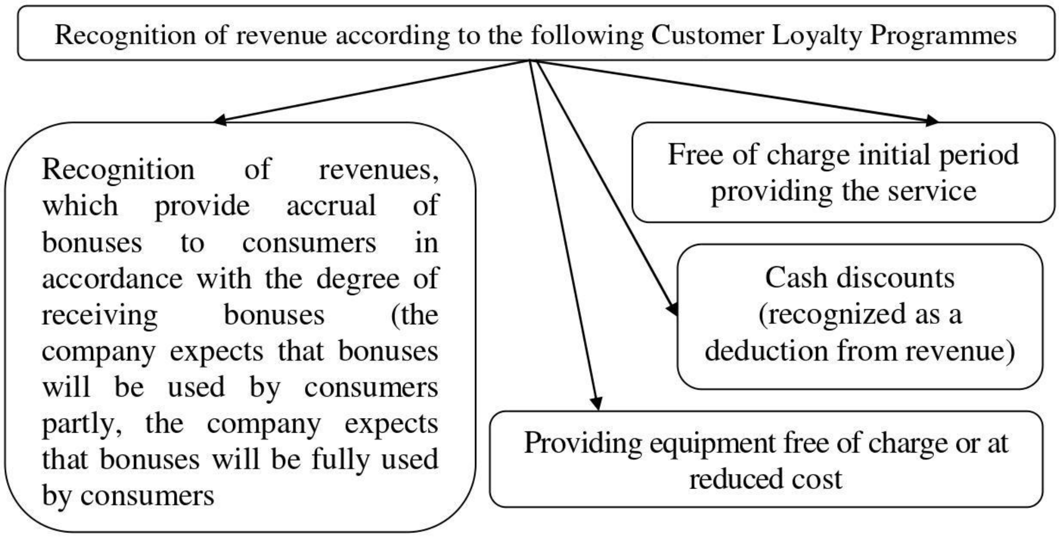

Figure1.3.8. **Recognition of revenue according to the Customer Loyalty Programmes**

Telecommunication (T) company has introduced the Loyalty Program for all their customers:

Terms of loyalty program: 100 UAH are spent on communications services = 10 bonus; 50 bonuses = 50 UAH of discounts in purchasing the equipment. Validity of bonuses: 5 years.

The company's revenues (T) amounted to 1 million UAH and 100 thousand bonuses were accrued to subscribers for 2014. Evaluation of management on the use of bonuses: 2014 – 80 thousand bonuses will be used; 2015 – 85 thousand bonuses will be used.

The fair value of bonus was determined at a rate of 0.8 UAH (80/100). In fact in 2014 30 thousand bonuses were used by users when purchasing equipment. At the end of 2014 the management considered that 50 thousand bonuses will be (in addition to 30 thousand) used by consumers in the future.

The following postings were made by the company for the year that ended on 31.12.2014.

1) The recognition of revenue in relation to the services that were provided by the company:

Debit	Cash	1 million UAH
Credit	Income	920 thousand UAH
Credit	Deferred revenue	80 thousand UAH (100 thousand bonuses x 0.8)

2) The recognition of revenue considering bonuses that were received by consumers in 2014:

Debit	Deferred revenue	30 thousand UAH (80 thousand – 50 thousand).
Credit	Income	30 thousand UAH

(80 thousand bonuses – 30 thousand of used bonuses) / 80 thousand bonuses x 80 thousand UAH = 50 thousand UAH

During 2015 35 thousand bonuses were used by consumers, while management had predicted the use of 85 thousand bonuses not 80 thousand. At the end of the year the fair value of a bonus will not change, but the value of its repayment will change. And deferred revenues will be recognized as 20 thousand.

(80 thousand bonuses + 5 thousand bonuses – 30 thousand bonuses (used in 2014) – 35 thousand bonuses (used in 2015) = 20 thousand bonuses.

Accordingly, deferred revenues will be recognized as 20 thousand / 85 thousand X 80 thousand), that makes19 thousand UAH.

The following postings were made by the company for the year ended on 12/31/2015:

1) The recognition of revenue with bonuses that were received by consumers in 2015: Debit Deferred revenue (50 – 19) = 31 thousand UAH.

Credit revenues make 31 thousand UAH.

In accordance with IAS 23 «Borrowing Costs» are interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Other borrowing costs are recognized as expenses. Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs may include:

a) Percentage on bank overdrafts and short-term and long-term borrowings;

b) Amortization of discounts or premiums relating to borrowings;

c) Amortization of ancillary costs assumed in connection with the obtaining borrowings;

d) financial expenses that are related to finance leases and recognized in accordance with IAS 17 Leases;

e) foreign exchange differences arising from obtaining foreign currency borrowings if they are regarded as an adjustment to interest costs.

Depending on the circumstances, any of the following may be qualifying by assets:

a) Inventories (goods);

b) Industrial plantations;

c) Fixed assets (such as telecommunication networks);

d) Intangible assets;

f) Investment property.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

Imposed interests relating to non-financial liabilities are not capitalized. For example, interest expenses resulting from the release of the discount in respect of liabilities for the future dismantling. In relation to borrowings, made exclusively for the implementation of actions which are related to qualifying assets, the difference between the cost of interest on corresponding borrowings and interest income that is received from the investment of available funds are eligible for capitalization. In the original version of IAS 23 «Borrowing Costs» there were two approaches to accounting for borrowing costs: benchmark treatment and allowed alternative treatment.

Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied. Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset.

Currently under IAS 23 «Borrowing Costs» entity should capitalize borrowing costs that are directly attributable to a qualifying asset, by including the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred. Thus IAS 23 «Borrowing Costs» neither requires nor prohibits capitalization of borrowing costs relating to assets measured at fair value (e. g. biological assets) and inventories that are manufactured (produced) in large quantities on a cyclical basis, even if their preparation for use or sale should take a considerable period of time.

IAS 23 «Borrowing Costs» does not regard the cost of equity, including preferred shares, which are not classified as a liability. The revised IAS 23 «Borrowing Costs» is applied to borrowing costs relating to qualifying assets, capitalization date for which is January 1, 2009, or later date. Earlier application is permitted if an entity applies a change to an earlier periods, it has to disclose that fact.

Thus, the current approach involves the following accounting treatment of borrowing costs:

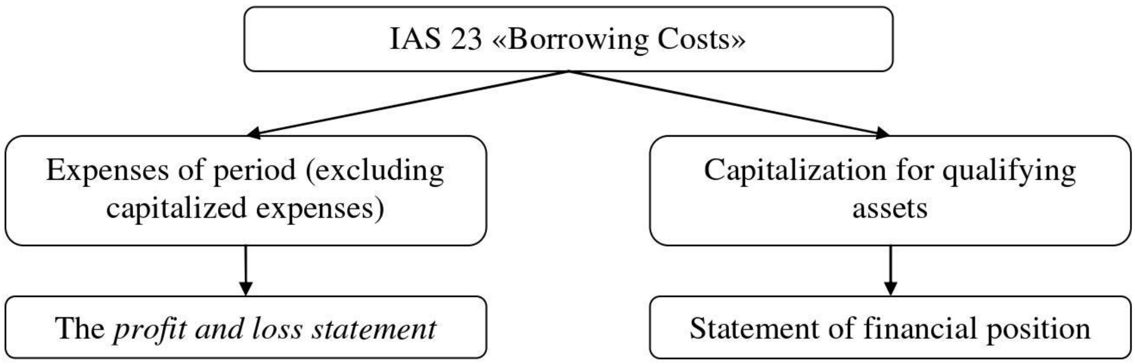

Figure 1.3.9. **The approach to the accounting of borrowing costs in accordance with IAS 23**

The capitalization of borrowing costs means their inclusion in the carrying amount of the qualifying asset. However, the decisive criterion in each case is the length of time required to prepare the asset for use or sale. IAS 23 does not give a clear explanation what period of time should be considered significant. In practice, the period that exceeds 12 months is often considered as a significant. The attention should be drawn to the fact that investment property, not financial investment can be included as a part of the qualifying asset.

Accounting methods of the qualifying asset correspond to the fundamental principle, which states that borrowing costs are a component of cost of the qualifying asset if they are directly related to it:

- acquisition;
- construction;
- production [102].

All borrowing costs that are directly related to qualifying asset must be included in the cost of that asset. For example, borrowing costs related to the modernization of the qualifying asset can be capitalized on condition that such a process takes a significant period of time. All other borrowing costs are costs for the period in which they were incurred. For example, the company acquired a 3G license to provide services in a field of mobile communications and began the construction of the network, a qualifying asset, which it plans to put into operation in 18 months. The company has made the appropriate borrowings for that reason.

Since the company considers such license as an integral part of the network without which it cannot generate profits after its construction, which will last 18 months, the borrowing costs that are related to the acquisition of a license are liable to capitalization. The license is not amortized until the network is not put into operation. For example, the company has qualifying asset that is the network. 10% of borrowed funds belong to the asset. The remaining borrowings are not connected with qualifying assets. All borrowings are provided under the same interest rate. The amount of interest payments is 200 units. The cost of 10% borrowings (20 units.) must be attributed to an increase in the value of the asset; the remaining 90% – on the cost of borrowings in this period (180 units.).

Since the company considers such license as an integral part of the network without which it cannot generate profits after its construction, which will last 18 months, the borrowing costs that are related to the acquisition of a license are liable to capitalization. The license is not amortized until the network is not put into operation. For example, the company has qualifying asset that is the network. 10% of borrowed funds belong to the asset. The remaining borrowings are not connected with qualifying assets. All borrowings are provided under the same

interest rate. The amount of interest payments is 200 units. The cost of 10% borrowings (20 units.) must be attributed to an increase in the value of the asset; the remaining 90% – on the cost of borrowings in this period (180 units.).

For example, the company is building a network worth 100 units, 60 units of which were received as a long-term loan at 8% per annum. The remaining 40 units were received from centrally distributed borrowings: 35% of which is granted at 10% per annum, and 65% – at 2% per annum. Borrowing costs in the first year will amount to 60 units x 8% = 4.80 units.

40 units x ((35% x 10%) + (65% x 12%)) = 4.52 units.

Together eligible for capitalization is 4.80 + 4.52 = 9.32 units.

The average rate on loans for the project equals = 9.32% (9.32 units/100 units).

The average weighted rate on centrally distributed loans equals = (35% x 10%) + (65% x 12%) = 3.5% + 7.8% = 11.3%.

For example, the company has been building a network worth 700 units since 1^{st} of July 2015.

Construction is financed from the following sources: bonds with nominal value of 500 units with an annual interest rate of 15% placed at the beginning of the year for 3 years; credit for the financing of current activity of company for the amount of 1000 units with an annual interest rate of 10% received at the beginning of the year for 5 years. It is necessary to determine how much interest is eligible for capitalization as of 31 December 2015.

Calculation of borrowing costs during the year: on the bonds 500 units x 15% = 75 units; on the loan: 1000 units x 10% = 100 units. Overall borrowing costs during the year: 75 units +100 units = 175 units.

The calculation of capitalization rate at the end of the year:

The rate of capitalization = Total borrowing costs / total amount of borrowings Capitalization rate = 175 units / (500 units + 1000 units) = 11.7%. Interests which are eligible for capitalization at the end of the year: 700 units x 11.7% x 6 months / 12 months = 40.95 units.

	Capitalization	
	Stages	The content of the process
1.	% for deducting	The loan is received
2.	Beginning	2.1. Expenses by asset were emerged 2.2. Borrowing costs were emerged 2.3. The execution of the asset preparation for use or sales has been begun
3.	Continuation	The work was paused, but substantial technical and administrative support is carried out
4.	Pausing	The work on preparation of the asset for the use was discontinued
5.	Discontinuation	Asset prepared for targeted use
6.	Ending	Beginning of targeted use of the asset

Figure 1.3.10. **Stages and content of capitalization**

Beginning of capitalization causes:
- Emergence of costs by the given asset;
- Emergence of borrowing costs;
- Execution of preparing the asset for use or sale [139].

Capitalization is terminated:
- if almost all (or all significant) works that are necessary for preparation of the qualifying asset for use or sale (even if some insignificant work remained for implementation);
- if there is no activity, capitalization is not allowed;
- if the operation over the asset is suspended for a long time, the capitalization of borrowing costs also is suspended;
- if temporary suspension of activity is a part of the process for preparation of an asset (endurance is required for the product), capitalization is allowed.

1.4. MEASURES AND MECHANISMS TO HARMONIZE UKRAINE'S LEGISLATION ON ACCOUNTING

An important feature of Ukraine joining to the EU is compliance of national goals, principles and norms of policy and legislation with law and order of the EU, which is based on the so-called «common heritage» (acquis communautaire). The particular importance of acquis communautaire concept consists in ensuring uniformity of the legal system of the European Union, providing the integrity of the system and obligation of identical application of law in all EU member states.

When Ukraine signed the «Partnership and co-operation agreement between the European communities and their member states, and Ukraine (PCA)» (06.14.1994), it was the beginning of formation and adoption of a number of subsequent legal acts aimed at harmonizing positions on the legal approaches to various areas of human activity. The emphasis in the agreement is made on strengthening of economic relations between Ukraine and the European Union, including the creation of a free trade zone within its borders and harmonisation of current and future legislation of Ukraine with its laws. It is declared in Article 51 of the said document.

But the lack of an effective mechanism of harmonizing internal legislation of Ukraine with EU law did not support the implementation of the program, which gave rise to supplement it with a new document, the National Program of harmonization of Ukraine's legislation with the EU legislation, approved by the Law of Ukraine from 18th of March 2004, № 1629-IV [1].

«A common heritage» in section 11 of the National Program is defined as «the legal system of the European Union, which includes acts of EU legislation (but is not limited to them) adopted within the European Community, the Common Foreign and Security Policy and Cooperation in Justice and Home Affairs». This definition of «acquis communautaire» shows that in comparison with the Programme of Ukraine's integration into the EU, National Program significantly enhances the content of the «common heritage», according to which laws of Ukraine and other normative and legal acts should be adapted.

It particularly states that Ukraine will take steps to ensure the gradual harmonization of its own legislation with European Community legislation. The focus in this case is scheduled to be paid to the achievement of the primary adequacy of laws in the following areas: customs law, company law, banking law, accounting and taxation of companies, intellectual property, occupational safety, financial services, rules on competition, government procurements, protection of people's health and life, animals and plants, the environment, consumer rights protection, indirect taxation, technical rules and standards, laws and regulations on nuclear energy, transport [1].

The development of a contemporary society is closely associated with the globalization of the economy and its appropriate process of the expansion of interstate economic relations in all sectors of activity, therefore, an objective need to set up common approaches to one of the main functions of management – accounting is formed. Considering the fact that standardization and unification play a key role in the process, it is worth investigating the possibilities of harmonization and adaptation of the national accounting system with the unified principles. In general, the issue is not in changing the underlying theoretical foundations of general accounting, but in the formation of an adequate superstructure, which, in terms of accounting philosophy can and should be developed and improved according to modern requirements [104, p. 152].

Not underestimating the role and importance of harmonization of legislation with regard to other sectors, it is worth noting that the biggest difficulty of the process is associated with the issue of legislative regulation of accounting, reporting and taxation. Despite the fact that Ukraine pays much attention to this issue, it has still been impossible to reach the resolution of all the problematic aspects. Numerous scientific studies that have a number of rational proposals are not directly implemented in practice and continue to remain only theoretical recommendations.

To some extent, this is due to the fact that most publications review the issues related to accounting not from a position of coordination but adaptation of Ukrainian legislation to EU legislation. Nevertheless, these categories have different semantic meaning. Coordination (coherence) according to the definition given in the Economic encyclopaedia is providing something with conformity to something, unity with something; establishment of unity between something [53]. Instead, adaptation (according to one definition) is derived from the Latin word «adapto» – adapt and means adapting to a particular environment conditions and the result of this process [54]. According to another definition adaptation comes from the Late Latin word «adaptatio» – adaptation and is positioned as the system's ability to acquire purposefully adaptation in difficult environments as well as the process of the adaptation. Adaptive systems are usually described in terms of objectives (goal). The adaptation to the environment, which is characterized by high uncertainty, allows the system to ensure the achievement of some significant objectives in terms of insufficient prior information about the environment. In the process of adaptation quantitative characteristics of the system as well as its structure can vary. The more substantial changes in the environment the deeper transformation of the system's structure leading to adaptation in new conditions. The variety of conditions, which the system can adapt to, measures the degree of adaptability [55].

As evidenced by these definitions, the first category has a narrower range of components and also involves the mutual action. That is not only unilateral direction of legislative norms may be possible but a search options of common positions. From the perspective of principles which are of priority for the Commonwealth of the EU, this category is fully consistent with them, as it implies a democratic approach to solving existing problems. As for the category of «adaptation», firstly it strictly limits an opportunity of equal decisions, and secondly, covers a much wider range of issues that should be resolved. In this respect, this peculiar comprehensiveness often eliminates key ideas and hinders the progress in implementing planned activities.

In this context, O. H. Chepets and O. M. Hubaryk's statements are true when they point that simple attempts of removal and transferring of accounting principles of other countries or mechanical application of accounting standards of International Accounting Standards Committee cannot be effective for several reasons [81]. Emphasis on taking into consideration national peculiarities and levels of economic development will actually allow a more balanced approach to improving current legislation. Recognition of national peculiarities and mentality requires look for the most appropriate solutions on organization, methodology and techniques of accounting.

Compliance with the first approach includes the possibility of mutual improvement and application of the most positive experience. Also, we should not ignore the fact that the national accounting practice has some reasonable advantages, especially in the control function part, level of detail display of accounting objects, building of connections between structures, document flow and so on. Also unfairly neglected is the process of using accounting indicators for planning activity, which functioned in the administrative-command system quite effectively. Methods of evaluation, calculation, developments concerning conducting regulatory accounting, order of formation of statements were also considerable enough. In general, it should be recognized that a number of positive features of accounting are still relevant today. So ignoring this experience negatively affects the quality of effective information and informational base of business entities management in general.

In the framework of carrying out coordinative actions and measures under the Partnership and Cooperation Agreement and the National Programme, the Community of European Union secures technical support for the implementation of the aforementioned measures, which may include: exchange of experts; the provision of early information especially on relevant legislation; organizing seminars; training; assistance in the translation of Community legislation in the relevant sectors [4].

The requirements of these documents have been implemented through a series of joint international conferences, implementation of education and training of Ukrainian specialists and organization of measures aimed at solving the problems associated with the various industrial issues that arise during the implementation of European standards.

In particular, according to the project «English for civil servants employed in the process of EU integration», and the Memorandum of Cooperation between the School of Senior Civil Service and the British

Council, 391 civil servants of central executive bodies did English courses from February to December 2012 and 191 finished training in 2013. The work to attract international technical assistance for the training of civil servants and local government officials in European integration issues and Euro-Atlantic cooperation was carried out. 1320 Ukrainian civil servants took part in 70 events during 2012 organized within TAIEX, including 8 events which were held on the initiative of the European Commission, 62 – on the initiative of Ukraine [49, p. 28–34].

However, a significant drawback is that the events were held in areas such as freedom, security and justice (16 events), internal market (40 events), transport, environment and energy (6 events), agriculture and food safety (8 events) [49, p. 31], while accounting issues were not presented there. Instead, it will be fair to point out that the latter was actively discussed at numerous international scientific and practical conferences, symposia and round tables that allowed forming a number of decisions which were later used to improve domestic legislation.

An important role in organizing and conducting such events is played by the Treasury Community of network «PEM PAL» (a network of peer learning and exchange of experience in public expenditure and financial management between experts from Central Asia, Central and Eastern Europe). In particular on 24–26 April 2013 with the assistance of the State Treasury Service of Ukraine Kiev hosted the international seminar of the Treasury Community of «PEM PAL» network called «Internal control and the role of the modern Treasury» with the participation of the representatives of the World Bank, Ministries of Finance of the Member States of Treasury Community of «PEM PAL» network, as well as the Heads of treasury service of Albania, Bulgaria and Croatia [49, p. 25].

Nevertheless, we should point out the lack of activity in the development of this direction of harmonization of legislation. As the reason for this we should recognize the fact that despite the exceptional importance of accounting in the context of transparency, credibility and role in management, Progressive plan of adaptation of Ukraine legislation to EU legislation approved by protocol decision of the Coordination Council for Adaptation of Ukraine to the EU legislation on

10 June, 2011, the relevant section (P. 2) has names of six events and only one is dedicated to unification of accounting and reporting (Table 1.4.1).

Table 1.4.1

The progressive plan of adaptation of Ukraine legislation to the EU legislation

(Extract)*

№	The name of the measure	Sources of acquis commu-nautaire, which regulate legal relations in the relevant area	Justification of the need of measure implemen-tation	The term of imple-mentation	Responsi ble for imple-men-tation
1	2	3	4	5	6
2.6.	Amendments to the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» and to the relevant orders of the Ministry of Finance of Ukraine concerning: – general financial reporting requirements, submission of financial statements, statements on financial performance, preparation and submission of financial statements of small business entities subject to the provisions of the Fourth EU Council Directive number 78/660 / EEC;	Fourth Council Directive from the 25th of July 1978 based on the Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC); Seventh Council Directive of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts (83/349/EEC); Regulation	Paragraph 8 of priority of unit 7 «Other areas of cooperation» of Chapter III «Operational part» of Association Agenda of Ukraine and the EU «to facilitate the application of international accounting standards by all listed institutions at national level, notably by introducing a mechanism to achieve this goal».	Within two years from the entry into force of the Asso-ciation Agreement between Ukraine and EU 2012	The Ministry of Finan-ce of Ukraine

Continuation of Table 1.4.1

1	2	3	4	5	6
	– consolidated financial statements of profit and loss of legal entities on the basis of the Seventh EU Council Directive number 83/349 / EEC; - unification of business accounting on the basis of Regulation of the European Parliament and the Council (EC) №1606 / 2002	(EC) No. 1606/2002 of the European Parliament and of the Council of 19.07.2002 on the application of international accounting standards	Supplement to «The legislation on the establishment and operation of companies» of draft Association Agreement between Ukraine and the EU		

Notes: * Formed on the basis of [47]

It should be emphasized that this clause of the plan is implemented quite successfully as the Law of Ukraine of 12 May 2011 № 3332-VI «On Amendments to the Law of Ukraine «On Accounting and Financial Reporting in Ukraine». Key positions that were settled concern terminology additions, positioning of international standards, defining terms of reporting, etc. (Figure 1.4.1).

An analysis of made corrections and additions to the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» and the formation of other regulations based on approximation of national legislation to the European Union requirements shows that more sophisticated legal principles of accounting and financial reporting are created in our country. They are based on postulates of international standards. This provides further harmonization of national accounting legislation with the standards set by the European Parliament and the EU Council.

By the way, the presence in the list of planned by the Progressive plan of Adaptation of Ukraine to EU legislation of the measures of adoption of the Law of Ukraine «On Amendments to the Law of Ukraine «On Auditing» (on determining conditions of Internship for obtaining the right to carry out audit activity in Ukraine, on the level of education of individuals who may be admitted to statutory audit) and Amendments to the Regulations on certification of auditors approved by the Audit Chamber of Ukraine of May 31 2007, No. 178/6 (on the level of education of individuals) should be positively assessed [47].

The Law of Ukraine «On Accounting and Financial Reporting in Ukraine»

Clarification	**Supplement**
1) The second paragraph of the fifth part of Article 8 shall read as follows: «determines accounting policy of the company in agreement with the owner (s) or authorized body (official) according to the statutory documents»; 2) part four of Article 14 shall read as follows: «4. Public joint stock companies, companies – issuers of mortgage bonds, mortgage certificates, bonds of enterprises and certificates of real estate operation funds, and professional participants of the stock market, banks, insurers and other financial institutions are required no later than 30 April of the year following the reporting period to disclose annual financial statements and annual consolidated financial statements together with the audit report by posting on their own web page and publishing in periodicals or non-periodical issues».	1) Article 1 should be supplemented with paragraph fourteen as follows: «International Financial Reporting Standards (hereinafter – international standards) – documents that define the order of preparing financial statements adopted by the International Accounting Standards Board»; 2) Add Article 12-1 as follows: «Article 12-1. Application of international standards 1. The international standards are applied for The preparation of financial statements, if they do not conflict with this Law and are officially published on the website of the Ministry of Finance of Ukraine. 2. Public joint stock companies, banks, insurers and companies that conduct business activities by the type listed by the Cabinet of Ministers of Ukraine, make the financial statements and consolidated financial statements according to international standards. 3. Companies other than those mentioned in the second part of this Article independently determine expedience of application of international standards for preparing financial statements and consolidated financial statements. 4. Enterprises inform according to the procedure established by the Cabinet of Ministers of Ukraine, the specially authorized central executive authority in field of statistics about making their financial statements and consolidated financial statements according to international standards. 5. Financial statements and consolidated financial statements prepared according to international standards are submitted in accordance with the procedure established by this Law.

Figure 1.4.1. **Improvement of the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» according to EU legislation ***

Notes: * Formed on the basis of [27]

Adoption of new standards will not only contribute to improving the quality of audit and professional audit staff, but contribute to the growth of trust of foreign partners to their activities. In addition, this approach means growth of opportunities for mobility of auditing services and the auditors themselves. It is necessary to admit that staff training is a key basis for the effectiveness of implementation into practice of new accounting standards, improvements in keeping documentation and progress in the approximation of national accounting practices to international standards. The correct account of individual and social factors that influence personal motivation and behaviour is considerably important in this case.

M. R. Luchko and I. S. Revasevych point out in this regard that consideration of these factors will contribute to the stabilization of personal adaptability of accounting workers, to the harmonization of their relationship with the environment and will improve the level of personal adaptation to the changing requirements of the environment. Also, according to these scholars, it promotes the efficient deployment of adaptive processes and is essential to the formation of a self-sufficient professionally mature personality, who is able to interact actively with society, constructively solve vital problems and able to fully realize his own creative potential [120, p. 19].

This position does not cause objections and doubts, but requires considerable efforts in the issues of increasing of educational quality, training and retraining of the personnel. Without going into detail of this problematic direction which requires deeper research of opportunities for improving the educational process, we note that some progress in this regard should be associated with the adoption of the Law of Ukraine «On Higher Education». One of the major problems which hamper almost all processes beginning from the improvement of the regulatory framework and ending with the preparation of highly qualified personnel is the lack of financial support.

Therefore, O. Strelnikov's position is fair, who believes that for the implementation of the National Programme on Adaptation of Ukraine to the EU legislation in the field of accounting, the implementation of the IFRS in Ukraine it is necessary that these areas were fully funded. The scientist proposes two possible ways to resolve this problem: 1) funding of programs of accounting upgrading should be put on the state; 2) it is necessary to participate in the implementation of programs of international financial institutions and international funds, which are aimed at creating a global accounting system in order to address the issues of additional investments [157, p. 14].

This not only contributes to solving the financial side of the issue, but also allows more actively implementing best practices of accounting improvement and controls. In particular, cooperation between scientific institutions, and professional organizations and participation in various international projects are very valuable. In particular, the development of the Twinning project «Assistance to the State Financial Inspection of Ukraine in rebuilding inspection function in connection with the implementation of the public internal financial control of European model» is intended to address various issues relating not only with the improvement of accounting and control, but with a corresponding improvement of normative and legal support for their implementation (Table 1.4.2).

Table 1.4.2

Programme objectives of the Twinning project «Assistance to the State Financial Inspection of Ukraine in rebuilding inspection function in connection with the implementation of the public internal financial control of European model» (as of 09.30.2014) *

№	Objectives	Stage of accomplishment
1	Preparation of the Twinning project «Assistance to the State Financial Inspection of Ukraine in rebuilding inspection function in connection with the implementation of the public internal financial control of European model», whose beneficiary is the State Financial Inspection of Ukraine (on stage of preparation of detailed technical task of project 5 (Twinning Fiche).	In process
2	Preparation of the Twinning project for the State Treasury Service of Ukraine «Harmonization of public accounting standards of Ukraine to IPSAS» (on stage of preparation of detailed technical task of project (Twinning Fiche)	In process

Notes: * Formed on the basis of [21; 42]

The project provides ensuring further improvement of the internal control system, including functionally independent internal audit in public authorities through harmonization with generally accepted international standards and methodologies and EU best practice. It is also planned that the sides will strengthen cooperation in all areas of company law, corporate governance, accounting and auditing by exchanging experiences and information about their best practices and the existing regulatory framework [15; 21].

The formation of substantiated structure and proper functioning of the institutional mechanism both at parliamentary and governmental levels is also exceptional value in achieving compliance of the planned objectives. Today this mechanism in Ukraine includes the following institutions: the Verkhovna Rada of Ukraine, the Cabinet of Ministers of Ukraine, the Ministry of Justice of Ukraine, the Coordination Council for adaptation of the legislation in Ukraine to the legislation of European Union and other institutions that perform specific functions (Figure 1.4.2).

Coordination of parliamentary work in the adaptation of legislation carries out the Committee of Verkhovna Rada of Ukraine on European Integration (hereinafter – the Committee of EI VRU).

It should be noted that the Ministry of Justice of Ukraine became specifically authorized central of executive body in the adaptation of legislation in Ukraine to the Legislation of European, as defined by the Presidential Decree from April 6, 2011 No. 395 «On approval of Regulations of the Ministry of Justice of Ukraine».

The Coordination Council for Adaptation of the legislation in Ukraine to the legislation of European Union, headed by the Prime Minister of Ukraine was established in 2004 for the purpose of ensuring interagency coordination of adaptation of legislation.

It is necessary to allocate among the main functions of the Coordination Council such as: expert and analytical, legal, information and other support of the Cabinet of Ministers of Ukraine; Prime Minister of Ukraine, First Vice Prime Minister of Ukraine, the leadership of the Secretariat concerning the implementation of the state policy in the sphere of integration of Ukraine into the EU, particularly on adaptation of Ukraine legislation to the EU legislation.

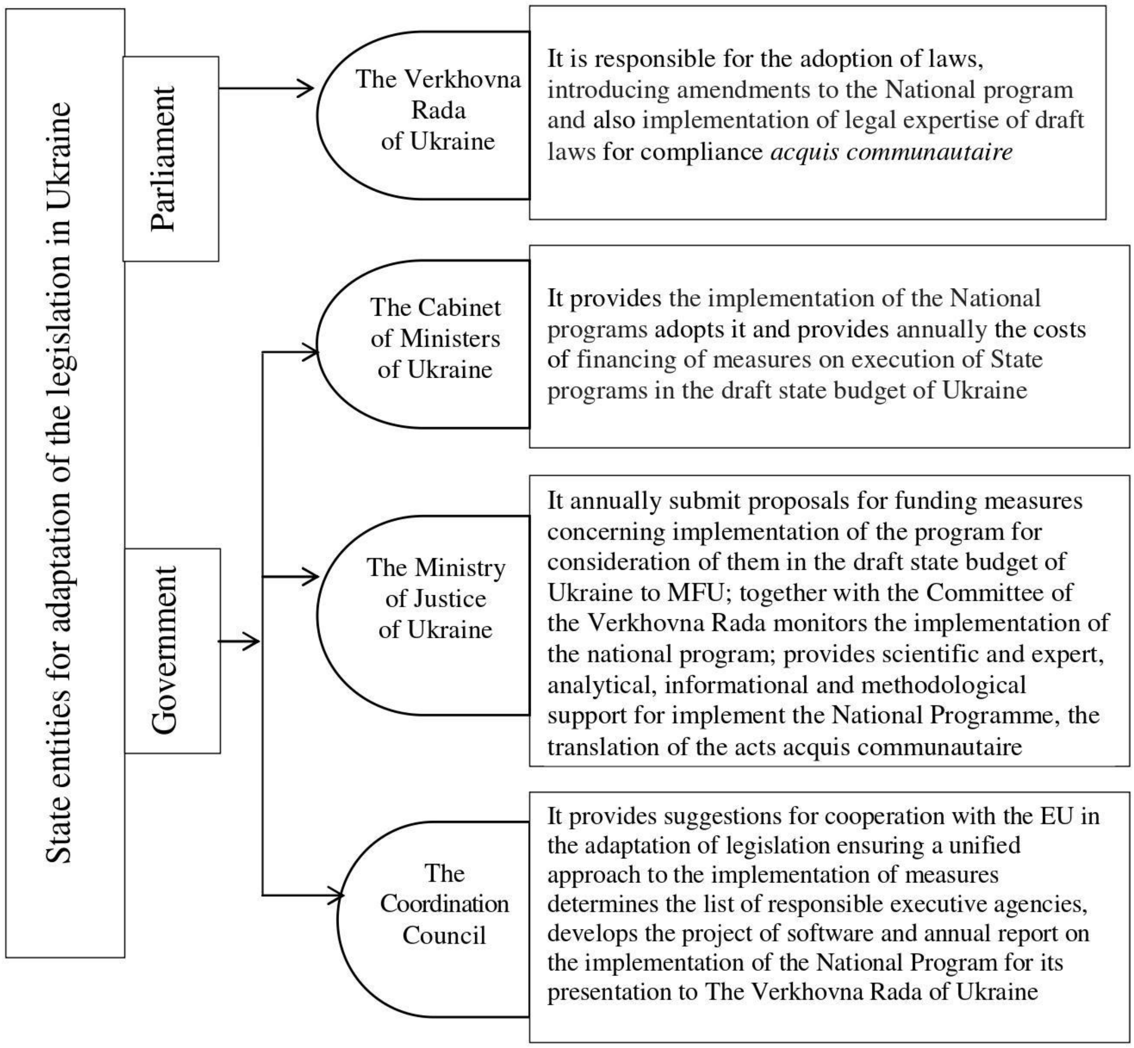

Figure 1.4.2. **The institutional mechanism for harmonization of legislation in Ukraine**

Notes: * formed on the basis of [15].

In general it can be argued that Ukraine has made significant strides in harmonization vector of national legislation, skillfully using the positive experience of the EU and implementing those provisions of its legislation that promote more effective regulation of financial and tax accounting. The main thing in this area is compliance with national interests, which in our view is provided by avoiding blind copying European standards or uncontested agreement with the policy of Europe, even if such is well proven in other EU member countries.

1.5. CONDITIONS AND PROBLEMS OF ADAPTATION OF ACCOUNTING IN UKRAINE TO INTERNATIONAL AND EUROPEAN REQUIRENMENTS

Globalization in the economy and European orientation of Ukraine affects not only the relationship between business entities, but also significantly affects their legal and juridical bases of activities. In particular, there is a need to harmonize approaches to identifying resource support and enabling the development of a single evaluative framework. This in turn requires the development of new or improving existing theoretical and organizational bases of accounting system. Accounting as informative base of management and a key tool of influence on social relations and the level of social and economic development should be consistent with integration processes and needs and interests of development of the national economy.

One of the main reasons for reforming accounting is a need to ensure transparency and openness of data that will help improve the investment climate and increase the level of confidence of potential users to reporting information. It is hoped that this will contribute to the implementation of international accounting and reporting standards. A number of steps in this direction have already been made: several legislative acts have been adopted, including the Law of Ukraine «On Accounting and Financial Reporting in Ukraine», the Budget and Tax Codes and other national accounting standards have been developed that meet the international standards, approaches to assessment of accounting objects have been harmonized, the methodology and procedures displaying economic operations have been specified, and a number of other measures has been made. Despite this, the practice shows that one could not achieve maximum balance and coordination on business issues and business information support. The fact of evaluation of investment attractiveness in Ukraine, conducted by the European Business Association (EBA) in early 2016 by interviewing top officials of companies indicates on this. Approximately 80% of respondents claim that they did not notice positive changes and dissatisfied with the state of Ukrainian legislation on issues of investment. 37% of respondents believe that the investment climate is currently at the same level as in October 2015. 49% of respondents do not expect any improvement in the first quarter of 2016. The indicator of index of investment attractiveness at this time amounted to 2.57 on a 5-point scale, that is still in the negative plane – is lower than 3 points that are considered as neutral value (Figure 1.5.1) [11].

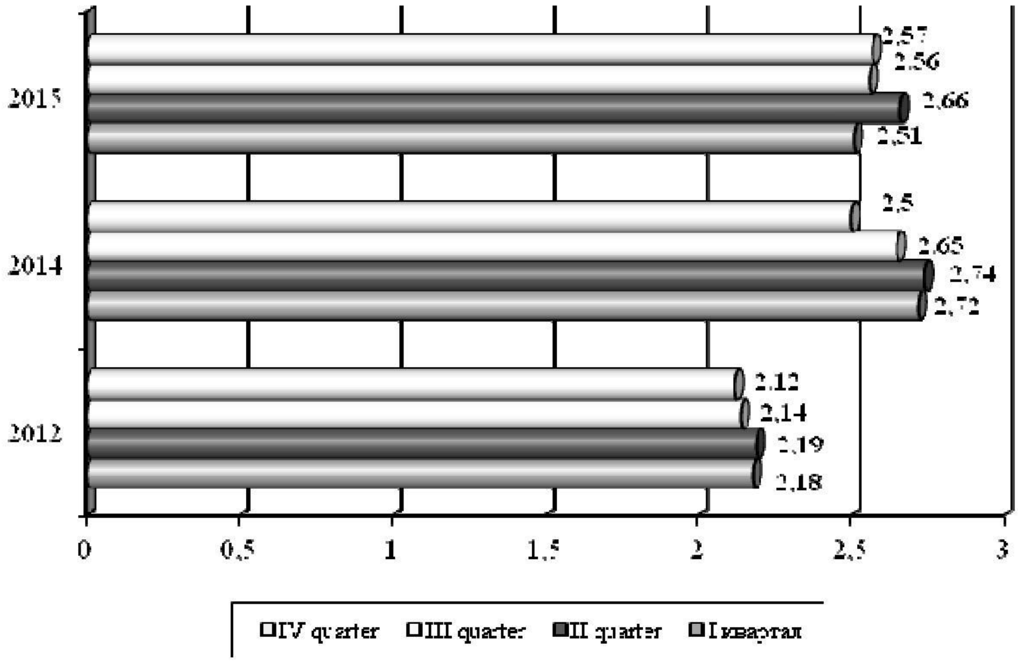

Figure 1.5.1. **The index of investment attractiveness of Ukraine in 2012–2015***

Notes: * – source [11]

Survey participants explain negative value of index of investment attractiveness of Ukrainian economy by the imperfection of the tax system and lack of reforms and positive changes on these issues. A quarter of respondents (25%) believe that the tax burden on taxpayers is the main reason that prevents the attraction of foreign investment in Ukraine [11].

However, the difficulty of solving this problem is not only associated with the need of reforming the tax system and improving the Tax Code. It is necessary to intensify the activity development of the most important component for investors – information base on the initial conditions of business for complex overcoming the negative impact on the level of investment attractiveness in Ukraine. Digital credentials are convincing arguments for making correct decisions. In this regard, bringing Ukrainian accounting system in compliance with international and European requirements is the actual task, the solution of which will contribute to strengthening cooperation and interest in investing in different sectors of the national economy.

Problems with solving this task are connected with the peculiarities in the current accounting of Ukraine and its targeted objectives and purpose. Overall, it is focused on meeting the needs of forming accurate and its timely presenting to controlling bodies.

In contrast to most foreign, including European countries, the typical organization of accounting is aimed not only at forming statements, but also at meeting the demands of internal control system. And focus on the needs of the latter is a priority, since it facilitates the optimization processes, is the basis for the development of alternative models of activity and others. In this context, the national organization of accounting should be promoted to a higher level, and therefore the problems of its improvement and development in accordance with international principles and requirements require more detailed studies.

Analysis of the literature and legislation on accounting in Ukraine suggests that at present a common approach on the issue of accounting is not reached. In particular, even the very concept of «organization of accounting» has different interpretations. In particular, the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» [27] in the «General Provisions» (Article 1 «Interpretation of terms») does not contain a definition of «organization of accounting». The essence that is given by the law can be determined in the context of Article 8. Organization of accounting at the enterprise clause 4 states: an enterprise chooses its form of organization independently to provide the accounting: the introduction of an accountant position in a staff of an enterprise or the creation of accounting department which is headed by the chief accountant; using the services of a specialist in accounting, registered as an entrepreneur who carries out entrepreneurial activity without being a legal entity; bookkeeping on a contractual basis by the centralized accounting or audit firm; independent accounting and preparation of reporting directly by the owner or the manager of the enterprise [27].

Thus, according to the legislation organization of an accounting comes to choosing a structural approach. Justification for this choice requires taking into account a number of factors and applying certain procedures. And the most significant drawback of making such a choice is mainly taking as a basis the size of the company (which is determined by taking into account the number of its employees or the volume of activity) and needs (thought) of the management on the form of organization of an accounting and its kind. Ukrainian practice shows that usually mathematical rationale for selection of a particular type of organization of accounting, as well as evaluation of its effectiveness in general and of each of the components in particular is not made or is carried out extremely rare. It is necessary to acknowledge the fact that the analytical and assessment calculations and computing of accounting efficiency are not popular enough with the majority of Ukrainian business. Despite this, their use, even in the most primitive form, could secure business entities from a number of negative effects of the economic consequences. Without going into a detailed analysis of existing evaluation methods, we note that the simplest of its method is installation of the ratio between the total amount of administrative tasks that need to be addressed ($TM_{\max}$) and the amount of tasks that can be solved on the basis of data that will be produced by accounting system when you select particular its organization ($TMD_{possible}$):

$$K_{es} = TMD_{possible} / TM_{\max} \qquad (1)$$

However, regarding the value of calculated coefficient we should indicate on limitation, which is expressed by the expression $K_{es} \geq 0,5$. If the index is less than 0.5, the accounting system is ineffective and, its organization accordingly does not meet the needs of management and selected incorrectly.

In most enterprises accounting system meets these requirements as it allows solving more than 50 percent of administrative tasks. However, in the increased competition and internationalization accounting requirements increase. Therefore, the higher the value of the proposed ratio, the better providing with information of management and more effective are the activities of economic entities in general.

More detailed approaches to the assessment and their formalization requires careful analysis of initial conditions and components of accounting. In this regard, it is important to take into account even existing positions of the definition of the term «organization of accounting». As it has already been noted, current Ukrainian legislation does not give a clear identification of the studied concept.

In the scientific opinion and among accountants and practitioners in the main it is considered as: 1) a set of actions [114, p. 6]; 2) the system (set) of conditions and elements [71, p. 12; 77, p. 40]; 3) the system of methods and tools [113, p. 5].

There are also possible combined options and combinations in one definition of all of the above approaches. From the point of identification of organization of accounting and the development of opportunities to assess it, the availability of a wide variety of interpretations is unfavorable for the development of a unified method of evaluation. It is therefore important to agree on the maximum available variants. The construction of all the definitions to one interpretation requires taking into account the semantics of meanings that fit to the content interpretation. A possible generalizing option could be the construction of definitions to the following: organization of an accounting should be understood as a system of measures, which allows you to create a rational and effective system of accounting of the entity, able to satisfy management requests for information (information database) necessary for decision-making. These measures include: the research of specific activities of the entity; the formation of accounting policy; selection of the most acceptable form of accounting, tools and software for its maintenance; substantiation of the structure of the accounting department (or as defined in the Law on Accounting «form of organization of accounting»); ascertainment of the scope of accounting procedures and the development of staff list (calculation of the number of accounting personnel); compiling of job descriptions and the schedule of document circulation (it is important to follow the principle of optimality) and others. However, this approach defines the organization of accounting in the narrow sense, that is, at the level of business entity. It should be noted that despite the importance and dependence of the level of efficiency of accounting on the above measures, we should recognize a number of other factors that have a global focus. In particular, the organization of accounting of business entities fully depends on the national approach to its keeping, in other words on the national accounting system, which at the legislative level defines its methodological, organizational and methodical support.

Directive 2013/34 / EC of the European Parliament and of the Council of 06.26.2013 «On the annual financial statements», consolidated financial statements and related reports of certain types of companies [8] plays an important role in this process. It particularly identified opportunity for preparation of short reporting for different types of businesses, which is especially important for small and medium enterprises. Certain developments in this direction have already been made in Ukraine; accounting for small businesses has been made easier, approach to financial reporting has been unified. Much of the national legislation in this area is already implemented, but still there are some not only legal, but also organizational problems related to their practical use and implementation.

The first essential condition, as the actual practice of implementation of international accounting standards and legislation of the European Union shows, is the need to harmonize accounting principles and to prepare the legal framework for its compliance in Ukraine. Not making a detailed review of the problem (it should be the subject of a separate study), it should be noted that some of them are difficult to perform in Ukrainian realities. For example, the principle of accrual requires the formation of an adequate legal basis, aimed at improving the policy of repayment of receivables. In Ukraine today except penalties on violators of terms of its repayment, others include economic instruments (including application of discounts, rebates, and other so called mechanisms) are used quite rarely.

Many questions arise about the structural objects of accounting, protection of information data and positioning of the confidential information, approaches to determining the performance and others. In particular we should agree with the position of M. R. Luchko, who on the matter said that the changes that have taken place in an environment of economic entities, led to the situation that the traditional factors of production such as land, labour, capital lost their dominant position in favour of information and knowledge of the person who has them and can use. Unquestioning belief prevails in science and practice that it is the time of knowledge where they, psychology and consciousness occupy the largest place in the management as a whole [119, p. 36]. The validity of this statement is embodied in the practice of management entities in modern conditions. Only those who are actively using human knowledge, including accounting, achieve the best results. This is manifested through activation of making optimization decisions, based on personal experience, professional intuition and competence knowledge.

Some steps related to solving problems of identification of professionalism and enforcing ethics in the accounting profession, were made in Ukraine through recognition of the feasibility of observance of the Code of Ethics for Professional Accountants, the copyright for which is owned by the International Federation of Accountants [5].

Actual compliance with the provisions of aforementioned Code requires solving the problem of identification subjects, who are obliged to fulfill such norms. The Code itself imposes some restriction on this occasion because in determining the terms indicates that professional persons (professional accountant and a professional accountant in business) that required to be guided by the Code must be members of the organization, which is a part of the International Federation of Accountants. Currently in Ukraine there are only two such organizations: Federation of professional accountants and auditors of Ukraine (UFPAA) and Ukrainian association of certified accountants and auditors (UACAA).

Thus, the range of persons belonging to the list of those that have to adhere to professional accounting ethics are limited by members of these institutions. In particular, in 2013 the number of members UACAA amounted to 3181 persons, in 2014 – more than 3289. However, the dynamics of joining the members of the association after the peak in 2008 (513 persons) is negative (Figure 1.5.2).

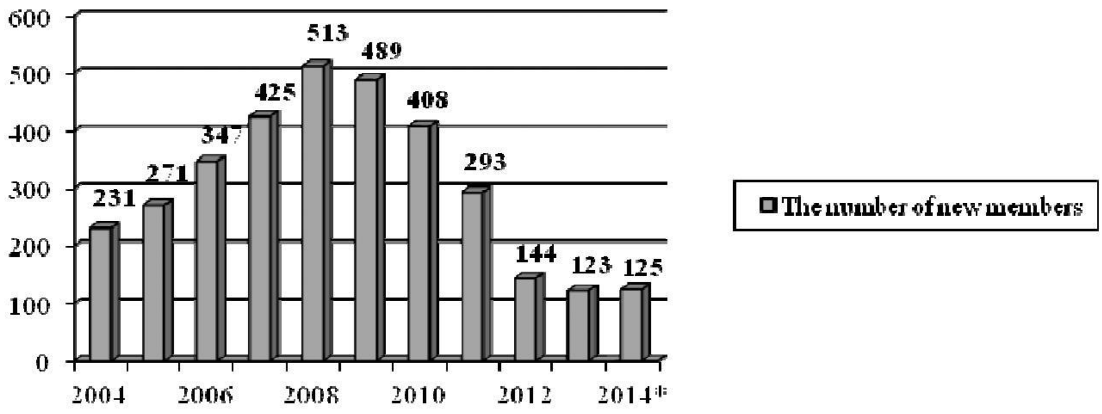

Figure 1.5.2. **The number of new members of the Ukrainian Association of certified accountants and auditors by years ****

Note: * – unofficial figures received on the basis of empirical researches of available information on the Internet; ** – source: [156]

The formation of the negative dynamics of UACAA membership requires a deeper investigation; however, primarily it should be associated with the formal obstacles, including documentaries.

Thus, the problem of observance of professional ethics by national accounting employees requires the improvement of Ukrainian legislation. Thus it is necessary to distinguish between at least two levels – international, which is defined by the Code of Ethics for Professional Accountants and supervised by the International Federation of Accountants and national, which requires the formation of Ukrainian legislation. Minimizing differences between them will strengthen the confidence of the users concerned in the local accounting data in the international scope.

Ukraine's interest in the development of legislative regulation of ethical conduct has two real foundations. Firstly, as the result it will increase confidence in the Ukrainian professional organizations, their members and those accounting data which they confirm. Secondly, the internal regulation of professional accounting ethics will positively affect the veracity and reliability of reporting, increase mutual confidence between national contractors.

In addition, it is difficult to implement transformational and reformation changes without a preparation of national consciousness, particularly with regard to the accounting profession, the role of the accounting personnel, their attitude towards their responsibilities, willingness to learn and the perception of higher requirements for the quality of work, level of professional skills and competence.

In general one of the most problematic and most challenging aspects in the implementation of the Association Agreement is the formation of awareness of the accountant, professional compliance and development of new approaches which are incorporated in international standards and EU Directives. One of the solutions, according to many Ukrainian scientists, is the introduction of national certification of accountants. The basis of this work should be concentrated in professional public organizations where an accountant passing certification not only proves a certain level of knowledge, but also passes the quality control [114].

Negative trends in membership in professional accounting institutions of Ukraine do not indicate the passivity of national accounting staff. Most likely it's the result of the complexity of certification procedures. Practicing accountants (meaning not professional experts in business, including consulting, auditing firms), carrying out their professional duties in the business entity (manufacturing or services) do not always have the opportunity to leave the company for a long time to undergo training and to take examinations. Cost certification criteria are also unacceptable for many of them.

In addition, owners do not require certification for employment. These and many other factors do not contribute to the active implementation of the certification process and interest of accounting staff in its passage.

Significant place in improving confidence in the accounting data and work of the accounting personnel is the development of international cooperation on improving their professional skills and improving of accounting legislation that is carried out through various projects. These projects are particularly FINREP II (USAID) and

STAREP (World Bank). From the Ukrainian side they are supervised by the Ministry of Finance of Ukraine.

STAREP project is in the competence of the Centre for Financial Reporting Reform (CFRR), which is also the training center of the World Bank and is located in Vienna. It carries out training and provides advisory services on reforms in the area of financial reporting. In addition, it assists in creating efficient and sustainable base of accounting and auditing that meets international standards and takes into account the requirements of the system of laws and rules and the EU acquis communautaire [56].

Exercising the powers in accordance with STAREP program activities, including education reform in accounting, accounting standards and practical support of the financial sector, the center conducts activity to promote and disseminate the experience of European countries with the implementation of EU directives.

FINREP-II program supports the implementation of the following objectives introducing IFRS: help maintain working relations between the Ministry of Finance and the International Accounting Standards Board (IASB); provide support in conducting IFRS training for workers and administrators of private pension funds; provide support in the development of IFRS training courses in universities and business schools; provide support in conducting IFRS information and explanatory activities by regulators and associations of accountants and auditors [41]. With the help of the program FINREP-II the state of Ukrainian accounting, reporting, independent audit and regulatory capacity of the Ministry of Finance of Ukraine in this field is assessed. The method of an intergovernmental body of the UN General Assembly, Conference on Trade and Development Council (UNCTAD) is used that enables international recognition of such an assessment.

This method allows evaluating the investment attractiveness and revealing the real state of accounting and reporting system in Ukraine, their weaknesses. This makes it possible to increase the quality of financial reporting, enhance transparency and efficiency of companies and investor's confidence. In the final version it accelerates the convergence with the countries of the European Union by improving the quality of financial statements of Ukrainian companies and strengthening its credibility. Losses from lack of confidence of potential foreign investors to accounting information are sufficiently significant. The main repulsive factors for potential investors are the uncertainty and unpredictability of Ukrainian legislation and the realities of the economic development.

Volume of foreign direct investments in the first half of 2015 together with unfavorable political conditions and risks associated with the instability of the situation in eastern Ukraine amounted to 1,040 billions of dollars, and the outflow – 2.91 billions of dollars (Table 1.5.1).

Table 1.5.1

Foreign Direct Investments and their outflow, billions of dollars *

Year	Foreign direct investments	Outflow of investments
2012	6,013	1,256
2013	5,677	2,845
2014 (negative exchange rate difference amounted to 12.25 billions of dollars)	2,45	1,17
2015 (the first half-year)	1,040	2,91

Note: * – source: Foreign direct investment in Ukraine increased for the first year and a half. What does it mean [Electronic resource] // TSN: Money. – Available at: http://tsn.ua/groshi/upershe-za-pivtora-roku-zrosli-pryami-inozemni-investiciyi-v-ukrayinu-scho-ce-oznachaye-475222.html

Minimizing the negative factors one of which is lack of confidence to the accounting data and reporting in Ukraine will make it possible to further increase the investment attractiveness of the domestic business.

The adoption of National regulations (standards) of accounting played the important role in this process. But we should recognize the existence of problems associated with their introduction. In particular, the fact that they contain provisions that have contradictory nature with other applicable legal Ukrainian standards, including higher legal force.

In general, there are three main groups of problems hindering the implementation of international standards in national accounting practice. These problems are the problems of legal and normative regulation, professional education and advanced training and internal economic peculiarities.

Singled out three groups of issues do not characterize the whole set of existing problems that have to be the subject of attention and research. Their positioning only indicates the possibility of scientific researches to overcoming those difficulties that arise in the way of accounting harmonization. Therefore, the actual direction of scientific research is to find ways for overcoming problems and difficulties for adapting of national accounting system to international standards with minimum risks and expenses.

Chapter 2

LOCAL ASPECTS OF THE ADAPTATION OF ACCOUNTING IN UKRAINE UNDER THE EUROPEAN INTEGRATION PROCESSES

2.1. ACCOUNTING TRANSPARENCY IN UKRAINE

The concept of transparency in business has been studied by researchers since the beginning of the XXI century.

During this period the world experienced financial scandals associated with large corporations' accounting data inaccuracy. Some of the best know examples are the Enron and WorldCom collapses in 2002, the global financial crisis in 2008.

At the macroeconomic level, transparency is regarded as a comprehensive (integral) measure of an economic entity's openness, which reflects the adequate level of disclosure and access reporting information about its current state and prospects [98, p. 7–8].

At the microeconomic level, the concept of transparency is applied to accounting and reporting data, which are transmitted to users by appropriate tools of communication, because transparency provides information openness and lack of privacy.

The problem of accounting transparency is also based on the fact that there is a conflict of interests between users of information and persons who form it. The separation of management from ownership creates so-called «principal-agent» problem, the essence of which is considered by Adam Smith in the 18th century in his book «The Wealth of Nations». This problem suggests that there is asymmetry of information between managers (preparers of financial reports and, thus, suppliers of accounting information) and owners (users of financial reports who demand accounting information). Therefore, providing accounting transparency can decrease information asymmetry because accounting will reflect the real situation of the company and would help to make the right decisions Pankov V. V., Nesvetaylov V. F. and Kozhukhov V. L. consider accounting transparency as transparency of business that is accountable to a wide range of users. Presence of substantial off-the-book transactions, which are not reflected in accounting registers, makes financial reporting incomplete and therefore unreliable. On the other hand, the need for disclosure information for users is regulatory required and involves preparation of a financial report, which includes not only financial information but also a significant amount of non-financial data [140].

According to Abdel-khalik A. Rashad, the linkage between accounting and economic systems should be transparent to all participants in the information environment; the efficient functioning of capital markets is conditional on the availability of relatively timely and reliable information.

The process of transferring information between those who produce it and users should lead to lower information asymmetry. Transparency of accounting covers two aspects: first, the amount, frequency and type of information transferred to the public domain should be sufficient to allow for proper evaluation of the firm's performance without revealing the industry secrets that may compromise the reporting firms' competitive advantages; second, the process should allow all external users equal access to information [36].

As noted by Hennie van Greuning and Marius Koen, accounting transparency should be based on quality accounting and financial reporting standards, and on adequate disclosure methodology. Typically disclosure provide the relevant quantitative and qualitative information in the financial statements. The authors noted that in this context the concept of transparency involves creating an environment in which information about existing conditions, decisions and actions taken by the company becomes accessible, transparent and understandable to all market participants. At the same time must be considered that these requirements involves providing adequate financial costs, therefore it is necessary to correlate the usefulness of disclosure and the cost of such disclosure [164].

As well as any phenomenon, transparency should be measured, but there is no single indicator or group of indicators to define it. In practice, there are other parameters that can be used indirectly to assess transparency at the country and at the firm level.

At the firm-level, accounting transparency is usually peroxide by disclosure levels, both mandatory and voluntary, through its perception by users. At the country-level, transparency can be measured as the degree of information transparency, required by the market or regulatory bodies [85, p. 458].

Measuring accounting transparency at the country-level usually involves third parties (e. g., nongovernmental organizations and ratings agencies, such as Transparency International and the World Bank) that rank each country based on each country's characteristics. Some of these characteristics include the legal systems and enforcement in place, and the perceived level of each country's accountability and responsibility toward maintaining a transparent economic and political landscape.

For example, PricewaterhouseCoopers (PwC) published the Opacity Index in 2001, which measures the impact of business, economic, legal, and ethical opacity on the cost of capital.

PwC considers the risk-based cost of doing business around the world and assigns a score for each country by looking at factors: Conflict/corruption levels, Legal practices, Economic factors, Accounting practices, and Regulatory practices. Thus, a clear relationship was established: the higher the opacity, the lower the degree of accounting transparency, and therefore the higher the cost of capital.

Inherently, there is an assumption that companies originating from countries with a high level of opacity are likely to disclose less and lower quality accounting information and, therefore, have lower accounting transparency.

From 2000 through 2009, the Milken Institute published the Opacity Index, which in effect measured the lack of transparency and level of corruption in 50 nations. The index defined opacity as the lack of clear, definable standards of conduct at the point where business and government meet.

According to Milken Institute researchers, economic opacity means policies favor one group over another, accounting opacity obscures the inner workings of a company or a government, and regulatory opacity exists when the banking system or markets operate improperly.

Another popular country-based proxy of transparency is the Corruption Perceptions Index (CPI), an annual publication since 1995 by Transparency International, an independent NGO that deals with the study of corruption in the world. CPI is based on independent surveys, involving international financial and human rights experts, including the World Bank, Freedom House, World Economic Forum, the Asian and African Development Bank. The CPI ranks countries on a scale from 0 (highly corrupt) to 100 (very clean) [6].

Transparency International recognizes transparency as an element of good governance, including the management of corruption risks. The data are published annually by the Transparency International show that the disclosure is not clear enough at both the local and international levels and does not reach the standards to be followed by companies seeking to go global. Considering the country's corruption, Transparency International recognizes the negative impact of poor accounting transparency on the overall level of corruption [162].

According to studies, in 2014 Ukraine CPI index was 26 (the same index had Comoros and Uganda), so our country occupies 142nd place from 175 places. Compared to 2013, Ukraine received only one additional point therefore remained as a totally corrupt country. These disappointing results, according to the opinion of the international anti-corruption community, caused little progress in the destruction of corruption schemes received inherited from all previous governments since Ukraine independence [6].

The ease of Doing Business index is published annually by the World Bank to evaluate favorable business environment and transparency.

Favorable terms of ease of doing business ranges from 1 to 189 (according to the number of analyzed countries). A high ease of doing business ranking means that the government set up a proper regulatory environment that is transparent and favorable for business.

Analyzing business conditions worldwide, we note that in 2015 Ukraine ranked 87 places out of 189 countries. As a result, Ukraine is among the world's outsiders in some indicators included: getting electricity (138th), construction permits (139th) paying taxes (106th), bankruptcy procedures (141th), trading across borders (109th) and protecting minority investors (87th). Positive forecast for 2016, according to the World Bank ranking, have indicators of registering property and starting a business. The aggregate ranking for Ukraine will be 83, thus improved by 3 points [82; 83].

Let us consider several other rankings, which in addition to evaluation of transparency and business covering other indicators to assess the state as a whole.

The Legatum Prosperity Index is an annual combined ranking developed by the British analytical center Legatum Institute, which measures the achievements of countries in terms of prosperity. The 89 variables are grouped into 8 sub-indexes, which are averaged using equal weights. The 8 sub-indexes are: Economy, Entrepreneurship & Opportunity, Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital. The 2015 Legatum Prosperity Index is based on variables analyzed across 142 nations, among which Ukraine ranked 70 place with the highest rank of Education (37 points) and Social Capital (41 points), and the lowest rank of Economics (127 points) and Governance (120 points) [159].

The Fragile States Index (formerly known as the Failed States Index, FSI) is an index designed to assess the ability of the state to control the integrity of the territory and the demographic, political and economic situation in the country. The FSI published by the Fund for

Peace and the magazine Foreign Policy since 2005. The Index is based on twelve indicators divided into three categories: Social indicators (Demographic pressures; Refugees and Internally; Displaced Persons; Group Grievance; Human flight and brain drain); Economic indicators (Uneven economic development; Poverty and economic decline); Political indicators (State legitimacy; Public services; Human rights and rule of law; Security apparatus; Factionalised elites; External Intervention).

In 2015 Finland ranks in the best position – 17.8, Southern Sudan and Somalia ranked as the most troubled states – 114. Ukraine received 76.3 points in total, is 84th out of 178 countries and fell in the "orange" category, which is characterized as a group of countries with poor stability and dangerous level of risk [161].

A big issue for Ukraine is transparency of information on the public level, which also provides publicity of government finance. One of the commonly ratings for assessing such publicity is a global index Global Open Data Index, which annually conducts research of the transparency of national data around the world.

The uniqueness of Global Open Data Index is that the assessment is made not only according to certain state standards, but also in terms of transparency for the citizens of a country to meet their needs for such information [87].

Global Open Data Index 2015 covered information of the 122 countries (in 2014 – 97 countries; 2013 – 60 countries). The five countries with the best index of openness are Taiwan, United Kingdom, Denmark, Colombia, and Finland. Ukraine among takes 54th place among 122 countries with total openness index – 34% (Table 2.1.1).

Thus, Ukraine is among the top ten countries in the world only in terms of transparency of data on land ownership – 5th place with 60% index of transparency and openness of information on public expenditure – 6th place with an index – 45%. Data on water quality, emissions, official maps of the country and the state budget have the worst level of transparency.

Of particular note among these data in terms of the transparency of public finances deserve two indicators – Government Spending and the Government Budget. Project E-DATE had a positive impact on the openness indicator for budget expenditures in Ukraine. E-DATA is the unique web portal on public spending, official state information Internet resource and on which the information is published in accordance with the Law «On the open use of public funds» [35].

Table 2.1.1

Ukraine Global Open Data Index in 2015

	Place in the world	Index of openness, %	Source of information
Land ownership	5	60	http://www.map.land.gov.ua/ kadastrova-karta
Government spending	6	45	http://spending.gov.ua/ http://e-data.gov.ua/
Location datasets	23	45	http://services.ukrposhta.com/ postindex_new/
	28	45	http://www.cgo.kiev.ua/ index.php?fn =k_meteo&f=kyiv&p=1
National Statistics	30	75	http://ukrstat.gov.ua/
Procurement tenders	36	45	https://tender.me.gov.ua/ EDZFrontOffice/menu/en/
Legislation	39	45	http://zakon4.rada.gov.ua/laws?lang=uk
Election Results	45	45	http://cvk.gov.ua/
Company Register	47	5	https://usr.minjust.gov.ua/paidextract
Water Quality	57	5	–
Pollutant Emissions	79	0	–
National Map	94	0	–
Government Budget	105	10	–

*Source: Global Open Data Index [87].

Access to the information published on a single web portal of the use of public funds, is unrestricted and free of charge, providing the ability to meet public interest concerning process controls, creation, distribution and use of public funds by supervisors and recipients of Ukrainian government budget expenditures and local budgets, Pension Funds, enterprises and Obligatory State Social Insurance Funds.

Unfortunately access to the Ukrainian state budget information remains extremely limited. Data are not available online; information may be obtained only at the official level in digital format, most documents concerning the budget available only for internal use or for officials or government organizations.

Note that the ratings, which are discussed above, are well-known in the world and form an opinion on the transparency and efficiency of business and used in making decisions regarding feasibility of investments in the economy and expand business cooperation internationally.

Let's now consider the ratings, which in addition to evaluation of transparency and business, also cover other indicators that assess Ukraine as a whole (Table 2.1.2).

Table 2.1.2

Ukraine rating indicators in 2014–2015

	2014		2015	
	Value	Place in the rating among other countries	Value	Place in the rating among other countries
Corruption Perceptions Index	26	142 / 175	–	–
Doing Business	61,3	112 / 189	62,31	87 / 189
Legatum Prosperity Index	-	63 / 142	-	70 / 142
Fragile States Index	67,2	113 / 178	76,3	84 / 178
Global Open Data Index	–	–	34	54 / 122

*Sources: [6; 82; 83; 87; 159; 161].

The figures in Table 2 indicate that total business opacity, corruption and the shadow economy are significant obstacles to transparent accounting and reporting in Ukraine. However, the low transparency of accounting creates information asymmetry in the economy, affecting and worsening business performance in the country and creating its negative image in the international environment.

The issue of transparency is relevant not only for Ukraine but also in the international context, since the differences in national standards of accounting and reporting do not provide for users sufficient confidence in the transparency and compliance with the demands of the information received.

A positive experience in solving the problem of transparency of accounting and financial reporting information of domestic enterprises are the steps taken by many countries, including members of the European Union. Particularly relevant is the use of the experience of the positions Ukraine's aspirations to become a full EU member.

Considering the problem of accounting transparency and to eliminate the issues related to the comparability of information, the European Union decided to go by setting mandatory requirements for disclosure of information about the company.

In the early 90s it became clear that the implementation of the Fourth and Seventh Directives were insufficient to transparent accounting, and the minimum requirements and flexible restrictions contained in the Directives have led to the development of different financial reporting rules within the EU. In 1995, the EU published the information «Harmonization of accounting: A New Strategy vis-a-vis International Harmonisation». The document underlined that European companies engaged in international activities, have to prepare two types of reports – one in according to the EU Directives, and the other – according to the international requirements.

In 2002, the European Parliament and the EU Council adopted a Regulation № 1606/2002 «On the application of International Accounting Standards», whereby the consolidated financial statements of listed companies since January 2005 should be prepared in accordance with IFRS. In addition, the EU Member States are entitled to require, authorize or prohibit the use of IFRS in the consolidated statements of unlisted companies and annual reports of listed / unlisted companies [32].

In our view this approach at EU level was due to expediency regulate disclosure requirements in respect of it issuers for which the most typical asymmetric information problem, the problem of agents, separation of management from ownership and high requirements for accounting and financial reporting transparency.

In 2004, the European Parliament and the Council adopted Directive 2004/109 «On the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market» [13].

Directive 2004/109 states that the disclosure of accurate and timely information about securities issuers creates a stable investor confidence and allows to make an objective assessment of their activities and assets. This enhances both investor protection and market efficiency.

Therefore securities issuers should ensure appropriate transparency for investors. The requirements for compliance with Directive 2004/109 charged directly to the competent authorities of the Member State and stipulated penalties for violations of the rules of disclosure. In this case, the competent authorities may suspend or prohibit trading on the EU market, if there are reasonable grounds for suspecting that the provisions of the Directive have been violated, and disclose the fact that the issuer or the holder of shares or other financial instruments not fulfilling their responsibilities [13].

In 2013, Directive 2004/109 has been updated and expanded. The main changes concern both large companies and SMEs that are members of the stock market of the EU. To ensure transparency and investor protection Directive provides the basic concepts of accounting; timing, frequency and format of reporting; disclosure and publication of information.

Particular attention should be given to the steps taken by EU to improve transparency of public finances and the requirements for accounting and reporting in the public sector.

Reforming of European Union public sector accounting has significant specific characteristics because EU Member States act as guarantor for the public debt of other Member States, so opaque and very diverse accounting systems that are based on rules and standards applied by many countries do not meet the requirements of users and does not provide accounting transparency.

Public Finance Management in the EU requires consideration of the characteristics of each country while at the same time, experts believe that to promote a single approach to budgeting should not be allowed for each Member State to apply its own vision and regulate accounting and reporting in the public sector based on the inherent country specific standards.

Only concerted accounting standards in the public sector are crucial to increase transparency, allow the cross-border benchmarking, increase the accountability of states and promote justice in shaping fiscal policy public entities

A system that can provide such advantages and actively discussed at the EU level, based on the European Public Sector Accounting Standards (EPSAS). The starting point is to EPSAS are International Public Sector Accounting Standards (IPSAS). IPSAS are a set of accounting standards, based on the accrual principle, issued by the International Public Sector Accounting Standards Board for worldwide use in preparing financial statements by public sector entities. IPSAS can be accepted in the EU as a basis for harmonized accounting standards.

Cash-based government accounting systems are not capable of showing resource consumption, providing comprehensive information on the public entity's financial situation, and facilitating cross-border comparisons based on performance as well as financial indicators.

The idea of reforming public sector accounting is based on the notion that traditional, historically formed accounting system of public revenues, expenditures and processes are not able to reflect the real consumption of resources. This system does not provide comprehensive information on the financial position of the public sector entity and does not contribute to transparency and cross-border comparability of financial performance. In addition, improvement of the public sector financial management is vital in order to prevent future public financial crises at the Member States.

Several EU Member States already engage in reforming their budgeting and accounting systems based on IPSAS. International

Public Sector Accounting Standards are already (fully or partly) applied in many countries, e. g. Switzerland, Austria, Netherlands, France. In addition, they are supported by the several international organisations, such as OECD, NATO, UN.

The reform processes, however, have not been coordinated, because the heterogeneity of European budgeting and accounting systems in the public sector leads to a situation where financial transparency was not possible to increase [12].

Currently, the EU decided to use in the same way as for IFRS implementation and to apply for IPSAS the «endorsement process», the essence of which is to assess each individual standard with EU legislation, standard ratification and selective or modified acceptance as an European Public Sector Accounting Standard.

In this case, the transition to the EPSAS will be mandatory for all EU member states (including the Federal Government of the Member States, state governments and local authorities).

In order to strengthen the economic situation and public finance regulation, on 8 November 2011, the Council of the European Union adopted the «Six-Pack» legislative package aiming at reinforcing economic governance in the EU. One of the elements of the Six-Pack is the Council Directive on requirements for budgetary frameworks of the Member States which calls for the European Commission to carry out an assessment of the suitability of International Public Sector Accounting Standards (IPSAS) for EU Member States. On behalf of the European Commission, Eurostat (the EU's statistical office) carries out the assessment process [12].

In February 2012, Eurostat launched a public consultation with organisations, national governments, and authorities to review the suitability of IPSAS for EU Member States.

In the report the European Commission comes to the conclusion that, in general, the IPSAS cannot easily be implemented in EU Member States, but they can and should be used as the basis for EPSAS.

IPSAS taken as a starting point and reference model for the development of harmonized accounting standards EPSAS in the European public sector, as EU member states carry out an ongoing modernization of accounting based on the accrual principle and changing of budgeting standards.

In general, the steps taken by the EU to establish mandatory requirements for information disclosure and accounting transparency, had a positive impact on the market, business and transparency of public finances in the EU member states. These results are presented in the works of many scientists, who studied the effects of the mandatory transition to IFRS in the EU.

In particular, a summary review of publications conducted by scientists of Institute of Chartered Accountants of England and Wales (ICAEW), analyzed the results of the mandatory transition to IFRS in the EU. Information, which presented in the survey, indicates the positive effects of the IFRS adopting on the accounting transparency and financial reporting, comparability of cost of capital, market liquidity, efficiency, corporate investment and cross-border capital flows [160].

The results of studies that were presented at the Oxford Handbook of economic and institutional transparency are similar to the previous researches. According to the researchers, the mandatory adoption of IFRS for the EU-listed companies contributed to the transparency and comparability, improved the functioning of the internal market, increased investor protection and ensured confidence in the capital markets, as well as helped EU companies compete on equal terms within the EU and world markets [85].

Accounting transparency should be based on quality accounting and reporting standards, as well as adequate disclosure methodology which provides an environment in which information about existing conditions, decisions and actions taken by the company, is accessible, transparent and understandable to all market participants. According to M.R. Luchko, the international standards principles provide a closer link with an informative process of each company [32].

Of course, given the European experience, Ukraine made a lot of significant steps toward improving transparency in accounting and implementation of international standards. The Partnership and Cooperation Agreement between the European Communities and their Member States, and Ukraine (Article 52, para. 2), which was adopted in

1994, and the Law of Ukraine «State Program for Adaptation of Ukraine's Legislation to the Legislation of the European Union» identified accounting as one of the priority areas that need change.

Reforms are carried out through gradual implementation of IFRS, which are now required for preparing financial statements and consolidated financial statements by joint stock companies, banks, insurance companies, credit unions, private entities that provide financial services.

The lack of legislative regulation of the state budget indicators disclosure and budget process transparency breach caused the adoption by the Cabinet of Ministers of Ukraine the Strategy of modernization of the accounting system in the public sector for 2007–2015 years and the Strategy of public finance management.

Among other tasks, the special attention is paid to the adaptation of accounting and reporting legislation in the public sector that are in accordance with international standards; implementation of integrated information-analytical system of public finances; providing transparency of financial reporting data in the public sector and the possibility of their comparison with similar data from other countries; efficient use of financial and material state resources and the transparency of the budget process; the possibility of analyzing information about the country's public sector in order to create a sustainable and effective system of public financial management; improving the training and retraining system of accountants in the public sector [45].

Summarizing this study, accounting transparency can be defined as the level of public availability of accounting information, which allows users to understand the transparent indicators of enterprises for decision making.

Thus, accounting transparency should be considered as a set of relevant, accurate, sufficient, clear information and accounting policies and methods that used in its formation, must be fully adequate to the users requirements [127, p. 18].

Accounting transparency synchronized with its purpose, which is provided by the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» – namely, to provide users with complete, accurate and unbiased information about the financial position, results of operations and cash flows of the company to aid in their decision-making.

However, currently Ukraine does not establish legal, economic and regulatory environment to enhance the accounting transparency. The high level of corruption, shortcomings in the legal regulation, unfavorable business environment and lack of public finances transparency not only adversely affect the transparency of accounting information, but also worsen the country's image internationally.

In order to improve transparency and disclosure of accounting information, Ukraine can choose between the mandatory or voluntary regulations. In other words, transparency can be regulated by legal requirements, applying accounting and financial reporting standards, or create the conditions under which companies will be interested in maximizing accounting transparency.

Considering the realities of national development, the best for Ukraine is to use the experience of the European Union, because the at the EU level IFRS implementation is allowed to improve the accounting and financial reporting transparency that had a significant impact on the overall economic situation in each EU country.

So, for Ukraine an important component of providing accounting transparency is the observance of quality accounting and financial reporting standards to ensure the uniform requirements and clear disclosure rules and to provide a high level of transparency for external users and other stakeholders.

At the same time Ukraine should go through a gradual painless approval of these standards, their incremental adaptation to the conditions of domestic business, taxation, public sector and others. Mandatory overnight adoption of IFRS is not a suitable way for Ukraine, but creating the right conditions for their implementation will provide normal and logical transition.

2.2. FINANCIAL STATEMENTS OF UKRAINE IN CONDITIONS OF ADAPTATION TO INTERNATIONAL STANDARDS

The international community pays increasing attention to the introduction of International Financial Reporting Standards (hereinafter – IFRS), which are widely used around the world. In the context of globalization and international integration they acquire a special importance for the sustainable development of international relations. Recently Ukraine has been quite actively involved in the implementation of IFRS. For Ukraine, this is an important step in entering the world market. Basically it allows you to do accounting in accordance with international standards, statements of Ukrainian enterprises (organizations) will be more understandable and comparable for external (including foreign) users, leading to greater cooperation and access to international trade markets.

International Financial Reporting Standards (from Eng IFRS – International Financial Reporting Standards) is an instrument for implementing economic policies, the main goal of which is to ensure transparency and comprehensibility of information about business entities. The purpose of the development and implementation of IFRS is also the creation of a reliable basis for determining income and expenses, evaluation of assets and liabilities, disclosure of existing financial risks, the ability to compare performance. According to the Law of Ukraine «On Amendments to the Law of Ukraine», «On Accounting and Financial Reporting in Ukraine» (from 12.05.2011) «International Financial Reporting Standards are documents adopted by the International Accounting Standards that define the procedure for financial reporting».

International Financial Reporting Standards include:

- International Financial Reporting Standards (IFRS);
- International Accounting Standards (IAS);
- Interpretations issued by the Committee on interpretations of the International Financial Reporting Standards (IFRIC) or the former Standing Committee on interpretation (SIC).

The participants of the International Congress of national regulatory authorities in the field of accounting that was organized by the Board of Committee on IFRS in September 2007 in London supported and endorsed three approaches to the ways of the transition to IFRS and the same (Figure 2.2.1):

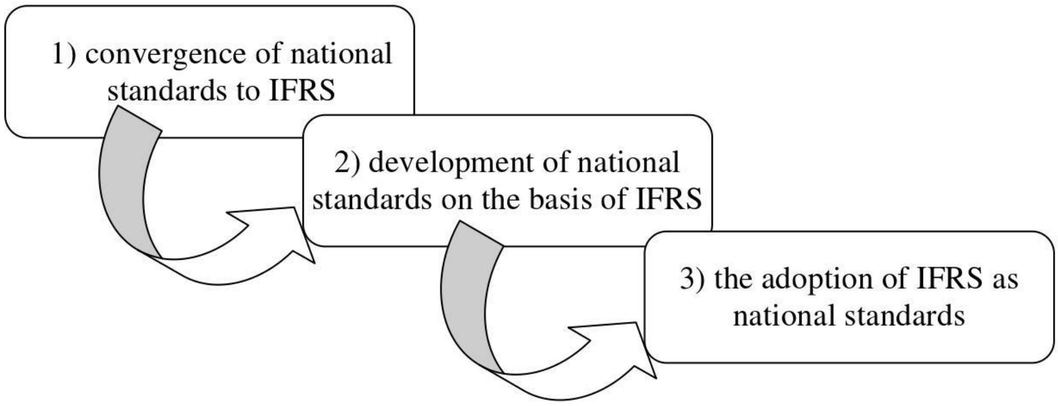

Figure 2.2.1. **Approaches to the ways of transition to IFRS** [142, p. 22]

As for Ukraine, the second approach became the most appropriate, i. e. the development of national standards based on IFRS.

International Financial Reporting Standards are used in USA, Canada, Japan, Australia, all countries of the EU (excluding Malta and Liechtenstein) and all countries that were part of the former Soviet Union (with the exception of Malta and Liechtenstein) and all countries that were the part of the former Soviet Union.

Today IFRS are obligatory for all business entities in 91 countries, for a part of business entities in 6 countries, and are approved for the use along with national standards in 25 countries. However, in most countries public companies whose securities are traded on public auction are required to prepare the reporting in accordance with IFRS [20].

The vast majority of countries including Estonia, Latvia, Lithuania, Kazakhstan, Kyrgyzstan and Tajikistan implemented IFRS at the legislative level in 2002. This is due to some preconditions such as the integration of economies into a single European community.

IFRS are flexible, allowing them to take into account the peculiarities of each country's economy. They do not dominate over the legislative acts governing financial reporting in a particular country. These standards are not mandatory; they serve as recommendations for implementation. This IFRS is constantly complemented and elaborated, taking into account the situation on world markets. They are the foundation and reference point for the development of national standards (regulations) around the world. If the financial statements are issued not only for internal use, but intended for shareholders, investors, creditors of the general public, they must conform to IFRS.

At the beginning the development of IFRS took place in close cooperation with European integration. In Europe, the work on harmonization of accounting has been conducted since 1957 by European Economic Cooperation (EEC), later the European Union (EU). Integration processes in Western Europe objectively demanded both a review of their legislation and the accounting and reporting system as a whole. Since the establishment of the European Union processes of unification and standardization of legislation and accounting and reporting of the countries which are its members were significantly intensified.

EU efforts towards organizing accounting and reporting of enterprises led to the directives that are obligatory for all member countries. As you know, EU directives, legislative instruments that define common requirements regarding content, preparation and presentation of financial statements. However, there is still much disagreement on evaluation, presentation and disclosure of information in annual financial statements of societies and consolidated financial statements.

Thus, the first directive contains provisions on the registration and publication of basic information about the company. The second directive stipulates the establishment of limited companies, maintenance and operation of their capital. It includes provisions that regulate the increase or decrease of the share capital, share issue, receiving dividends and so on. The third directive regulates aspects of the merger of the EU Member States, and defines guarantees to creditors, employees, shareholders; considers issues of displaying relevant financial information.

Fourth Directive is considered to be the foundation of corporate EU legislation. It contains provisions on the form of annual reports, accounting principles, auditing; requires disclosure of information for those whose welfare is affected by the work of the company. Fifth directive contains the main areas of the annual audit, the issue of appointment and payment of auditors and ensuring of their independence. Sixth Directive establishes rules to be followed in the allocation of the company's subsidiary company, and release of its shares with subsequent distribution them among the shareholders of the parent company.

Other directives establish common rules for the preparation, presentation, making public and audit of the consolidated financial statements in the member states of the European Union (Directive number 7), methods for assessing qualifications of auditors (Directive number 8), highlight the formation of companies' groups and measures to protect minority rights (Directive number 9), consider international mergers (Directive number 10) and demand for the display of information about overseas branches of companies (Directive number 11).

17 May 2006, the European Parliament and the Council adopted the Directive 2006/43 / EC on statutory audit of annual financial statements and consolidated accounts, amending Fourth (Directive 78/660 / EEC) and Seventh (Directive 83/349 / EEC) Directives and replaces the Eighth Directive (Directive 84/253 / EEC).

In June 2013, the European Parliament approved a new directive on accounting (Directive 2013/34 / EC), the provisions of which EU country national legislation should be coordinated with within two years. The main purpose of the directive is to reduce the bureaucratic burden on small businesses, as well as the harmonization of financial reporting in the EU. So far as there isn't much time left before the entry into force of the directive, corresponding changes in the financial statements will likely take place only in 2016 [122].

The analysis of the implementation of IFRS in the system of accounting across the world demonstrates the positive effect of the use of international standards. The process of transition to IFRS of individual countries was connected with the implementation of reforms in accounting. Polish experience concerning the practical implementation of IFRS may be the most striking example of problems arising in the transition to IFRS, and examples of their solution.

As you know, on January 1, 1995 Poland became a member of the World Trade Organization (WTO), and on May 1, 2004 – member of the European Union. In general we can distinguish 4 stages in the development of the the legal and regulatory base for the regulation of accounting in Poland (Table 2.2.1)

Table 2.2.1

Stages in the development of the legal and regulatory base for the regulation of accounting in Poland

Stages	Years	Characteristics
I.	1945–1991	accounting meets the requirements of the system for centralized planning and subordinate tax purposes: 1990 – economic shifts and transformation of centralized planned economy into a market economy; the beginning of mass privatization of state enterprises; beginning of the process of unification with the standards of European legislation;
II.	1991–1995	changes in regulation of the restructuring of the economy while maintaining domination of tax purposes: 1991 – adoption of new normative acts – the Law on auditing and publication of financial statements, statutory auditors and their self-regulation and also the Order of the Ministry of Finance on Accounting Principles; 1992 – establishment of a national chamber of auditors who has taken Polish auditing standards; 1994 – adoption of the Law on Accounting, which replaced the rules on financial reporting in the Law on Audit in 1991;
III.	1995–2002	adopted a new Law on Accounting based on the EU Directives: 2000 – adoption of the new Law on accounting, which replaced the Law on Accounting in 1994; adoption of the new Law on Audit, which replaced the Law on Audit in 1994;
IV.	from 2002	making amendments to the Law on accounting, which included Provisions of International Accounting Standards of EU.

The provisions of the European Parliament and of the Council of 19 July 2002 «On application of international accounting standards» (IAS Regulation of No.1606 / 2002) requires that enterprises (organizations), the securities of which are used in circulation in the markets of EU Member States, should draw up consolidated accounts on the basis of the approved by IAS / IFRS ones. As a rule, the statements of enterprises (organizations) that are not required to use IFRS are based on Polish Accounting Act and EU Directives. In addition, the Act enumerates in detail the information that should be included in the financial report. There are also regulations which allow a simplified financial statement (that is not provided for banks and insurance companies). This applies to enterprises that meet at least two of the three requirements in the reporting year, the average number of employees does not exceed 50 people, balance revenues do not exceed 2 million Euros and net income did not exceed 4 million Euros.

During the transition from the use of Polish law to IFRS there were a lot of problems, including the selection of the appropriate method of transition to international standards. The procedure for transition comprised several stages which required compiling many settlement documents on the need to determine and maintain the books in a currency other than the functional zloty (establishment of the functional currency of financial result, as well as property and financial situation in the currency). Another problem was the need to consider the specifics of the Polish economy, unregulated in IFRS. However, despite the difficulties application of IFRS in Poland led to transparency in the financial statements in work with investors and led to efficient investment, enabled to compare indicators of companies' (organizations) reporting that apply IFRS with other companies, including foreign ones.

It should be noted that Poland's important step in the transition to international standards was the creation of the Accounting Standards Committee (KSR) in April 2004. It consists of 10 experts: accountants and auditors who represent auditing companies, the Ministry of Finance, the Polish Financial Supervision Department, the National Chamber of statutory auditors and researchers. KSR serves as a forum of exchange of opinions on the most important issues that arise during the transition from national accounting standards to IFRS. The problem of personnel training related to application of IFRS was solved in Poland in this way: professional skills, academic training and practical training of accountants are carried out and monitored by the Polish Association of Accountants. Association certifies training programs on international financial reporting. Thus, possibility of training and obtaining the appropriate certification is more accessible and controllable.

The annual financial statements of the EU Member States consist of balance sheet, profit and loss report and a large number of notes to financial statements. However, they may permit or require the inclusion of other reports into the annual financial statements, the disclosure of other information.

Financial reporting in Ukraine is the financial statements, containing information about the financial position and results of activity and cash flows of the enterprise for the period. The purpose of the financial statement as a major source of financial information is to ensure the needs of internal and external users for making impartial managing decisions. Domestic financial statements consist of balance sheet (statement of financial position), statement of financial performance (statement of comprehensive income), cash flow statement, statement of changes in equity and notes to the financial statements.

Ukraine made the first steps towards the transition to IFRS in 1998 when with CMU Resolution of 28.10.1998 number 1706 the program of reforming of the accounting system according to the international standards was approved. Since 1997 Ukrainian translation and publication has been done by the Federation of Professional Accountants and Auditors of Ukraine under license agreement [20]. A number of normative documents that do not only regulate the use of international standards of financial reporting and accounting, but also contain various explanations for companies, auditors, supervising and coordinating bodies [20].

The main normative and legal documents on the implementation of IFRS include [122]:

- Presidential Decree from 23.05.1992 No. 303 (in the editorial from 18.04.2011) «On Ukraine's transition to generally accepted in the international practice of accounting and statistics system»;
- Cabinet of Ministers Resolution No. 1706, from 29.10.1998 «On approval of the Program of reforming the system of Accounting with application of International Standards». The program of reforming the system of accounting provided the regulation of accounting in order to ensure the use of international standards; legislative consolidation of the principles of accounting; provide methodological assistance in the implementation and use of the reformed model of accounting; establishment of the system of national regulations (standards) of accounting and reporting, which will provide the necessary information for users, especially investors;
- The Law of Ukraine «On State Program of Adaptation of legislation in Ukraine to the European Union legislation» from 18.03.2004, No. 1629;
- Cabinet of Ministers Resolution from 24.10.2007, No. 911-p. «On approval of the Strategy by responsible parties for implementing IFRS in Ukraine is the Ministry of Finance of Ukraine and the Ministry of Justice of Ukraine and other public bodies (including NBU), which can attach to the process of others (specialized organizations). The main aim of this strategy is the improvement of accounting system and financial reporting in Ukraine to standards and requirements of IFRS and also EU legislation;
- Order of the Ministry of Finance of Ukraine from 07.02.2013, No. 73 «On approval of the National provision (Standard) of Accounting 1»General Requirements to the Financial Reporting» [122].
- It should be noted that companies that operate with foreign investors for entering to the world markets quite a long time and make reporting in accordance with International Standards.

Ukraine adaptation process to the requirements of IFRS and EU legislation sets new requirements for the formation of statements, particularly information that is the starting point for management decisions. Thus, an important step in this direction is the adoption of the Finance Ministry Decree number 73 of 07.02.2013, which approved the National provision (Standard) of accounting 1 «General Requirements for Financial Reporting» (hereinafter – NP (S) 1) [139]. This provision defines the principles and methods of accounting and preparation of financial statements that do not contradict international standards. However, modern Ukrainian national accounting standards do not reflect all approaches to accounting, assessment models of financial reporting articles, disclosure requirements for the information that includes IFRS, and all changes to international standards.

Ministry of Finance of Ukraine regularly makes changes to national standards, harmonizing them with the international ones and thus reduces the gap between domestic accounting system and common international practice, so the introduction of IFRS in Ukraine is just a matter of time.

As is known, National provisions (Standards) of Accounting and IFRS are used in Ukraine. The list of business entities that require using of IFRS (from the 1st of January, 2012) in the preparation of financial statements and consolidated financial statements, was defined in Part 2 of Article 121 of the Law of Ukraine «On Accounting and Financial Reporting in Ukraine». They include:

- Public joint stock companies;
- Banks;
- Insurance companies;
- Companies of following types of activity: provision of financial services, private pension provision;
- Companies that provide auxiliary services in the sphere of financial intermediation and insurance.

Other enterprises except those specified in Part 2 of the Article 121 of the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» can independently determine the feasibility of using IFRS for the purpose of drawing up financial statements and consolidated financial statements. It is clearly spelled out in Part 3 of the Article 121 of the Law of Ukraine «On Accounting and Financial Reporting in Ukraine». Although, it should be noted that Part 5 of the Article 8 of this law and now allows the enterprises independently determine expediency of application IFRS (except when mandatory for application of international standards is prescribed by legislation). They will use the permission norm in the form of voluntary using International Financial Reporting Standards of the enterprise among whose owners appear non-residents because then they will not have simultaneously to prepare financial statements in two formats (separately in accordance with National P (S) of accounting – for domestic users separately according to IFRS – for foreign investors), but it will be sufficient to do it, relying exclusively on IFRS.

IFRS significant difference from accounting provisions consists in the details, because the form of financial statements listed above, are almost identical to domestic, but international standards provide quite a lot of notes that reveal in detail the essence of operations. In addition, IFRS is focused on reflection of objective information about the current financial situation of enterprises (organizations). Thus, they are based on real data, fair (market) value of assets and liabilities. Developing a policy of asset and liabilities valuation according to IFRS is the most time consuming task for the transition to international standards.

The main reasons for the transition to international standards are presented in Figure 2.2.2.

The main reasons for the transition to IFRS

Firstly, for *obtaining unity* for formation of statements, especially in cases where one enterprise operates with international investors, creditors and creates statements by the national and international requirements;

Secondly, *advantages will appear* for capital markets, which will enable react more quickly to fluctuations or changes in the information

Thirdly, *possibility to form* fast, accurate, transparent and reliable information for accountants that is necessary for making management decisions.

Figure 2.2.2. **The main reasons for the transition to IFRS**

Obvious advantages for preparation of financial statements according to international standards for both the enterprise and the country are:

1. The possibility of comparison of indicators of financial statements of enterprises (organizations) from different countries of the world.
2. Formation of statements for foreign partners and external investors.
3. Transparency and reliability of accounting information that is provided by adherence to the rules of its assembly, as well as numerous notes to the financial statements.
4. Increasing confidence in the financial statements, including its performance.
5. Financial statements according to IFRS will allow objectively accept and adopt reasonable management decisions.
6. The possibility of attracting more rapid and volume of financial and investment flow to Ukraine.
7. Enterprises (organizations) will be able to get a reputation as a serious partner of the international level, which gives the prospect of entering at the international trade markets.
8. Attraction of significant investments may be one of the elements of economic growth of the country.
9. Savings of time and financial resources to the transformation of financial statements in accordance with IFRS.
10. Investment inflows to the state will create additional number of new jobs and thus the level of unemployment will decrease.

So, preparation of financial statements according to international standards has undeniable advantage for most users. IFRS can be considered to be the instrument of economic globalization and global economic relations.

The principles put in the procedure for formation of statements according to IFRS, can reflect the real financial condition. Therefore, IFRS is not only important for international but also for domestic investors, creditors or other its external users. The introduction of IFRS will allow Ukraine to expand export opportunities by attracting foreign investors, which, in turn, lead to lower unemployment and prosperous economy.

In today's unstable economic conditions of development and integration processes in Ukraine there is a need to develop additional national provisions based on the basis of international standards. Although the implementation of IFRS requires considerable effort and long period of time but the process of transition to their use should be regarded as one of the main factors for further enhancing and intensification of accounting reform in Ukraine.

So, taking into account all the above, we can conclude that the adaptation of financial statements to the provisions, principles and the requirements of IFRS is carried out with the goal of entering the world market. Nowadays IFRS is an effective instrument of European integration and part of sustainable economic development for Ukraine that is on its way to join the European Economic Area. Greater transparency and openness of financial statements show real financial positions of economic entities and gives an idea of its investment attractiveness. The use of IFRS has significant advantages over national accounting standards for a large number of enterprises (organizations) and users of financial statements.

The process of applying IFRS should be gradual and purposeful. It is necessary to develop a system of regulatory and legal framework and methodological approaches that enable you to eliminate the disadvantages of the national accounting system, as well as improve and upgrade the main aspects of accounting and financial reporting in Ukraine.

2.3. MAIN DIRECTIONS OF MODERNIZATION OF THE ACCOUNTING SYSTEM OF PUBLIC SECTOR ENTITIES

In the process of development of Ukraine there are changes in economic, informative and legal environments. The modern stage of economic development in a world scale is related to internationalization of economic, financial, informative, legal and political and also public relations that are the consequence of manifestation of globalization processes. The aims of enterprises are changing according to such processes and the role of information support in substantiation of managerial decisions significantly increased. The indicated changes stipulate a requirement in the revision of place and value of accounting as a language of business. In fact exactly accounting provides information regarding the activity of management subjects.

Reformation of international connections, globalization and standardization of all spheres of activity of national economy determine the need for improving the legislation in accordance with international norms both in general as well as in the sphere of accounting. If the question of reformation in the system of account of management subjects is actively investigated, then in the public sector of economy the proper attention is not paid to accounting. An economic situation in a budgetary sphere, in the conditions of present time, requires practical improving information and accounting system and theoretical revision with the aim of taking into account of the new phenomena, processes that arose up in the context of international integration processes. Modernization and development of the information and accounting system of establishments of the public sector of economy acquires the special actuality at these terms.

A large number of papers of both foreign and modern scientists-economists and accountants are devoted to the investigation of issues of globalization of accounting processes, in particular F. F. Butynets, S. F. Holov, M. Y. Demianenko, V. M. Zhuk, H. H. Kireitsev, V. Kopylov, A. M. Kuzminskyi, S. O. Levytska, L. Lovinska, M. R. Lucko, N. M. Maluga, M. S. Pushkar, P. T. Sabluk, L. K. Suk, George Patton MacKenzie, J. Hitchens and others.

Scientific achievements of the indicated scientists are a significant contribution to the theory, methodology and organization of accounting. However a number of unresolved issues remain in the process of development of Ukraine and maximal approaching to the European legislation.

Ukraine opened up wide possibilities for the development of relations with foreign partners for the national economy during the implementation to the European legislation and the need to reform the current system of accounting in the public sector arose.

In the last few years in the sphere of public sector considerable transformations took place: budget legislation has been reformed; treasury servicing of budget funds and accounting of obligations for managers of means has been introduced into the system of treasury organs; a centralized model for management of public resources through a single treasury account has been created. Indicated changes are direct path of general change of approach to planning the budget indexes. In particular, the system of the budget process is changing and the display order of operations in accounting and reporting is carried out in other way. This is what led to the start of the transformation processes in the accounting industry.

The financial crisis of recent years adversely affected by the economic situation in Ukraine and was the cause of many negative phenomena. At present state the functions of state control over the preservation of state property weakened, abuse is often observed in financial and economic sphere and others. Therefore, there was the need to improve and modernize the information and accounting system in the public sector, namely: to improve practically accounting system, to carry out theoretical review and take into account the emergence of new accounting objects, to improve system for management of budget institutions, namely: to introduce NP(S)BAPS (National provisions (standards) of budget accounting in the public sector), improving financial reporting, chart of accounts and new amendments to the budget classification of expenditures.

The accounting information in the 80-ies according to the Professor A. M. Kuzminsky was divided by such types (operational, accounting and statistical) [112, p. 23]. And taking into account that rapid increase in the automation of accounting has happened in recent years and force you to review its role and position as a source of accounting data because increasing speed of information processing provides efficiency of accounting information and the achieved degree of archiving and detailing – use of accounting for the compilation of statistical reports.

F. F. Butynets in this regard stated: «Every stage of social development is characterized by its own accounting system and with the complexity of society functioning, accounting becomes more complicated» [75, p. 10]. V. Kopylov and L. Lovinska emphasize that «accounting reform in Ukraine due to its integration into the world economic system, cooperation with international credit and financial institutions, the participation of domestic entities into the process of internationalization of capital» [108, p. 4].

Accounting is the main foundation for accounting data and therefore globalization and integration in modern society that favored the development of fundamentally new requirements for information society as a whole, and the management system of public relations in particular determined the need for its improvement. It is necessary to create an accounting system that would ensure the creation of high-quality information base in the form of accounting information for establishments of public sector of economy in the process of management by activity budget institutions.

Despite the development and promotion of IFRS (International Financial Reporting Standards), they did not get enough spread in the world due to the unevenness of economic development of countries, political peculiarities, national and historical traditions and a number of other objective circumstances. The scientists proved the inability of the current system of IFRS to resist, and the more negative trends to go ahead of today's global economy. Representatives of each accounting systems pursue their own goals and they are not particularly interested in the convergence of the two systems of standardization of accounting. In the process of taking measures for the approximation of GAAR US (the system of accounting standardization USA) to IFRS latter are at greater editing on the basis of GAAR US.

In Ukraine, the modernization of accounting strategy legislatively assigned by the Cabinet of Ministers of Ukraine «On Approval of the strategy of modernization of the accounting system in the public sector for 2007–2015» on 16 January 2007, No. 34, which contains the main directions and provisions of accounting reform in accordance with modern requirements. However, implementation of these measures is carried out very slowly or indeed exists only on paper [29].

According to this Resolution of the Cabinet of Ministers of Ukraine we can determine the main directions of modernization of the accounting system, namely: improving the accounting system, improving the system of financial reporting and reporting on budget execution, creating a unified organizational and informational accounting system.

The main aim of the strategy to modernize the accounting system in the public sector for 2007-2015 (hereinafter, the strategy) is to improve the methodology and the transition to unified methodological principles of accounting and reporting, and creating a unified organizational and informational support of accounting.

The modernization of the accounting system will help to improve:

- administration of State financial system;
- budget planning system in terms of strategic management;
- procedure of drafting and implementation of the budget on the basis of program and target method;
- the system for monitoring the progress of the budget implementation;
- information and analytical system for management of state financial system.

Currently only 19 of National regulations (standards) of accounting for the public sector have been developed and approved, including: four regulations regulate issues financial reporting (101 «Presentation of financial statements», 102 «Consolidated financial statements», 103 «Financial reporting by segments», 105 «Financial reporting in hyperinflationary economies»), and the remaining 15 regulations – accounting issues (121 «Fixed assets», 122 «Intangible assets», 123 «Inventories», 124 «Revenues» 125 «Changes in accounting estimates and correction of errors», 126 «Rent», 127 «Impairment of assets», 128

«Provision, contingent liabilities and contingent assets», 129 «Investment property», 130 «The effects of changes in foreign exchange rates», 131 «Construction contracts», 132 «Employee benefits», 133 «Financial investments», 134 «Financial instruments», 135 «Expenses») [158].

The introduction of standards adopted in action was postponed from 2013 to 2015. In the process of accounting reform special attention is paid on establishing and implementing a single plan of accounts of accounting in budget institutions.

Unified chart of accounts should be harmonized with budget classification, based on the method of calculation and ensure the formation of the national accounts. The use of a uniform chart of accounts in the public sector will ensure transparency of accounting processes and transparent consolidation of information.

The system of accounting in budgetary institutions has its own specific features, namely:

- organization of accounting in terms of budget classification;
- separate accounting of the received allocations from the budgets of different levels and own revenues;
- distribution of cost accounting by the source of covering;
- separate accounting of cash and actual expenditures;
- control over the execution of expenditure estimate;
- rigorous compliance with accounting and reporting to the requirements of normative documents;
- industrial specific of accounting in the institutions of culture, science, education, management;
- lack of advance payment for goods, services, works (article 51 of the Budget Code) and others.

The purpose of modernization of accounting in public sector is to adapt it to the requirements of modern international practice, addressing existing problems, improvement of legislative and normative base that regulates the accounting.

Development of concepts that are recognized by many international organizations, norms and rules of presentation of accounting information in the financial statements is a farsighted step of economic community that is important at the global level and decides in particular, the problem of limited resources. It is possible to present information on the activity of companies using IFRS that are understandable to the interested user, regardless of his nationality and territorial remoteness from the business entity.

Ukraine, like most transition economies, has taken the path of developing national standards based on IFRS. It is important that the harmonization of national standards with IFRS is not understood as a one-time act but as a complex multidimensional process and the completeness and order of reflection of various types of economic activity, and on the timing of the implementation of the standards, and to ensure their effective use. The success of the reform will largely depend on strengthening of positions and coordination of eagerness among professional organizations of accountants and auditors, the effectiveness of their cooperation with state authorities.

Today in Ukraine is the urgent task to bring the existing system of accounting and reporting in accordance with the requirements of the market economy and international standards. Today, many countries of the world perceive the International accounting standards (IAS) as a law to update their infrastructure to international best practices. Because the International accounting standards have become more sophisticated and complete, global companies apply them in preparation of financial reports and securities markets of many countries of the world. It is possible to identify issues in the process of implementing IFRS:

- lack of interest of management, shareholders, accountants, the opacity of the business requires more additional money and time on training, development of licensed accounting software, forming a new accounting policy and establish a new scheme of «optimization» of taxation;
- an acute need in specialists, so we need to introduce new accounting specialties with a compulsory study of international accounting documents, which lead to the need for adjustment in university curriculums for the students of economic directions of training;
- the need for development of the mechanism of compliance with IFRS taxpayers and distinction methods of tax optimization and tax evasion at a legislative level.

Reforming the domestic accounting in the budget sector is faced with the problems of methodological and organizational nature. The first problems are connected with the necessity of making decision whether the international financial reporting standards (IFRS) attached to the national normative base of accounting or another option to develop national standards that will not contradict to the international financial reporting standards (IFRS). The next problems are based on the choice of ways and options for reforming. The combination of market self-regulation and state regulation is a characteristic feature of economic systems of developed countries. The purpose of state regulation is the ability to influence the market environment, business activity, the public sector of economy to create the necessary conditions for implementation of economic growth policy.

The process of modernization also applies to the technology of accounting process and processing of economic information. Today, we note that automated information technologies are the most modern that able to carry out active influence on the intensification of the use of existing resources of the budget sphere.

In this regard, the study of automation of accounting, control and analysis are particularly relevant. However, it should be recognized that this area remains insufficiently researched today.

This is confirmed by the fact that most small budget institutions (especially in rural areas) continue to use traditional manual or partially automated form of accounting. Though, the most clearly and coherently accounting is kept in institutions with comprehensive automation of accounting work. Partial automation does not allow to systematize accounting data and reflect them simultaneously in the same database and, consequently, to make operational decisions, using the full set of information by examining all the factors that affect a certain situation [107].

Strengthened differentiation of the accounting systems at the level of normative base puts the necessity in clarification of status of accounting as an informative system of subject of management in an actual plane and, accordingly, improvement of domestic legislative base in the context of determination of accounting as a system, where accounting information is formed.

The main task of automation for the establishments of public sector of economy, which activities are connected with provision of a wide spectrum of various services, is accounting of indicated services and calculations by them. In addition to the need of preparation reports on the activities of institutions, public sector, accounting of rendered service is original source of information for conducting analysis of effective operation, development of perspective plans of work, determination of further politics. Therefore, there are substantial requirements in relation to exactness and timeliness of preparation of corresponding data. At implementation of these terms the account of the rendered services becomes the effective instrument of management and must be as many as possible automated for the timely and correct acceptance of corresponding decisions.

Today, the potential of information technologies, as noted in the reporting of the Cabinet of Ministers of Ukraine «On the State of Informatization and information society development in Ukraine in 2011» [39] is considered as an effective framework for social and economic transformation, creating an efficient economy, strengthen of civil society and promote Ukrainian democratic state that will promote to the European integration of Ukraine. This states that many of the problems that exist in the IT sector today can be solved by:

- improving the legislative and normative and legal base in the sphere of information;
- consolidation of budget funds for information technology and their rational use;
- introduction of an effective mechanism for implementing national information technology projects that have a major and decisive importance for the state and require intensive inter-agency and inter-regional coordination;
- reducing the state budget expenditures for the purchase and legalization of proprietary software for the use of software with open source in government authorities;
- increasing the level of informatization of some industries of economy and some regions of the country;
- accelerating the development of infrastructure;

- increasing the level of computer and information literacy of the population, introduction of new teaching methods using modern IT technologies;
- the development of the system of national standards on information technologies harmonized with ISO / IES and CEN / SENELES standards
- the introduction of the system of government decisions aimed at creating national innovation structures (centers, technopolises and techno parks) on development of competitive software, etc. [39].

The reformation of accounting process is carried out at present circumstances when the use of IT technology reaches the level of its apogee, accounting system, improving the quality and level of management.

In addition, the computer form of accounting has several advantages over manual, among which the main ones are provided for in the program rules of accounting (rules for posting on executed transactions are defined in the program, such as form of accounting is saturated with specific accounting knowledge), the ability to conduct parallel accounting by the appropriate algorithm and several standard blocks and algorithms (when entering the same data will help get more performance and system assessments, which will be calculated by different methods from each other). In particular it should be noted that the composition of the accounts and their specific features have a crucial impact on the methodology of accounting and thus have significant impact on almost all components of information systems that are directly related to it. The main features of accounts that have direct impact on the construction of accounting is the composition of the sub-accounts, the method of establishing analytical and quantitative accounting, sign of activity, passivity and outside balance of accounts.

The problem of accounting modernization is constantly the focus of many scientists and economists. Each of them has a personal opinion about the prospects of reforming the areas of regulation and reforming accounting.

In particular, F. Butynets believes that «Ukraine almost lost their accounting for a long time pseudo reforms of accounting, personnel who understand the importance and role of theory and practice of accounting, its nature and function of preserving owner's property, providing information for management, the accuracy of calculation of financial results» [78, p. 111].

T. Kononenko and V. Mossakovskyi note: «In our view, a period when you should to analyze the current state of the account came, specify the organizational and methodological aspects for functioning of the existing accounting system in Ukraine and other countries, to identify achievements and to develop ways to improve and areas for further improvement for information support for management of the economy in Ukraine and its individual units» [132, p. 8].

It should be noted that a typical task of automation for entities of the budgetary sphere, which provide a wide range of services, is accounting of provided services.

Along with the need to prepare reports on the activities of the subject of the budget sector, the accounting of provided services is a source of information for analysis of the effective management, development of perspective plans of works, determining future policy. Therefore, there are significant requirements on the accuracy and timeliness of relevant data. It is necessary to strictly adhere to these conditions for the purpose of achieving that the accounting system became the effective management tool and the most of it automation for timely and correct making appropriate management decisions will be held.

One of the main tasks of the management entities of the budgetary sphere in crisis conditions is to increase the efficiency and rational use of resource potential. In turn, the activity of subjects of budgetary sphere is carried out in accordance with the decisions taken on the basis of information data prepared by the user services. In this context, it should be recognized that accounting and analytical support of the management system is a key lever in achieving the improvement of the performance for functioning of objects that are funded from budgets of different levels.

Information and accounting system of establishments of public sector of economy in the context of international integration processes requires new essential content as a complex of interactive and interrelated methods, techniques, procedures and models, for substantiation of making managerial decisions in the sphere of ensuring economic security. It should include all without exception tools of accounting software in order to obtain a synergistic effect from their systematic application at:

- maintaining the stable and sustainable financial situation;
- balancing the economic interests of all groups of users of accounting information;
- neutralization of the impact of information risks and related threats and etc.

The development of information and accounting system in Ukraine should be associated with the prerogative of requests to it from the national and international institutions. That is why any element of international cooperation must be comprehensive analyzed. The result of its implementation should be predictable, which opens the possibility of developing appropriate measures to prevent the progress of unfavorable processes.

Like any country, including Ukraine is not an exception, has a right and duty to defend its national interests. The first step to it will be implementation of reliable prediction of the results of any processes in the modern world and develop of preventive measures.

Modernizing accounting system in public sector of economy requires the formation of a single normative and legal base, adapted to international standards and requirements, improvement of methodology of accounting and preparation of financial and budgetary reporting, implementation of information technologies. Directions for improvement of accounting system in institutions of public sector will make it possible to ensure the implementation of budget planned indexes and their reality to characterize the fundamental areas of budget funding to ensure the efficient use of financial resources and save costs for general and special funds.

The accounting reform is not possible without major adjustments in the legislation, particularly in civil and tax, i. e. the reform of the accounting system should be integrated with corresponding changes in related areas of legislation.

No less important role in the process of reforming the organization accounting system in the public sector takes the creating the institution of public accountants, which will contribute to a clear distribution of powers and responsibilities among the participants of the budget process, and strengthen public financial control the use of budgetary funds.

The development of the software market in Ukraine is not sufficient because it is not enough filled with programs aimed at accounting and providing in the system for management of institutions in the public sector of economy. Despite some advantages, the programs that are offered at the appropriate market of information services do not fully meet all the requirements that are put forward to them. The most of common automation software accounting does not cover adequately all the tasks related to the management and economic activities of budget institutions. In particular, it concerns the formation parameters and analytical instruments, systems of planning revenues and expenditures, internal controls, and more. Thus, the problem of implementation of accounting information systems in the public sector requires further careful researches.

The coordination of all transformational features will allow to form a unified accounting system, which on the basis of use of modern computer technology will be able to meet the information needs of users with the ability to integrate at the local level in accounting, and at the level of general system for management of budgetary institutions. At the institutions of public sector and organizations of Ukraine accounting system needs to implementation and widespread use of computer technologies, as this will help ensure that: increasing the efficiency of receiving accounting data in various analytical sections; simplifying the accounting process.

And that means that it will allow to use accounting information to ensure quality control over the spending of budgetary resources.

The transition to international standards of accounting brings legislation of Ukraine to economically developed countries, allows to simplify the organization of accounting at the enterprises and reducing the number of fraud with money to make information more transparent and comparable for users from different countries.

Modernization and standardization of the accounting system primarily is determined by the development of processes of economic integration of the country. For modernization of the accounting system in a public sector of economy at the international level is necessary to carry out development of national accounting standards specifically for public sector of economy, taking into account international standards.

The prospects of further researches in this direction consist in the search of new methods by which you can improve the available information and accounting system for institutions of the public sector of economy.

2.4. TRANSFORMATION OF THE BASIC METHODS OF REVENUE ACCOUNTING OF THE UKRAINIAN PUBLIC SECTOR ENTITIES

The system of accounting and reporting has crucial importance for managing the process of budget execution and accountability of funds managers and policy for making decision. Traditionally, accounting of entities of public sector was aimed at ensuring compliance and proper use of public funds.

Management of business activity of the government in the execution of the budget during 1960s to 1970s has led several countries to understanding the need to develop accounting systems. Standards for the public sector on the basis of accrual method were created by the System of National Accounts (SNA) UNO (The United Nations System of National Accounts (SNA or UNSNA)). However, in the 1980s, concern about macroeconomic stabilization, distracted the governments of the most countries back to the cash basis of accounting and reporting for obligations

The aim of UNO System of National Accounts (USNA) is providing integrated complete system of accounts that enable to carry out international comparisons of all significant indicators of economic activity. The proposal consists in the fact that some countries use UNO SNA as a guide in creating their own national accounting systems, to promote international comparability. However, compliance with the international standard is not and can not be dogma for strict compliance, because the systems used in some countries (for example, France, the United States, China) significantly differ from the standard. This in itself is not a serious problem, provided that each system provides a sufficient amount of data that can be processed for compiling national accounts according to the standard of UNO.

Currently accounting on the accrual basis is becoming increasingly important in a number of countries belonging to the Organization for Economic Cooperation and Development (OECD).

In order to ensure not only financial consistency but also compliance with the performance indicators of budgetary institution and its financial results, these accounting systems and financial reporting require from budgetary institutions to report their full financial situation (including their accumulation of assets and liabilities) and to assess all costs of their activity, including asset utilization. In parallel with this, concerns about the future impact of current policy decisions (such as those relating to pensions) give governments an incentive to improve accounting of their obligations.

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, which came into force on 30th September 1961, the Organization for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- improvement of economic situation and the creation of preconditions for growth in member countries and those that are not members of the OECD;
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original member countries of the OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became members subsequently through accession at the dates indicated hereafter: Japan (28th April 1964), Finland (28th January 1969), Australia (7th June 1971), New Zealand (29th May 1973), Mexico (18th May 1994), the Czech Republic (21st December 1995), Hungary (7th May 1996), Poland (22nd November 1996), Korea (12th December 1996) and the Slovak Republic (14th December 2000).

The Russian Federation is a candidate country for participation in the OECD. Ukraine is not a member of this organization.

The methods, which are based on the accounting systems of these countries, are divided into four main types:

- the cash basis of accounting;
- the modified cash basis of accounting;
- the modified accrual basis of accounting;
- the full accrual basis of accounting.

Indicated methods determine the conditions, the fulfillment of which requires the recognition of income from transactions or events for financial reporting purposes.

The cash basis of accounting. The cash basis is largely reflects cash flow and is the basis of accounting. It reflects the transactions and events only when cash is received or paid.

Financial reporting that is formed on a cash basis of accounting discloses information about revenues, cash payments and outgoing and final cash balance. The main advantage of the cash basis of accounting is that it is easy to use and is closely linked to cash flow. For determination of financial results on a cash basis of accounting cash income and cash expenditures are correlated.

The cash basis of accounting in some countries supplemented by the following methods: (1) accounting obligations, and (2) accounting of debt on an accrual basis.

For example, a dual approach was used traditionally in countries with cash basis of budget accounting:

1) on a cash basis is conducted budget accounting and accounting for implementation of estimate, in the part of reflection appropriations and their use at various stages of the costs cycle. All other areas of

accounting (obligations, accrual of depreciation and wages, etc.) are fixed on the accrual basis.

2) accounting based on the cash basis, where transactions are recognized only when cash is received or transferred.

Therefore, the cash method of accounting should not be excluded from the monitoring tools of management and execution of the budget. In fact, cash systems are sometimes called «the systems of cash and obligations» because in addition to obligations, such systems can also recognize other non-cash transactions such as receipt of foreign assistance and some external obligations.

The modified cash basis of accounting. The modified cash method of accounting recognizes transactions and events which occurred before the end of the year and is generally expected to lead to the receipt of funds and / or payment for a certain period after the end of the financial year. Thus, the reporting period includes «additional time» for payments (for example, 30 or 60 days) after the end of the financial year. Payments made during the additional period associated with the operations of the previous year, are recognized as expenses of the previous year. Typically, this is achieved by postponing the final transactions until the end of the additional period after the end of the year. Such actions are aimed at ensuring greater consistency between the «annual» commitments made during the financial year and payments, which are reflected in the statements as «budgetary expenditures». For example, the budgetary institution has acquired object of fixed asset (which is planned to pay in January 2012), which is reflected in the accounting as made expenditures and debt in the 2011. All made cash expenditures in 2011 plus accounts payable (which they plan to pay off, for example until March of following the reporting year) will be included into the financial results.

The use of additional period could be applied to incomes too. For example, in Ukraine the taxes, the reporting period of which is the year, reports are submitted within 60 days after the end of the reporting period and such amounts are paid within 10 days after the deadline for submission of reports. According to these conditions, if the reporting period is 2011then budget revenues by such contributions will be received only in March 2012. Therefore, on a cash basis, budget revenues will be attributed to 2012, and on the modified cash basis – up to 2011.

According to the conclusions of foreign specialists [14] the application of additional period for income is ineffective and therefore is not worthy to be emulated. Revenues should be presented on the basis of net cash method.

Financial statements formed on the modified cash basis of accounting disclose information about:

- cash revenues plus accounts receivable that must be repaid within a certain period after the end of the reporting period (the additional period);
- cash payments plus accounts payable over a certain period after the end of the reporting period (the additional period).

Governments often take the modified cash method of accounting (in particular, it introduced in France and Spain). However, according to the conclusions of foreign specialists, this system is inconvenient in developing countries.

The modified accrual basis of accounting (sometimes it is called a method based on costs) recognizes transactions and events when they occur, regardless of time of receipt or payment of funds. Exceptions are costs that are included into the financial results in the part of exactly cash expenditures rather than actual expenditures. Namely, assets that will be used in the provision of services in the future are written off (recognized as expenses) in the period of acquisition.

The basic principle of full accounting on the accrual basis is the principle of matching revenues and expenses – expenses of the period reflected in the same period that associated with them recognized revenues. Thus, full accrual basis of accounting and modified accrual basis of accounting have the same method of application. The main difference between them lies in the recognition of expenses from the use of goods and assets – the time interval between their acquisition and use:

- change in inventories and the gradual amortization of assets, depending on the duration of their useful lives debited to the expenditures in the application of the full accrual basis;

- in the application of the modified accrual basis, supplies are considered consumed and assets are written off as soon as they are acquired.

The use of one type of modified accrual basis provides correlation of accrued income and cash expenditures. The modified accrual method of accounting has an advantage in the recognition of expenses during the audit and therefore provides adequate conditions to measure the obligation and debt in comparison with the cash basis of accounting. There are a number of modified accounting systems built on the basis of accrual, depending on the interpretation of pension liabilities, inventory, amortization (which can be recognized as assets as in Spain) and others.

In Ukraine, the acting method of accounting involves the use of the modified accrual basis too. Peculiarities and disadvantages of its implementation we'll describe in the next paragraph.

The full accrual basis of accounting. The full accrual basis of accounting recognizes transactions and events at the moment of their actual recognition regardless of the time of cash payments or receipts. Revenues reflect the amounts which belong to the reporting year, regardless of the fact that those amounts have actually received or not. Expenses reflect the amount of goods and services consumed during the year, regardless of the payment in the reporting period. Accrued incomes and actual expenditures compare to determine the financial result on the accrual basis.

Expenses that are recognized according to the full accrual basis (you should not confuse them with the performed payments (cash expenditures)) – the cost of consumed goods and services, as well as any increase in liabilities or decrease in assets during the reporting period (they include, such as depreciation and damages that may occur in the absence of transactions). The concept of «costs» in commercial accounting is similar to the concept of «use» (consumption) in the United Nations System of National Accounts (The United Nations System of National Accounts (SNA or UNSNA)).

Accounting requirements depend on the budget program and institutions that it realizes. The accounting system based on the full accrual method may be necessary for the institution that provides services or carries on commercial activity, while cash method may be accepted for other institutions. Therefore, described normative classification of basic accounting methods should not, lead to a simplification of the accounting system analysis and recommendations for their improvement.

The views on the usefulness of intermediate accounting methods between cash basis and accrual basis are no unanimity. The Public Sector Committee of the International Federation of Accountants (The Public Sector Committee of the International Federation of Accountants – IFAC PSC) at its meeting in January 1999 agreed to recommend a single standard of the cash basis of accounting, and all other issued accounting standards based on the accrual method. However, for governments that want to move from cash basis to accrual basis, a transition period enables to implement the selective introduction of accrual basis of accounting for individual objects of accounting.

The system of budget accounting should be in the basis of accounting system of estimate execution. It should monitor appropriations, additional evaluation and use of appropriations (allocation of funds, liabilities, costs, which provides verification of stages and payments of their implementation).

Accounting systems of budget execution are classified according to the nature of appropriations. Except of a few systems that are based on bonds, there are two large categories:

- the budget system that is based on the cash basis, when the majority of the appropriations are authorized to make annual commitments and payments;
- the budget system that is based on the accrual basis of calculation when appropriations for current expenses and certain other objects belong to the full costs, including depreciation and other increase in liabilities.

Full accordance between the systems of accounting in budget institutions and the implementation of budget by accounting system does not exist. The accounting system that is based on a cash basis always related to the budget system, which is based on the cash basis of accounting. But the budget that is based on the cash basis does not necessarily require the cash basis of accounting estimates. On the other hand the budget accounting on the accrual basis of accounting requires the full accrual basis of accounting in budget institutions. But the full accrual basis in accounting estimates does not require the accrual basis in budget accounting (Figure 2.4.1).

Accounting for implementation of the budget		Accounting for implementation of estimate
The cash basis of accounting	→	The cash basis of accounting
	→	The modified cash basis of accounting
	→	The modified accrual basis of accounting
The accrual basis	→	The full accrual basis of accounting

Figure 2.4.1. **Conditions for harmonization of accounting methods in the performance of budgets and estimates**

Each accounting system of the budget and estimate has its own characteristics that make difficulties for the unambiguous classification system. For example, there are the following relationships between basic methods of accounting system of estimates and budget execution in the world:

1. The cash method of budget implementation. The following accounting systems of estimate execution may be applied in countries with budgets on a cash basis:

- the cash basis of accounting (for example, the countries of the British Commonwealth);
- the modified cash basis of accounting (for example some developing countries that follow the French or Spanish systems of budgeting);
- the modified accrual basis of accounting (for example, Canada, France, Spain);
- accrual basis, in the sense that amortization recorded on accounts, although is reflected by the accounting principles, but not strictly defined by generally accepted accounting principles (GAAP) (for example, countries with transition economies);
- the full accrual basis of accounting (for example, in the USA where it is implemented for all federal operations of government).

2. The budget that is based on the accrual method:

- The full accrual basis of accounting (for example, New Zealand).

Application of accrual basis accounting is a priority in the world because it enables to improve the quality and comparability of presented financial information. This will improve financial management, increase transparency and accountability of funds managers and improve the quality of assessment when deciding on the allocation of resources of the state budget.

Basic requirements of constructing accounting by entities of public sector on an accrual basis of accounting were outlined in International Public Sector Accounting Standards (IPSASs), issued by The International Public Sector Accounting Standards Board – (IPSASB) – previously by the Committee of Accounting in Public Sector International Federation of Accountants. For countries aspiring to move from cash basis of accounting and formation of statements regarding the implementation of cost estimates and budgets to accrual basis of accounting promulgated the report No. 14 (Study 14) and published the manual «The transition from accounting on a cash basis of accounting to the accrual basis of accounting». In the world there has been a tendency of unification of accounting standards in general and accounting in the public sector in particular (Table 2.4.1).

The International Public Sector Accounting Standards Board (IPSASB) believes that international accounting standards in the public sector is an integral part of the effective functioning of the international economy and reforms aimed at promoting social and economic development.

The accounting system of budget performance, which is introduced today in Ukraine, involves using a modified accrual method. However, if in the world practice modified accrual method is shown by the deviation costs (consumption of inventories are recognized in the period of their purchase), but in the domestic technique of accounting there is a distortion of information about the income from financing operations (by the recognition of revenue from such transactions on a cash basis).

Table 2.4.1

The practice of application of international accounting standards in the world in the public sector, based on the accrual method

Country	The practice of application of international accounting standards in the public sector, based on the accrual method.
1	2
The USA	Accounting standards are applied which completely correspond to IPSAS
The UK	The public sector of the UK uses accounting recommendations which are generally consistent with IPSAS. In the central government agencies the accounting of budget implementation and estimates is performed according to International Financial Reporting Standards (IFRS) which have been adopted by the EU since 2009/10 onwards. IPSAS form the second level of standards in the hierarchy of the instructions of accounting based on IFRS, and they cover the issues not covered by IFRS or provide additional guidance on the interpretation or adaptation to the peculiarities of public sector
Australia	Accounting standards are applied which are based on a full accrual method according to IPSAS. The Australian Accounting Standards Board issued «the Australian equivalent» of the International Financial Reporting Standards. The organization made certain amendments to the IFRS in Australian IFRS, however as a rule, they eliminate many variations provided for in IFRS and provide additional interpretations or formations of requirements for the Australian public sector organizations but they do not deviate from IFRS.
France	The government began to use the accrual method in 2006. The methodology of accounting is based on IPSAS and French accounting regulations in the public sector, according to which government financial statements were first formed in 2006. It is checked by the Accounting Chamber (Public National Audit Office)
Germany	City of Hamburg equally and simultaneously uses IPSAS and IFRS and the German Commercial Code took them into account in the preparation of financial reporting requirements by an accrual method.

Continuation of Table 2.4.1

1	2
Spain	The Spanish Ministry of Economy and Finance introduced the accrual method by the IPSAS in the public sector of financial reporting
Cyprus	IPSAS was adopted on cash basis
Estonia	They are in the process of adopting IPSAS and accrual method
Latvia	Joint with the EU accounting project was introduced and along with other reforms it includes the IPSAS.
Lithuania	
Romania	The central government has adopted the accrual method, including some of IPSAS in particular IPSAS 1 «Presentation of Financial Statements», IPSAS 2 «Cash Flows Statements», IPSAS 12, «Inventories», IPSAS 17, «Property, plants and equipment» and IPSAS 19 «Provisions, contingent liabilities and contingent assets». It is planned to improve accounting on accrual method and implement the consolidated national financial statements of the government.
Russia	Adopted accrual method by the IPSAS and has made significant progress on its implementation
Kazakhstan	The Government of Kazakhstan has announced that since 1 January 2013, the public sector of the country will prepare and present financial statements that correspond in all material respects to the accrual method by the IPSAS. The current practice of financial statements in a public sector is based on various governmental decrees. Ministry of Finance with participation of National Bank of Kazakhstan offered to start using IPSAS immediately
Netherlands	As an experiment, the government adopted the accrual method by the IPSAS. In October 2008 the Finance Minister presented to the Parliament an assessment of that attempt, arguing that accounting by the accrual method is not better for the ministries than the current cash method of accounting that is commitments-cash accounting system. Minister decided to improve the current system of accounting and presentation of non-financial information in the budget and annual report. The Parliament instructed to analyze the experience of accounting by the accrual method in other countries. Accounting by the accrual method has already been adopted by agencies and other «business» organization of power.

[14]

Revenues of budget institutions are recorded at the moment of receipt of funds (on the cash basis – at the time of actual receipt of funds) and expenses relate to the period of their implementation (according to the accrual basis). As we have already noted, such variant of the formation of the result of the estimate implementation corresponds to the modified accrual basis, which is used in its various manifestations, some countries of the world.

The advantages of the domestic version of the modified accrual basis are:

- close interconnection with real cash flows;
- accountability and transparence of funding processes;
- low labor capacity of accounting works;
- proximity to the budget accounting (state and local budgets), which laid the basis for the cash method.

The disadvantages of current practices include discrepancy of accrual basis of accounting by comparing cash incomes and accrued expenses during the reporting period. The indicators of financial results are distorted as a result of such deviations in the accounting. In this case, the profit arises artificially in the institution through:

- the shortfall in meeting the target program;
- or acquisition of material assets which they did not have time to write off to the costs until the end of the year;
- or obtaining funds in a larger extent than was spent.

Obtaining the profit for the budget institution at the expense of the general fund is totally unnatural because it is a non-profit institution whose main objective is to obtain a social effect instead of formation of profit (which has been previously proved by us in) [59].

Therefore, in our opinion, current accounting practice requires reformation to eliminate such distortions of performance of the financial and economic activity of budget institutions.

It is necessary to improve the current system of accounting for the correct and full application of the method of calculation, which will enables to perform correspondence principle of income and expense. This system should be such that the income of the budget institutions of the general fund was presented according to the accrual basis.

Economic realities create certain obstacles to its implementation through not rhythmic filling of national budget. Therefore, you should take into account the specified circumstance in choosing the ways of rationalization.

In modern practice of budget performance accounting the use of accrual method to reflect the income is *impossible* (!) (author's emphasis) since the Chart of accounts [14] does not provide codes of accounts for its use.

The following moments of income recognition are possible to implement accrual method:

1. On the 1st day of the month in the amount that is planned by the apportionment plan for the month. Estimates of public sector entity and its corresponding allocation plan are the documents according to which the public or local budget pledges to fund their financial and economic activity. The indicated targets provide the facility with the right to claim, and thus create potential opportunity to (author's emphasis) obtain funds.
2. At the moment of actual services. Such time of recording revenues is the closest to the business activities [1]. For its application it is necessary to introduce documentary fixation of rendering of service evidence (for example, the act of services rendered). For many public sector entities the registration of such act is not possible (for example, at what moment and how to fix the fact of rendering of service of funds management of the state budget).
3. At the moment of formation of actual expenditures associated with the implementation of functional responsibilities assigned to budgetary institutions. Under such conditions the revenue of a period is attached to expenditures of the institution and is recognized in the amount and at the time of actual expenditures. Actual revenues and expenditures are recognized simultaneously, in the same amount that is why the financial result is equal to zero which corresponds to the

[1] A number of countries carry out the policy of transferring budget institutions to self-financing basis (e. g. hospitals), and financing of services for state budget funds is carried out only in specific cases (e. g. state health insurance of patients). Under such conditions, this method of income reflection is acceptable.

essence of the budget funding and the activity of public sector entities (as they are non-profit organizations).

As we proved earlier [60], budgetary allocations and revenues are not the identical concepts. Since the very essence of a budget entity means providing services at no charge basis, however the reproduction of resources spent (human, financial, material, etc.) isn't carried out at the expense of earnings(revenues from sales of services), but on conditions of budget funding which is a form of implementation of fiscal policy (e. g. provision of social security).

The non-profit status of budget institutions and targeted nature of budget allocations requires recognition of revenue from such incomes at the moment and in the amount of actually performed expenditures. Recall that such requirement is set out in National Provisions (Standards) of accounting in the public sector 124 "Income" (paragraph 2.3 of section II).

Such method is the most appropriate for public institutions because:

- it reflects the degree for development of provided funds;
- it is closest to the moment of execution of the functional responsibilities of institutions;
- it complies with the principle of matching revenue and expenditure compliance because revenues and expenditures of one period are written off to the result of execution of estimates;
- it precisely reflects the financial result because complies to the accrual basis;
- it corresponds to the essence of the activity of public sector entities which are non-profit institutions, and therefore can not receive profit at the expense of the state budget;
- such method is predicted in National Provisions (Standards) of accounting in the public sector 124 «Income» in the paragraph 2.3 of section II and supported by IPSAS 9 «Revenue from Exchange Transactions» paragraph 13.

Necessary restriction of proposed method of revenue recognition is a requirement to write off revenue only on conditions of obtaining budget financing i. e. available monetary funds. One of the main criteria for revenue recognition is performed according to these conditions and founded in paragraph 29 IPSAS 9 – the control over resources. In another case, it is the possible misrepresentation of information about financial results. For example, if actual expenditures are made, and therefore the revenues are recorded regardless of obtained budget financing (for example, accrual payroll), thus, non-existent incomes will be reflected under the conditions for the reduction of actual revenues from the budgets.

Another point of conflict in the conclusions of some experts [50] may be harmonization of basic accounting methods at execution of budgets and estimates. As you know, budget accounting system in Ukraine is built on a cash basis. Application of the proposed method of recognition of revenue of the general fund in accounting will mean the introduction for accounting of the budget implementation of the full accrual basis instead of the current modified accrual basis of accounting.

According to international experience (which was described by us above), the use of different basic methods of accounting for the budget execution system and estimate, is a normal world practice that was introduced in most countries of the world. Therefore, we consider it appropriate to follow the cash method in the system of budget accounting, which is closely linked to cash flow and is less labor intensive. The main tasks of rationalizing the accounting system of the public sector entities are the introduction of the full accrual basis of accounting in the estimate execution.

2.5. THE FORMATION OF ENTERPRISES' ACCOUNTING POLICIES OF EU COUNTRIES

The task of the national domestic and foreign policies of Ukraine on the modern stage of its development is the entry of our country into the European political, economic and legal space, getting full membership in the European Union and its establishment as a powerful European state. Therefore, accounting, which is an important object in the process of harmonization within the EU, was defined as one of the priority areas of adaptation of national legislation to EU legal framework.

Our state faced the issue of adaptation of Ukrainian legislation to the European one for the first time after signing «Agreement on Partnership and Cooperation between Ukraine and the European Communities and their Member States» on 14th June 1994 [4].

In addition, «State Program of adaptation of Ukrainian legislation to the EU legislation» (hereinafter – the Program), which determines the mechanism for obtaining by Ukraine a compliance with the Third Copenhagen and Madrid criteria for membership in the EU, was adopted by signing the same law No. 1629-IV from 18.03 2004 [46]. This Law and other normative acts [34; 40] clearly define priority areas for adaptation of Ukrainian legislation, including the accounting of companies.

Thus, the purpose of adaptation of Ukrainian legislation to the EU legislation is the compliance of the legal system of Ukraine with acquis communautaire[2], taking into account the criteria set by the European Union, with the states intending to join it.

The program specifies that the adaptation of legislation is regarded as the process of bringing the legal framework of Ukraine in accordance with acquis communautaire.

Thus, the adaptation of national legislation to European countries is a priority component of the process of Ukraine's integration into the

---

[2] acquis communautaire (*from fr. «heritage of the community»*) – is the name of the legal system, the legal order of the EU; it is not translated into national languages

EU, which in turn, is defined as a priority area of Ukrainian Foreign policy. «This is a systematic process that includes several successive stages. At each of these stages certain degree of compliance of the legislation of Ukraine with the EU acquis should be achieved» [168].

The legal basis for policy in the field of accounting is defined in the Article 44 (2) (g) «Treaty on the European Union» [51]. For the implementation of the proposed program annually, within the approved plans, the work on implementing methodology of direct use of international accounting standards in domestic practice was launched. This is the main point of adaptation of Ukraine to acquis communautaire in accounting.

High quality constructed complete accounting system is an essential condition for the effective functioning of each entity. It involves forming and accepting for the long term separate specific and clearly defined elements of regulation of accounting and reporting, which is the accounting policies.

The term «Accounting policies» first appeared in international practice and officially began its use in 1973 after the adoption of IAS 1 «Disclosure of accounting policies» and IAS 5 «Information that has to be disclosed in the financial statements» [24]. New IAS 1 «Presentation of Financial Statements» [14] was issued on the basis of these standards, and includes requirements for the disclosure of information in accounting policies. IAS 8 «Accounting Policies, Changes in Accounting Estimates and Errors» is also worth noting [23]. The same issues are considered here, as well as conceptual framework to international standards, which defines requirements for the disclosure of accounting information and practical recommendations on the use of standards, contributes to the harmonization of accounting standards and procedures relating to coverage of accounting policies in the financial statements.

In the domestic accounting practice, the possibility of using separate elements of accounting policies by business entities came after the adoption of Regulation on the organization of accounting and reporting in 1993[3].

[3] Cabinet of Ministers of Ukraine Resolution of 3 April 1993 Number 250 «Approval of Regulations on organization of accounting and reporting in Ukraine» – it has lost its force nowadays

The term «accounting policies» was introduced into official turnover in Ukraine since 2000 by the Law No. 996-XIV «On Accounting and Financial Reporting in Ukraine» [27]. Thus, according to the Article 1 it was defined as a special term: «Accounting policies is a set of principles, methods and procedures used by the enterprise for the preparation and presentation of financial reporting».

At the same time, the definition «Accounting Policies» we can find in IAS 8. According to the mentioned normative and legal act, «accounting policies is specific principles, bases, conventions, rules and practices applied by business entity in preparing and presenting financial statements reporting» [23].

It should be noted that the Law No. 996-XIV defines the category «Accounting Policies» in singular and in IAS 8 this concept is characterized in plural. This is primarily connected with that fact that the accounting policies established regarding the specific object of accounting is considered a separate accounting policies according to the international rules. And according to the National interpretation of this concept, exactly aggregate of such accounting policies constitutes single accounting policies of entity.

In any case, we believe that it is about «accounting policies, which are, by their nature, very specific code of regulations, preparation and presentation of financial statements, which ensures compliance with a common methodology of displaying business operations of the undertaking for a long period with sticking to basic methodological principles of accounting and reporting» [168].

In the current economic conditions it is necessary to compare these financial statements on an international scale with the growth rate of internationalization of trade and investment. This implies the introduction of common rules for accounting and formation of financial reporting in compliance with national accounting standards.

Modern European countries are «the source of many legal systems, including English, German, French, Scandinavian and more. These systems, along with other political and economic differences, established huge variety of accounting, reducing the quality and comparability of financial reporting indicators of various countries in the context of globalization and the growth of business investment activity» [91].

Recognizing this, EU Member States were the first countries that made the first steps towards the convergence[4] of accounting and financial reporting.

In addition, in the level of economy at the stage of international integration attention to the issue of unification of accounting was intensified. Today, there are two approaches to solve this problem, namely the harmonization and standardization.

The first step towards the harmonization of the European countries activities was the use of so-called «principle of achieving equal economic conditions» within the European Community.

The solution of this problem consisted in the development and publication of series normative documents, which were called the Directives or laws of EEC. They were dedicated to the unification of information disclosure requirements and accounting. The Directives establish basic provisions for accounting and formation of financial reporting that EU member states integrated into national legislation.

In particular, the most important and significant among them is the Fourth directive (78/660 / EEC) (regarding reporting of societies) No. 78/660 «On the annual accounts of certain types of companies» [31] from 25. 07.1978 and the Seventh directive (83/349 / EEC) EU Directives (on consolidated reporting of societies) 83/349 «On consolidated reporting» [30] from 06.13.1983. The Fourth Directive standardizes rules that must satisfy two basic forms of reporting of any enterprise – balance sheet and balance sheet and statement of earnings (losses) and establishes a flexible approach for preparation of reporting.

The special paragraph of this Directive defines a list of applications that should complement the reporting (information on accounting methods used by the entity in assessing the value of assets in the calculation of depreciation, turnover by major activities and other indicators that have essential importance for objective assessment of the financial condition).

---

[4] Convergence can be defined as the approximation of accounting standards of various jurisdictions by identifying common optimal principles and methods by the developers of these standards.

Thus, the Directive 78/660 / EEC [31] contains requirements regarding the content of the annual financial statements, correctness of reflection of the financial condition of any entity, methods of valuation of assets and liabilities of audit and disclosure of reporting. However, indicators of the financial condition of a separate entity in today's economy that is characterized by the construction of complex, distributed systems of companies linked by relations of control and subordination, can not give an idea about the location of this subject on the market, its real condition and prospects.

Therefore, the Seventh Directive 83/349 / EEC [30] provides obligations for such entities to disclose the accounting policies and present consolidated statements regarding related parties, which would ensure the opportunity to have an idea for investors about the financial situation of this economic system (group of companies) as a whole. The main dominants of the Seventh Directive define the relationship between the parent and subsidiary companies, method of preparation of consolidated reporting of transnational corporations, audit verification, procedure for providing transparency of reporting companies, etc.

The adoption of the Seventh Directive was caused by the necessity of unification of issues regarding recognition in accounting and reporting transactions with foreign currencies and methods for bringing performance of balance sheet, reporting on profit (losses) and other forms to the single currency, terms for preparation of reporting, methods for ensuring comparability of data, stability of techniques and methods for consolidation of reports.

As it was noted earlier, the main provisions of the Fourth and Seventh EU Directives «establish detailed principles and rules in many areas of accounting and represent the so-called «minimum requirements for harmonization», under which Member States develop their own additional requirements and introduce, on request, changes in national legislation. At present they have about 40 options at the level of Member States, a lot of them are aimed at reducing the reporting requirements. Since the harmonization of accounting and reporting is based on a legal basis, compliance with the requirements of EU Directives is mandatory for all companies» [168]. Periodically the directives are reviewed, improved and changes are made to them, but they have never been subjected to radical processing since their adoption.

Implementation processes towards harmonization and coordination of accounting standards in the EU through the implementation of the requirements of the Fourth and Seventh Directives into national legislation took place over a long period of time. Table 2.5.1 reflects summarized stages for implementation of EU Directives.

During the first stage the UK and Denmark were the first countries which adopted the requirements of the Fourth EU Directive in 1981, and France and Germany adopted the requirements of the Seventh Directive in 1985.

Austria was the last country in this stage, and adopted a policy of EU requirements on accounting and financial reporting because of its late (in 1995) entry into EU and thus completed the first stage of implementation of the requirements of these directives into national legislation.

The second stage of implementation of the requirements of the Fourth and Seventh Directives into national legislation, as can be seen from Table 1, started with entering new members to the European Union on the 1st of May 2004. Accession to the European Union has obliged these countries to conduct changes of national legislation on keeping accounting and preparation of financial reporting in accordance with the requirements of the Fourth and Seventh Directives of the European Union, respectively, these directives have been adopted since 2004.

In 2007, the accession of Bulgaria and Romania to the European Union obliged these countries to accept the requirements of these directives that have been done by them since 2007 [91]. Croatia entered in 2013 as the last. Thus, directives are applied to more than 7 million companies in Europe after the enlargement of the European Union. During 1978–1983 in the development of the Fourth and Seventh Directives accounting harmonization of EU member states has gained significant political and economic importance, creating conditions for the formation of a unified European economic space. Providing complete and accurate idea about the financial condition and results of operations of business entities was the most important consequence for the adoption of EU directives, thus making accounting information more valuable, relevant and useful especially for external users (investors, shareholders, creditors and other business partners).

Table 2.5.1

Implementation of the Fourth and Seventh Directives into national legislation of European countries

EU countries		Date of entry into the European Union	Date of adoption	
			IV directive	VII directive
The first stage		1981 – 1996		
1	Belgium	1957	1984	1990
2	Italy	1957	1991	1991
3	Luxembourg	1957	1984	1988
4	Netherlands	1957	1983	1989
5	Germany	1957	1985	1985
6	France	1957	1983	1985
7	Great Britain	1973	1981	1989
8	Denmark	1973	1981	1990
9	Ireland	1973	1986	1992
10	Greece	1981	1986	1986
11	Spain	1986	1989	1991
12	Portugal	1986	1989	1991
13	Austria	1995	1996	1996
14	Finland	1995	1995	1995
15	Sweden	1995	1995	1995
The second stage		2004 – 2013		
16	Estonia	2004	since 2004	since 2004
17	Cyprus	2004	since 2004	since 2004
18	Latvia	2004	since 2004	since 2004
19	Lithuania	2004	since 2004	since 2004
20	Malta	2004	since 2004	since 2004
21	Poland	2004	since 2004	since 2004
22	Slovakia	2004	since 2004	since 2004
23	Slovenia	2004	since 2004	since 2004
24	Hungary	2004	since 2004	since 2004
25	Czech Republic	2004	since 2004	since 2004
26	Bulgaria	2007	since 2007	since 2007
27	Romania	2007	since 2007	since 2007
28	Croatia	2013	since 2013	since 2013

However, it should be noted that the realization of common goals, is still accompanied by the presence of national priorities and obstacles of various kinds (e. g. political parties, tax authorities, businesses, etc.). «Implementation of the requirements of EU Directives into the national law of the Member States with different levels of economic and social development, especially the legal and tax systems have different influences on the development of accounting and reporting in each country. In addition, national GAAP[5] in each country was developed over the years considering political, economic and social differences, government decisions, government regulation, taxation and other normative objectives that were taken into account in the development of common principles and rules of national GAAP in various countries» [168].

In countries of continental model of accounting (Austria, Germany, France, etc.) with the introduction of standards of EU Directives requirements for quality, usefulness and value of financial information were legally established which in turn influenced the growth of informativeness of financial reporting and reducing the impact of tax legislation on accounting and financial statements. In countries of the Anglo-American accounting model (UK, Ireland) financial reporting aims to meet information needs of investors and creditors, and accounting is regulated by the authorities that are independent from tax legislation. This led to much smaller changes in national legislation concerning the regulation of accounting and financial reporting formation.

Despite the large number of economic, political and social differences between EU member states, the Fourth and Seventh Directives have led to the harmonization and coordination of the basic elements of accounting and financial reporting in the national legislation of individual countries, thus causing a change in the assessment and recognition of assets, liabilities and capital, requirements for disclosure of information in the financial statements and, consequently, changes in auditing financial information.

[5] GAAP – is the system of generally accepted accounting principles. Sometimes this abbreviation is interpreted as Generally Accepted Accounting Practices — is common practice of accounting.

In addition to the above, there is the idea of standardization of accounting caused by the expansion of integration processes in the development of the European and world economy. It involves the establishment of common rules and requirements for accounting and application of unified set of standards that regulate accounting event and its reflection in the statements.

Standardization allows making accounting policies, general principles and a system of accounting and reporting global. It is carried out as part of unification of accounting at the mega-level that is carried out by the International Accounting Standards Board (IASB). The approach to standardization of accounting means that there should be a unified set of standards for any accounting situation in any country, and therefore there will be no need to develop national standards.

The interstate level of accounting policies includes principles and rules on accounting, as defined by international standards. These include International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations of the Standing Interpretations Committee (SIC) issued by IASB.

According to the international practice, accounting policies in different countries have their own specific characteristics. For example, in the UK and the Netherlands accounting policies are less structured and are not so detailed and not as formalized as in the US.

On the other hand, the development of economic integration of the European countries contributes to more rapid process of harmonization and unification of accounting. This in turn causes both its structure and in particular accounting policies to be more detailed.

International standards, as it is known, are advisory in their nature, but their content defines basis for the establishment of legal regulation and provision of accounting policies in Ukraine.

IAS 1 «Presentation of Financial Statements» defines a complete set of financial statements, which must include the so-called «statement of financial position at the beginning of the oldest comparative period when an entity applies an accounting policies retrospectively or makes a retrospective recalculation of articles of its financial statements or when it rearranges its articles of financial statements» [22].

The business entity reaches «accurate presenting reporting» through compliance with international standards that are applied.

Fair presentation also requires the following responsibilities from business entity:

a) to choose and apply accounting policies in accordance with IAS 8 [23];

b) to provide information (including accounting policies) so as to provide accurate, comparable, relevant and understandable information to users;

c) in conditions when compliance with the specific requirements in IFRSs is insufficient for providing possibility of different users to understand the impact of certain transactions or other events and conditions on the financial position or performance of the business entity activity, disclose additional information.

It has been stipulated in IAS 1 «Presentation of Financial Statements» [22] that the business entity can not rectify inappropriate accounting policies neither through disclosure of information about applied accounting policies nor additional notes or explanations. Other international standards of financial reporting and accounting contain a number of recommendations regarding individual elements of accounting policies or commercial operations for which accounting policies is applied.

It should be noted that IFRS 1 «The first application of International Financial Reporting Standards» [22] warns the business entity to disclose in the Notes to the financial statements all the points regarding accounting policies. In particular, the principles which the company adheres and the methods used for the implementation of these principles should be disclosed. Such information is essential for determining the financial position of the business entity directing its cash flows, as well as to determine the performance of activity.

IFRS present the requirements and principles that are necessary to take as a basis in the process of formation of accounting policies. «It is about the principles of continuity of the company activity, accrual, consistency, essentiality, sustainability etc. It is necessary to allocate as the main principles constancy or permanence from year to year. Exceptions are cases of changes for improving accounting policies, the effects of which should be disclosed in the explanatory notes to the annual financial statements» [168].

The procedure for amending the accounting policies is also regulated by European legislation. Thus, in the UK according to standard 17 (SSAP 17) «Accounting for post balance sheet events», all cases of changes after the balance sheet is made are divided into those which are subject to alteration and those that can not be altered. The first are so-called «material (significant)». These, for example, include transactions related to debtors). The second, that can not be altered are reported in the notes to the statements and describe their results and character. These, for example, are nonexistent facts at the balance sheet date, such as fire and so on.

Therefore, changing (improving) of accounting policies that caused material changes should be applied to the items of the current reporting period as adjustments to previously accrued reserves and should cover the amount of income of the current period.

In Germany, changes in accounting policies that affect the current revenue must be legally agreed upon the Commercial Code. In such countries as Belgium, Italy and Spain a different practice is used. In particular, any adjustment should take place through the account «Income and losses» for the last reporting period. It should be noted that the accounting practices of these countries recognizes losses from adjusted events, but not incomes. In France, for example, all changes must also go through the account «Gains and losses» for extraordinary articles. If changes in accounting are caused by the improvement of the accounting system, all adjustments should refer to the account «Reserves». Thus, all the events that can not be adjusted according to the basic principle of «existing enterprises» must be analyzed in detail in a separate document.

Another essential feature of foreign accounting practice is that large business entities prepare two versions of accounting policies. The first is made at the beginning of the year and is purely formal. It serves as a symbol of current national accounting principles that were fulfilled in the company in the last reporting period, and includes the expected changes and clarification of the current year. The second version is made at the end of the reporting year before reporting. Thus, during the year, an entity may change the selected accounting policies.

Accounting policies are revealed, as it is known, in the Notes to the financial statements. The first of these usually summarizes the accounting methods used in the preparation of reports. In other words, it features the peculiarities of accounting of the company. In the second note the results of changes in accounting policies are reflected, if these policies were changed during the year.

In this regard, the influence of accounting policies on the situation in the company is considered in the explanatory note to the financial statements. For the purpose of internal analysis the so-called «map» of possible options of making profit is made with different approaches to measuring inventories, expenses, depreciation methods, terms of sale, the range of products produced. For financial reporting purposes, these figures should be presented in minimized form.

National accounting adjustment programs of European countries are oriented on IASB standards. Professional accounting organizations, Unions of Chartered Certified Accountants and Auditors of each EU country take their own decisions about the degree of mandatory compliance and implementation of international standards (e. g. full, cancellation or replacement of only certain articles). Special laws, commercial codes or other normative acts on the activities of EU companies reflect the fundamentals of the organization and record keeping on various categories of businesses. Thus the national systems of accounting regulation should be brought into conformity with the Fourth EU Directive. It is known to coordinate various accounting systems and is the basis for the creation of European regional accounting system. Given its requirements, regulation of companies' activities is conducted according to their type and size. Thus, the most common forms of companies in foreign practice are joint-stock company (PLC – Public Limited Company) and private (Ltd. P) limited companies [91]. Therefore, these entities have different reductions in the requirements of publishing statements and the results of audits.

So-called «publication of statements» includes different concepts. All financial statements of the UK, Italy and Spain will be registered in a special body. For example in the UK this special government body is the Register of Companies. In Italy, auditing expertise and publication of its results are necessary only for listing companies. The financial statements of all companies in Germany are published in the Commercial Register and the statements of large companies are also published in the Federal newspaper. Belgian annual reports are registered by the National Bank of Belgium and listed companies whose shares are publicly traded at the exchange, must also publish their reduced forms of reports in periodicals (newspapers).

In France, in addition to the registration of financial statements for certain specified companies, their publication is stipulated in the Bulletin BALO[6].

Such differentiated approach in the requirements to publishing reporting and the results of the audit verifications determines differences in levels of freedom of business entities in their choice of accounting methods (Figure 2.5.1).

On the one hand, the system of open reporting has a positive impact. This increases the trust of government bodies and investors. From the other side, sometimes there are situations where publicity of financial reporting of economic unit could trigger its financial collapse. These and other reasons causing differences in the requirements for publicity.

Therefore, it is necessary to agree the requirements of publishing statements with the demand for its confidentiality, according to which the published financial performance should not inflict damage to the interests of the company.

Experience of integration processes of accounting and financial reporting in Europe shows that over the long period (over 40 years) there was a gradual harmonization of the accounting system of EU member countries took place. This is the way to adaptation of national legislation and harmonization of methodologies for accounting and reporting in different countries.

Thus, since the 80's of the XX century, the European Union has developed a number of directives concerning the harmonization of financial reporting in order to reduce the variety of procedures for

[6] BALO – Bulletin des annonses legates obligatores

accounting and formation of financial reporting. Further development of harmonization and standardization was observed during the 90's by making decisions on expanding limits of comparability of financial reporting and improvement of application of IAS [168].

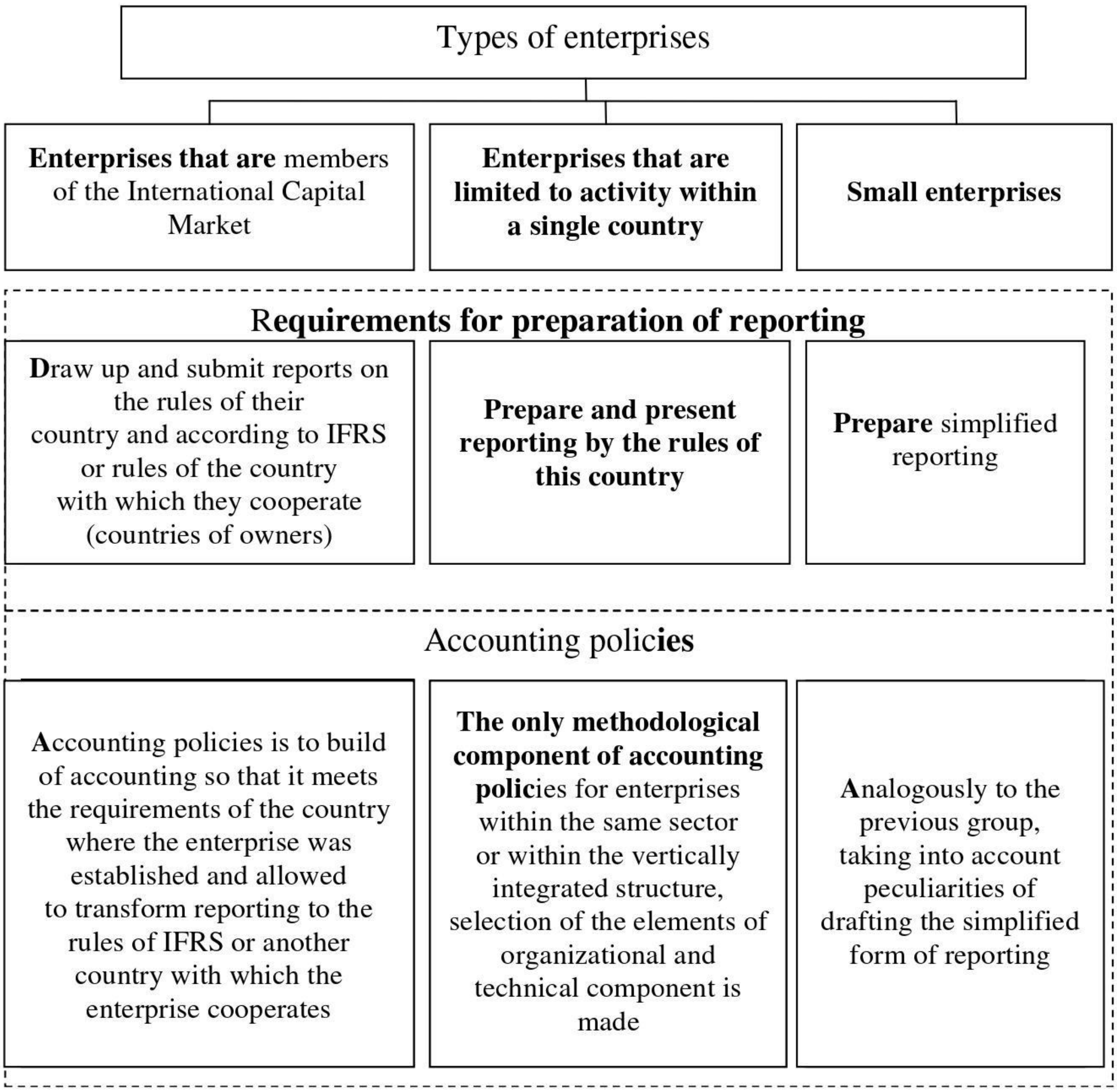

Figure 2.5.1. **Separation of approaches of the accounting policies formation of EU member states according to the types of enterprises**

Considering the European integration and public policy of Ukraine concerning compliance with regulatory and legal framework to the European standards, as well as exploring international experience of accounting harmonization in the EU countries, it is necessary, first of all to determine the list of priorities tasks on the approximation of the current existing legislation and future normative and legal base of Ukraine to the EU legislation [3]. And this will act as an important prerequisite for strengthening economic relations between Ukraine and the European Union in the immediate future.

2.6. PROBLEMS OF HARMONIZATION OF ACCOUNTING IN UKRAINE WITH INTERNATIONAL AND EUROPEAN REQUIREMENTS

Ukraine as the European state that aims to become a member of the European community, which was created by countries that joined it bringing all spheres of life to unified norms and standards, should acknowledge these rules. Therefore, there is a task of considering the International Accounting Standards as a tool for harmonization of accounting in different countries and for comparison of international standards with national to study if there is a conceptual unity.

The issue of transition to international standards remains very problematic for Ukraine, so many papers as adherents of this process, and adversaries were devoted to this issue. This issue was investigated by domestic and foreign researchers. However, due to the development of harmonization process and the lack of unanimity in the views of scientists, this issue needs further research. First thing you should determine the differences between the concepts of «unification», «standardization» and «harmonization» (Figure 2.6.1).

Unification is a way for construction of totality to a single system or internal form [131, p. 479]. In determining the differences between harmonization (with increasing similarity conducting of bookkeeping calculation practices in different countries) and standardization (using more stringent and less vague rules), C. Noubs [136] added that in the context of accounting they became technical terms and almost enough difficult to identify practical difference in their values. The term «standardization» is defined as an activity aimed at achieving and establishing progressive standards and requirements in a particular area through the creation of normative and technical documentation for the production and use of various products, and providing services and performance of works [131, p. 363]. All three concepts are used for integration of national accounting systems, providing them common features, the main difference is the degree of rigidity of requirements. Accordingly, unification requires the greatest similarity of accounting systems, the smallest – harmonization. The notion «harmonization» means mutual harmonization, coordination, unification, construction of processes to a unified system [131, p. 127].

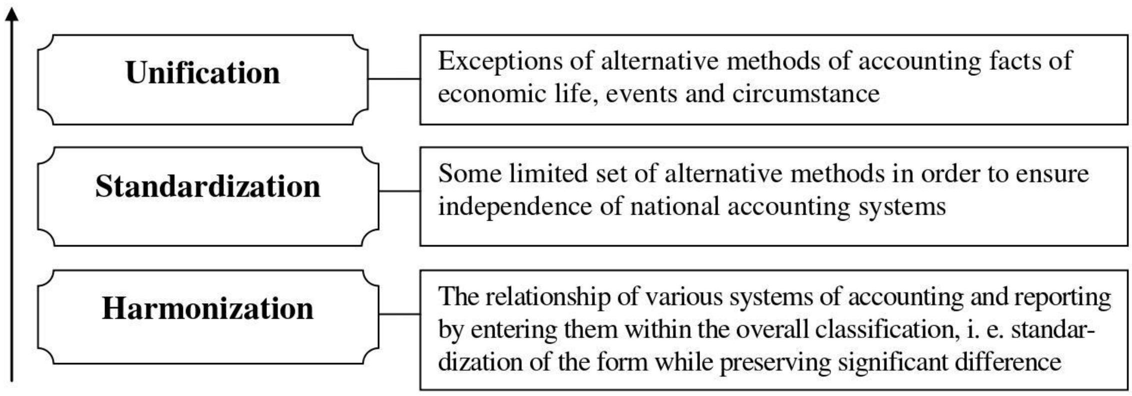

Figure 2.6.1. **The essence and correlation of concepts «unification», «standardization» and «harmonization»***

* – It was developed by the author.

Today Ukraine is at the stage of active implementation of the harmonization process that carried out by gradually increasing range of business entities that should make reporting according to IFRS. The views of scientists regarding these processes are fundamentally different. Max Mathews and M. H. B. Perera note the positive effects from such direction of development. They indicate that harmonization will allow:

1) to increase the comparability of accounting reports of different countries;

2) to activate turnover of capital;

3) to increase the overall methodological level of accounting;

4) to reduce expenses on preparation of accounting reports of international corporations and joint ventures;

5) optimally distribute global resources [128, p. 564].

Supporting this position, R. M. Tsyhan, I. V. Kashuba [163, p. 146] note that IFRS is a flexible, dynamic system, which plays a positive role in improving national accounting and financial reporting and in country's integration into the world community. Their implementation will give the country an opportunity to improve significantly national accounting and reporting; will boost transparency and understandability for internal and external users of information especially for foreign investors and creditors.

An effective tool for improving the transparency and understandability of information is the International Financial Reporting Standards that cover the activities of economic entities, create a reliable basis for the recognition of revenues and expenses, assessment of liabilities and assets; make it possible to reveal and reflect objectively existing financial risks in reporting subjects, and to compare their performance to ensure adequate assessment of their potential.

However, some scientists think negatively about IFRS implementation in Ukraine. For example, O. Zolotukhin [170] speaks quite strongly about the fact that international standards cannot be compared with domestic formed philosophy, ideology of collectivism, while IFRS are based on the western concept of individualism. The author also defends the idea that the very principles are not clear and understandable, and provisions which are in them, cause degradation of the accounting system. In particular, it refers to the assessment of the fair value.

In Russia, there are also authors who are against borrowing of international standards and believe that it is the result of reforms implemented in the country for many years.

For this purpose accountants should assimilate new, often incomprehensible methodological provisions, terms, concepts, whereas there is no any necessity in such innovations [65, p. 13]. E. M. Merzlykina,

H. M. Avramenko, V. A. Biriukov, L. K. Nikandrova and P. N. Sharonin consider that application of IFRS does not make accounting reporting more comprehensible and convenient as it is declared by legislators [65, p. 13].

Ya.V. Sokolov is also critical to implementing international standards saying that IFRS not only give nothing to manufacturers, but also hinders to assess properly the success of the company [153, p. 343]. The thing is that IFRS were intended initially as neutral to the interests of all participants of business life. That is why they were not wanted. However, with the improvements standards increasingly began to reflect the interests of tycoons. They focus primarily on the stock exchange, then on banks and credit institutions, advertising of the International Bank.

In European countries with strong national traditions the problems of harmonization are considered very carefully, realizing that harmonization should not cause damage to their economic freedom and it should be carried out thoughtfully without undue haste. Understanding the fundamental differences between American and European cultures and habits, yet one should realize the need to create conditions for a proper interpretation of accounting statements of enterprises abroad in the early 70th of XX century. The EU decided to develop European standards for accounting. However, it is not time to accurately determine the dates of adopting European accounting standards. In Ukraine the declared harmonization is heedlessly implemented and accompanied by problems both at national and at the enterprise level.

Information cannot be viewed outside of its users, i. e. individuals and organizations to which it is intended. Therefore, each group of users as justly considered by E. Hendriksen and M. Van Breda, could formulate their own, different from other financial reporting purposes. For example, managers and auditors have different understandings of the purpose of accounting. Moreover, there are significant differences in the understanding of the purposes within the groups [88, p. 88]. Practice shows that it is impossible to make an assessment of accounting reform and fundamental problems of transition to IFRS without an analysis of its impact on the enterprise as a separate business entity.

From the standpoint of interest in the application of IFRS of enterprise can be divided into two groups (Table 2.6.1).

Table 2.6.1

Groups of enterprises in relation to the interest in the application of IFRS*

Enterprises which are interested in the application of IFRS	Enterprises which are not interested in the application of IFRS
Enterprises have already use IFRS or plan to use them considering their economic or social status, as they are represented on international securities markets (for admitting to the trade they are obliged to make reporting in accordance with the requirements of those countries where securities will revolve at exchanges)	Enterprises that carry out their activity only within Ukraine
Enterprises that attract foreign investors or actively work with foreign partners	
Affiliated branches and representations of foreign enterprises	Small enterprises
Socially significant business entities (credit institutions, insurance companies and participants of securities market), which attract funds of population	

* – It was developed by the author based on [154].

However, it is wantonly to classify enterprises by their dimensions for making financial reporting. In conditions of economy that is dynamically developing, when, on the one hand, a significant diffusion was received mergers and acquisitions of enterprises, and the other – it is practiced allocation of structural units of companies in separate business, enterprises can quickly move from one category to another.

Besides distinctions given in the table 1 by groups enterprises allocated from the point of interest in the application of IFRS, there are also differences between and within these groups depending on the types of users of financial statements.

Certainly, joint stock companies, whose shares are listed on the international stock exchanges, will take a more active position on the reliability of the presented information than users of reporting enterprises, which does not attract investment in the securities market, and the state of the development of the stock market of Ukraine is extremely problematic (Figure 2.6.2).

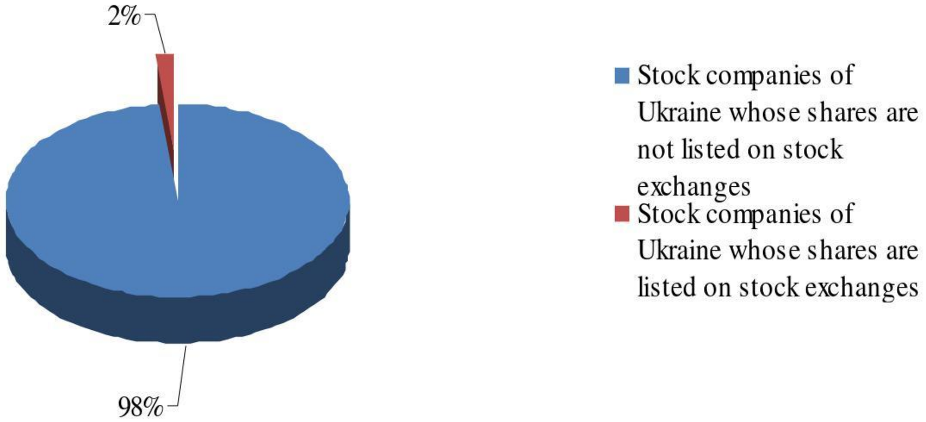

Figure 2.6.2. **Correlation of groups of joint stock companies of Ukraine for participating in the stock market***

* – It was developed by the author based on [38].

All authors point to almost the same objective and subjective difficulties of integration of the national systems into a single international system of accounting and reporting. Without denying it, we should note the extraordinary complexity of this problem: the process of standardization in any field of activity has never been easy and usually has a significant period of time; moreover, it can not be easy in such branch as accounting and reporting. Therefore, customary to speak on the harmonization of national accounting systems of IFRS, and then about their integration into a single international system of accounting and reporting, the conceptual model of which continues to improve and develop; the use of international accounting standards in Ukraine has carried out not by their direct application, and through the use of the design of domestic accounting concept considering traditions of accounting in Ukraine.

Despite huge efforts to standardize accounting principles, Ya. V. Sokolov claims that developed standards can be critically viewed for the following reasons: there are no reasonable grounds to consider one version of accounting better than the other; once installed, and perhaps not the best principles are practically very difficult to change; the possibility of achieving unification is questionable; comparability of indicators is difficult to ensure even in conditions of common principles; there is no sufficient trained staff of accountants; manager, who is reading financial statements cannot be sure of qualification of chief accountant and auditor; optional character of principles, no existing system of accounting law; specialists of Western countries do not accept that someone manages them and makes decisions for them. All this does not prevent the spread of principles, but does not allow accepting them seriously and permanently [153].

However, Ukrainian companies were uninterested in applying new normative acts and are trying to solve their own problems connected with obtaining reliable information about its financial and economic situation by establishing accounting and reporting systems for internal use. Accordingly current processes of implementation of international standards violate the famous principle of J. Bentham [92]: it is necessary to sacrifice some part of happiness in order to increase the happiness of the others.

Implementing the harmonization processes of accounting in Ukraine, it is important to understand the fundamental differences in the sources of funding for domestic and foreign enterprises. While in the US practice major users of financial statements are shareholders that are the main investors, in Ukraine the main user of the reporting is the state and tax reporting becomes the most important while financial reporting is rather formal. The reason may be in the fundamental differences in the level of the stock market development.

Another problematic issue is the way to advance to the declared harmonization. The methods of achieving it in our country are far from being perfect. There are a number of reasons, one of them; we believe is an instruction of the Ministry of Finance of Ukraine to draw up statements in accordance with IFRS using standard forms of reporting. Lack of approved forms in accordance with IFRS stipulates compliance with the principle of materiality which is realized choosing by an enterprise such set of indicators that are necessary for the user and allows making decisions without burdening with redundant information.

The decision of Ministry of Finance, from the perspective of the author, shows the immaturity and lack of readiness of modern national accounting systems to meet Western market principles, because there still are remnants of administrative psychology of management inherited from the Soviet past.

Imprecision of provisions that our national accountants accustomed to see is explained by an extremely wide range of people for whom they are intended, market content of relations and their recommendation character.

International standards are difficult for understanding. This fact makes it impossible independent study of standards in the conditions of prevailing lack of awareness of Ukrainian practicing accountants with their basic provisions. Lengthy discussions continue regarding mastering international standards by the national accountants. Guided by the noble purpose, at first sight, Ukrainian lawmakers want to fundamentally change the system of national accounting (Figure 2.6.3).

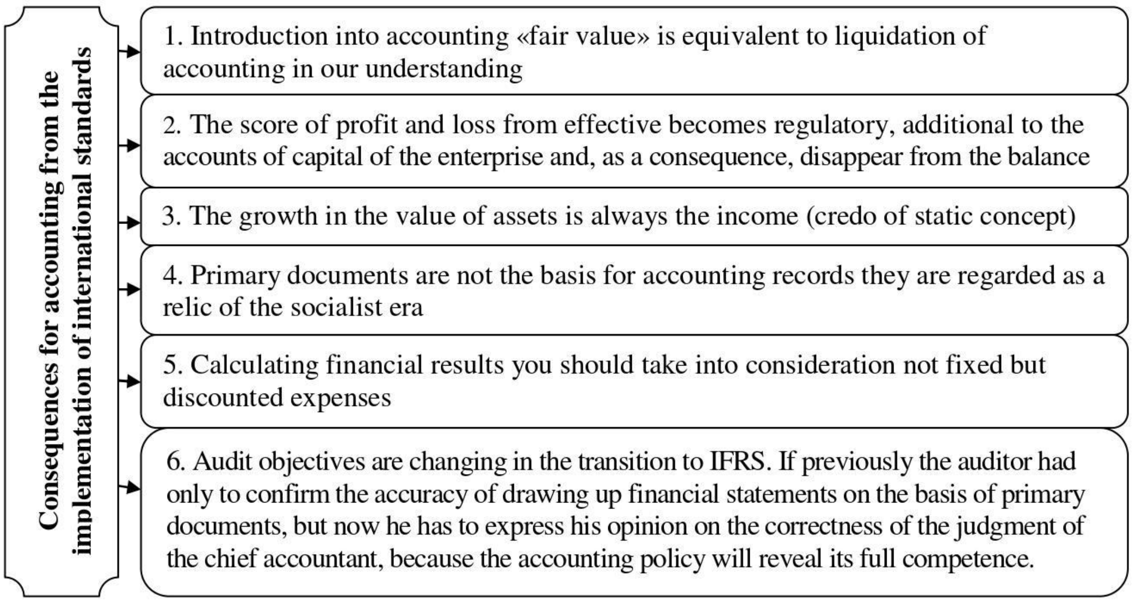

Figure 2.6.3. **Consequences for accounting from the implementation of international standards***

* – It was developed by the author

Particular attention should be paid to the fact that introduction of fair value concept to accounting is equivalent to liquidation of accounting as the author views it. Indeed, according to the IFRS 16 fair value is the amount of money sufficient to purchase the asset or to fulfill the obligation in the transactions between knowledgeable, willing to carry out such operation, independent of each other parties. Thus, the fair value should occur only when: 1) there is free agreement (contract participants are not exposed to coercion and have access to and possess sufficient information about the market of values which are the subject of purchase and sale; 2) there are no middlemen. However, many experts having familiarized with specific conditions prevailing in the CIS concluded that there are no listed conditions in Eastern Europe. They were convinced that the introduction of fair value in the CIS will only dramatically increase the risk of making management decisions.

In addition to the above, taking into account the mentality of local accountants, whose rights and obligations were strictly regulated for a long historical period, the work of Ukrainian accountant during current trends of implementation of international standards tends to have uncertainty that was clearly emphasized by O. V. Epifanov «Accountant is traditionally used to performing precise instructions and guidelines. The right to choose and making his own decisions is a phenomenon quite new for him» [89, p. 32].

According to the many authors' beliefs, international standards negate the role of primary documents, thus violate the age-old law of the system of national accounting: there is no document – there is no accounting record. Due to the process of transition to international standards one faced the problem, the essence of which consists in the tendency of distribution of accounting and financial reporting. The author states, it is an unacceptable phenomenon, because according to the accepted methodology financial statements are an element of an accounting method, along with the documentation, the system of accounts and double entry, inventory, assessment, calculation and balance sheet as a way to group and summarize information about assets and liabilities of the enterprise. In modern conditions enterprises' accounting is kept according to the national system, and statements are made according to international rules, transforming the data of accounting.

That is, the financial statements prepared according to IFRS may have assets that are not in accounting, for example, due to the lack of primary documents proving ownership of the asset. Thus, although the asset is not reflected in the accounting if the company controls it, then it should be reflected in its financial statements, or, alternatively, assets reported in the accounting records may not be reflected in the financial statements, for example due to the fact that it does not provide economic benefits. Similar examples can be cited about the liabilities. Thus, according to the requirements of IFRS the so-called constructive liabilities should be reflected in financial statements that are not confirmed documentarily, but emerged from the practice of business turnover. But the most paradoxical you need to recognize that the principles of IFRS certain extent contradict to the principles of conservatism according to Edmund Burke (1729–1797), who put forward three principles of any organization: 1) tradition; 2) pragmatism; 3) the organism (Figure 2.6.4).

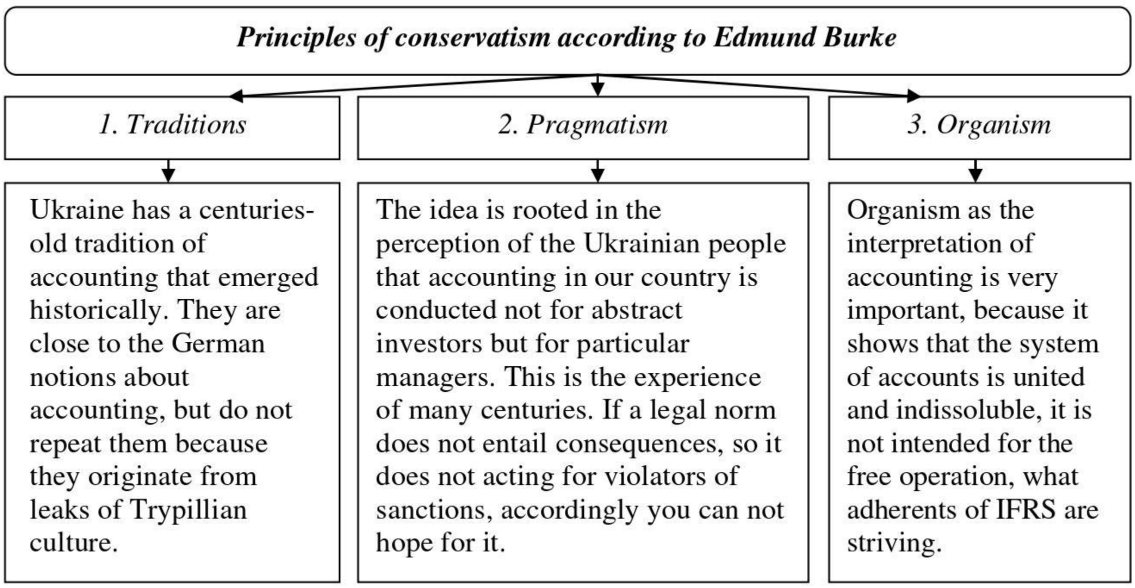

Figure 2.6.4. **Inconsistency of processes for implementation of IFRS to the principles of conservatism according to Edmund Burke** [152]

Thus, IFRS does not meet all of the defining principles. This is especially evident in Ukraine. It is necessary to raise the issue of accounting principles, designing which domestic legislators chose the strategy of borrowing Western equivalents. However, specific undertakings have problems with practical implementation of these principles.

Even application of quite obvious principle of the single currency index is not always unambiguous due to the current needs of assessing such components of intangible assets as human resources, customer list and other key success factors of the enterprise [90, p. 122].

Also mentioned in the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» the principle of the single currency index is contrary to the provisions of IFRS on functional currency, according to which the currency in which the majority of its operations is carried out should be used in accounting [27].

The appearance of these and other issues associated with the interpretation of the reporting preparation principles in accounting practice of enterprises in solving specific accounting issues, of course, does not mean the need to abolish the very principles but proves the need for a creative approach to their use and the ability to change their content in view of economic processes' development of national or international scale [143, p. 122].

In addition, L. L. Gevlych notes that international accounting has some important conceptual positions which are not regulated in Ukraine. We are talking about the concept of preservation of capital, particularly important from the perspective of protecting the interests of reporting users when determining the starting point of profit: only receipts of assets exceeding amounts required for capital preservation can be considered a profit [86, p. 122].

However it should be admitted that international accounting does not exist, but there are enterprises that keep their records according to accepted international rules. One of the main reasons of fundamental differences between Ukrainian accounting standards and IFRS is the fact that accounting in Western countries for many years served the market system in which the activity of enterprises is aimed at making profit and enriching their owners, that is why accounting is primarily done in the interests of enterprise owners, shareholders, on the other hand the national accounting system, formed on the basis of administrative and command system is still focused on the state as the main user of reporting.

Generally the study of the harmonization processes of accounting made it possible to outline arising scope of problems. To solve them it is necessary to observe a sequence of the measures taken. In this regard, a phased process of harmonization of accounting and financial reporting in Ukraine with international requirements is proposed (Figure 2.6.5).

The stages of harmonization of accounting in Ukraine with the international standards		
		The content of the measures and actions
1*	Popularization	It includes presentation, discussion, substantiation of expediency of implementation through public presentation of the results of SWOT-analysis and providing information on benefits etc.
2	Substantiation of legislative regulation and subjects of the accounting	Establishing levels of legislative regulation and regulatory rules list, positioning of subjects to which the necessity of harmonization of accounting is extended, the distribution of powers for the preparation of draft regulatory and legal acts and instructional materials, the timing and persons responsible for their development, etc.
3	Preparation of personnel support at the macro level	Organization of training and self-education, internships, conducting seminars and advanced training, round tables, scientific and practical conferences, events to exchange experiences, etc.
4	The formation of the legal and organizational basis	Legalization of professional institutions that may be engaged in developing of national and industrial accounting standards, the formation of democratic structure of their approval after discussing and making adjustments, legal and organizational regulation of implementation mechanisms
5	Preparation of personnel support at the micro level	Organization of training at the micro level, providing advanced training through courses, conferences, round tables, consultations, training and self-education, and the formation of appropriate mechanism for stimulation
6	Implementation	It proposes the introduction of international approaches in accordance with current national legislation (including through experiment, partial implementation, for example, in one area, etc.)
7	Further development of mechanisms for improvement	Synchronization of efforts, mechanisms and methods aimed at further development and optimization of harmonization and the formation of a unified information environment required for efficient operation of businesses entities.

Figure 2.6.5. **The stages of harmonization of accounting in Ukraine with international requirements***

* – 1.7 – numbering of stages. It was offered by the author

Summarized phases, despite the fact that the process of harmonization of accounting in Ukraine is carried out quite actively, allow solving a number of organizational issues that were ignored when forming an overall strategy of approximation of national accounting and reporting systems to international standards. An important element of accounting organization, which can be used in the practice of Ukrainian enterprises and belongs to the achievements of foreign countries, is the application of complex approach (including that based on cluster basis). Its use enables the optimization of maintenance of information requests in the information necessary to make decisions to improve the efficiency of enterprises by interested in management and accounting personnel.

According to the laws of social development, no nation or nationality can maintain complete independence and originality (uniqueness) if they want to live in a community with other nations and nationalities, so the idea of harmonization of accounting understandability of financial statements for users from different countries, including foreign investors, at first glance is appropriate.

However, if you delve into the problems of implementing international standards in Ukraine, historical and ideological differences between nations and the availability of different sources of enterprise's financing of national and Western economies, you will see obvious fundamental flaws in the process of harmonization in Ukraine destroying the organization of historically composed accounting system.

The problems of harmonization of accounting we can create as managing algorithm in the result of conducted research that able to provide the most advanced quality system that meets national features (Figure 2.6.6).

The program module (0) in Fig. 6 performs the administrative functions of coordination and management of process execution by the components of optimal adaptation of accounting organization.

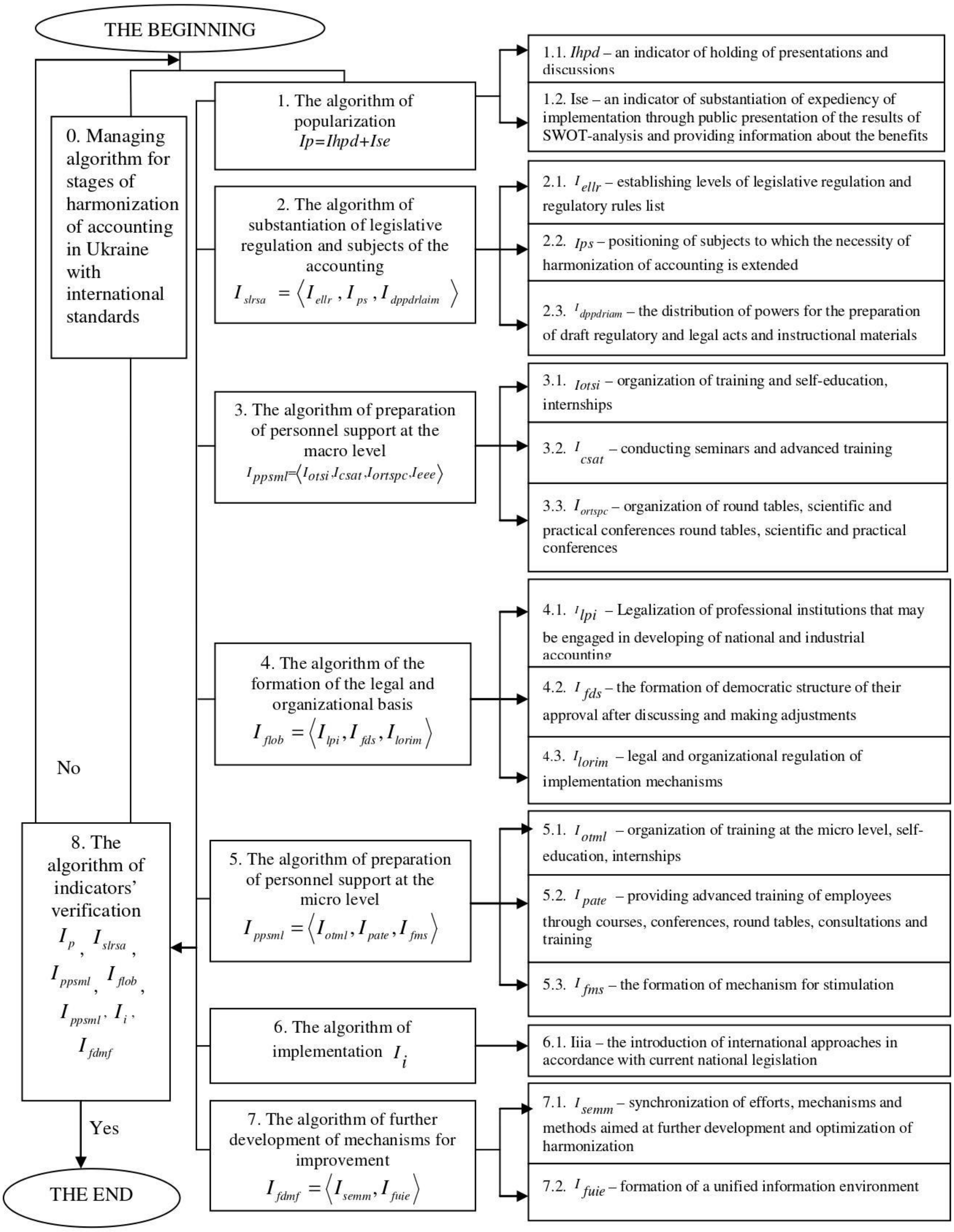

Figure 2.6.6. **Managing algorithm of harmonization of accounting in Ukraine with international requirements***

* – It was offered by the author

The algorithm of popularization (1) and the algorithm for substantiation of legislative regulation and subjects of the accounting (2), the algorithm for preparation of personnel support at the macro level (3), the algorithm of the formation of the legal and organizational basis (4), the algorithm of preparation of personnel support at the micro level (5), the algorithm of implementation (6), the algorithm of further development of mechanisms for improvement (7) are performed simultaneously in multi program mode. Modules (1.1–1.2), (2.1–2.3), (3.1–3.4), (4.1–4.3), (5.1–5.3), (6.1) and (7.1, 7.2) are performed in conveyor mode according to their temporal coordination.

The results of the author's research conclude that the reform of accounting in Ukraine is superficial, does not consider the interests of different groups of specific users of financial information.

Therein lays its weakness from the standpoint of practical implementation of the planned measures. It is important to recognize that IFRS is not a universal concept, and one of the options of accounting in the interests of financial institutions.

Also, it was detected the problem of spread trends for separation of conducting of bookkeeping calculation and making financial reporting, which are always based on the united factual information on business operations of the enterprise, based on accounting data that was confirmed by the documents.

In modern conditions enterprises conduct accounting according to the National standards and present statements according to the new requirements – by the international, according to the procedure of transformation of accounting data. It becomes the reason that assets existing in the accounting data, information which is not contained in the financial statements, and vice versa, assets appear in reporting that are not reflected in accounting, which is a significant problem of accounting organization, intended for optimizing accounting process.

Domestic accountants are not ready to contemporary changes. This primarily refers to the lack of necessary knowledge. Enterprises have to hire foreign specialists to create new statements that are accompanied by considerable expenses. However, it should be noted that the formation of financial statements in accordance with IFRS requires not only special knowledge and additional information but a special philosophical approach to financial reporting that is different from traditional for Ukraine.

Chapter 3

THE PROBLEMS OF INFORMATION AND PERSONNEL PROVISION OF ACCOUNTING AND ANALYTICAL SYSTEMS

3.1. ACCOUNTING AS AN INFORMATION BASE FOR THE ANALYSIS OF THE COMPANIE'S FINANCIAL CONDITION

A clear focus on observance of the principles and basic foundations of the information society, globalization and integration processes in the economy will need to change the management paradigm of Ukrainian entities. It affects primarily the style and methods of management and requires appropriate adaptation of the information base of decision making.

Objective description of financial and economic condition of modern entity of market economy is crucial for taking appropriate and reasonable management decisions. It is the basis for strategy formation and can have significant effect on development tendencies of the economic entity. In addition, this information serves as a key indicator for investors and creditors.

In this context it is fair to claim that the disclosure of information is vital for optimal decision making, the character is partially determined by the peculiarities of enterprise activity and volume is determined by the principles of relevance and credibility [116, p.15].

Practice also confirms that the structure of information support of financial and economic activity is rather complicated. It is determined by the level of leadership, designated purpose of the information and needs of the users, etc. To ensure the appropriate level of management information system, its quality and efficiency the accumulation of different aspects of the information should be carried out not only from domestic but also from external sources.

In this case, the accounting system of an enterprise should be developed and improved and necessary data from external sources of information should be looked for. Experts point out that the information received through the channels of accounting amounts to 80 percent of all economic information [76], which justifies the need to strengthen its information function and its targeted use.

Significant influence on the functional orientation of accounting in current conditions has the integration of Ukraine into the world economic relations, the implementation of principles which are generally accepted in the international practice and the need for the formation of economic information in accordance with international accounting standards.

The information, which is generated, is the product of accounting in conditions of European integration and the development of international economic cooperation and is considered to be the basis of business development and entrepreneurship. It is formed systematically according to the requirements of executives for management decision-making. This is the purpose of accounting that is designed not only to reflect the economic processes but to manage them.

It is worth mentioning that the current accounting system at enterprises that operate in market economy conditions must satisfy the information needs of a wide range of users.

According to the assessments of researchers and practitioners modern accounting system should ensure the following areas of user requests: information data about assets, liabilities and capital of the enterprise during a set period of time (statements about the financial state and financial performance); providing the information that is necessary for management decision making (financial and management accounting); «accounting of the future» is providing information for the development of management decisions concerning future economic and financial activities [73].

Thus, the functions of the accounting department under today's conditions are not only accounting as a system of fixation of facts of economic activity that is retrospective in its nature, but financial calculations that allow a perspective focus and probable nature of calculation results, that is having a strategic focus.

Effective development and functioning of economic entities in market conditions is possible on the basis of such accounting information. Swiss Professor J.F. Sherr in this regard noted that accounting is sinless judge of the past, necessary manager of the present and reliable consultant of the future of each company» [148].

Due to the active development of modern information technologies, new possibilities for filling the information system of company management have appeared. This particularly applies to expanding the boundaries of using analytical and control tools (methods of analysis and monitoring of data on the use of resources in order to save funds).

The focus of management orientation on the financial aspects of entity's activities actualizes the issues of improvement of information support. First of all we are talking about digital data which are needed for the analytical process and subsequent management decision-making, which accounting provide, including information in the summarized statements.

The basis for management decision making of financial and economic nature is factual information. It is submitted in the form of measurable indicators that are calculated according to data of financial statements. Such indicators reflect the financial state of the enterprise. In carrying out analysis of financial condition you can also use additional information. Particularly it includes operational data. However, such information is auxiliary and depends on the needs and objectives of the analysis. Considering the importance of the information provided in the financial statements, a number of authors quite rightly seek to provide a clear definition of the term.

Usually, all scholars understand the financial statements as the system of indicators that reflect the property and financial condition of the organization on a suitable date, and its financial results of its operations for the reporting period. According to the National Provisions (Standards) of Accounting 1 «Accounting is a reporting prepared on the basis of accounting data to meet the needs of specific users» [167].

The concept of «financial statement» is closely linked to accounting reporting. These concepts are identified in different publications. The reason of this stands fact that the financial statement is positioned as accounting reporting, including information about the financial position, results of operations and cash flows of the enterprise for the reporting period.

However, the National Provisions (Standards) of Accounting 1 contain a slightly different definition of this term. According to this term, financial (corporate) reporting objectively is part of the infrastructure of a market economy, a means of communication; this type of reporting is the main formalized source of information for evaluation and analysis of financial and economic condition of the subject of market economy. The system for evaluation of investment attractiveness of economic entity, its solvency, liquidity, financial stability is built on the basis of indicators of financial statement [167].

Adoption of this standard is dictated by the need for adjustment of general requirements to financial statement with requirements of international standards of financial statement, the development of international cooperation and European integration processes that occur. New requirements to financial statement are outlined in the National Provisions (Standards) of Accounting 1 «General Requirements to Financial Statement» (NP (S) of Accounting 1) approved by the Ministry of Finance of Ukraine from 07.02.2013 No.73, characterized by the use of approaches established by the International Standards of Accounting 1 (that was revised in 1997).

The National Provisions (Standards) of Accounting 1 has changed the series of customary for us P (S) of Accounting: No. 1, No. 2, No. 3, No. 4, No. 5. Also new is that the rules of preparing consolidated financial statements are reviewed there and its definition is submitted.

In particular, all scholars understand such statements as reporting that reflect the financial position, results of operations and cash flows of the enterprise and its subsidiaries as a single economic unit [167].

The purpose of such reporting, as well as financial, is to provide a common information needs for a wide range of users who rely on it as a primary source of complete, accurate and impartial information about the financial condition, results of operations and cash flows of the enterprise for making management decisions (Table 3.1.1).

Table 3.1.1

Information needs of major users of the financial and corporate financial statements

Users of reporting	Information needs
Investors *, owners	Purchase, sale and ownership of securities. Participation in the capital of the enterprise Assessment of quality management Determining the amount of dividends that are distributed
Leadership of the enterprise	Regulation of the enterprise activity
Banks, suppliers and other creditors	Securing the commitment of the enterprise Evaluation of the ability of the enterprise to fulfill promptly obligations on loans, interest on their debt and repayment
Customers	Evaluation of the ability of the enterprise to fulfill promptly obligations
Employees of the enterprise	Evaluation of the ability of the enterprise to fulfill promptly obligations to employees and their maintenance
Public Administration Bodies	Formation of macroeconomic indicators

Note: * – potential investors are not included into the group, which information needs include, first of all, evaluating of feasibility for investments, forecast period for their payback, prospects and strategy for the development of the enterprise.

It should be noted that government authorities in Ukraine now not only monitor, but there are also users of information, because using reported data by changing tax legislation. This is an indication that taking into account needs of the investor (owner) and other parties involved in the entrepreneurial activity, is no less important than the interests of the state in obtaining taxes.

It should be noted that government authorities in Ukraine now not only monitor, but there are also users of information, because using reported data by changing tax legislation. This is an indication that taking into account needs of the investor (owner) and other parties involved in the entrepreneurial activity, is no less important than the interests of the state in obtaining taxes.

A specific approach to the use of the principles of International Financial Reporting Standards is typical for Ukraine. Despite the fact that National provisions (standards) of accounting are almost identical to the international ones, only a public joint stock companies, banks, insurance companies and credit unions, and organizations that carry out activities related to the financial services and asset management are obliged to prepare reports according to the international requirements.

This is determined by the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» № 996-XIV of 16 July 1999. Under the law everybody may voluntarily join the order of reporting according to the requirements of international standards. In this case, the decision should be made by the management of the enterprise taking into account its interests and advantages. In other words the basic requirement is to establish the feasibility of using this approach. Other Ukrainian peculiarities include inflexibility of norms, availability of a number of other regulatory acts, difficulties in ensuring the transition to requirements of international standards and so on (Figure 3.1.1).

The differences that exist in Ukraine have a national impact on organization, accounting keeping and reporting. For example, according to Ukrainian legislation manufacturing entities are required to apply a single chart of accounts (except small businesses that can use a simplified chart of accounts).

Characteristic features	NP(S) of accounting in Ukraine	IFRS
Differences in the requirements for accounting	Rigid accounting norms (compliance with standards is obligatory)	Absence of rigid imperative accounting norms
Differences in the levels of legislative regulation	Presence of other obligatory legislative acts	Application of basic accounting principles that are defined by standards and their understanding
The level of detail rules	Narrowly detailed rules	Detailed and significantly broader recommendations

Figure 3.1.1. **Differences of National Provisions (Standards) of Accounting in Ukraine from IFRS**

The obligatory requirement is the standardization and harmonization of reporting, which manifests itself in the use of unified reporting forms. Instead, foreign companies that use IFRS have the right to set their own approaches to reporting forms or chart of accounts. In this case, their statements are more subordinated to the needs of management. These features caused the structure of financial statement in Ukraine (Figure 3.1.2).

Types of financial statement reflect different aspects of the same business transactions and events during the reporting period, the relevant information of the previous reporting period and the disclosure of accounting policies and its changes, making it possible retrospective and prospective analysis of the enterprise activity (Table 3.1.2).

Such types of financial statement as a balance, statement on financial performance, report on equity capital and statement of cash flows, consist of articles that are combined into the relevant sections. Forms, the list of articles of financial statement and their contents are set in the National Provisions (Standards) of Accounting 1 and «Methodological recommendations for completing the forms of financial statement» approved by the Order of the Ministry of Finance from 03.28.2013, No. 433 and also «Methodological recommendations for checking comparability of indicators of financial statement» approved by the Order of the Ministry of Finance from 04.11.2013, No. 476.

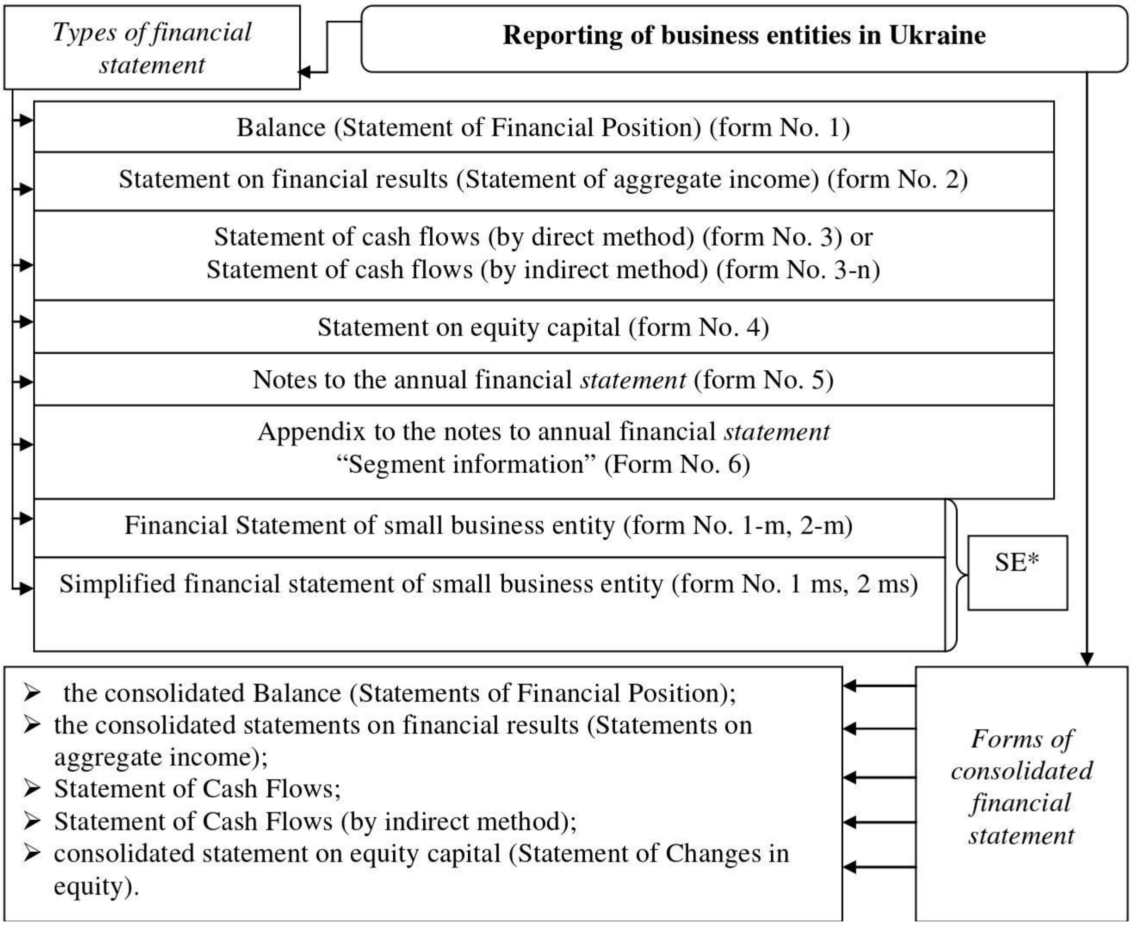

Figure 3.1.2. **The reporting forms in Ukraine***

Notes: * SE – subjects of small enterprise

It should be admitted that the approach applied by countries which use IFRS allows presenting financial information in a better format. Its advantage is the relevance and maximum focus on internal administrative inquiries. As for the Ukrainian financial statements, tax legislation has a significant impact on their indicators. In addition, it is maximally adapted to the demands of regulatory authorities.

From the standpoint of ensuring management activity we can distinguish basic requirements and principles that financial statements must satisfy (Figure 3.1.3).

Table 3.1.2

Appointment of the main forms of financial statement

Components of financial statements	Content	Use of information
The Balance Sheet (Statement of Financial Position)	Availability of economic resources, which controls the enterprise at the balance sheet date	Evaluation of the structure of enterprise resources, their liquidity and solvency of the enterprise. Forecasting future needs in performance; evaluation and prediction of changes in economic resources, which the enterprise will probably control
Statement on financial results (Statements on aggregate income)	Income, expenses and financial results of the enterprise during the reporting period	Assessment and forecast of profitability of enterprise activity, the structure of income and expenses
Statement on equity capital	Changes in the composition of the equity capital of the enterprise during the reporting period	Assessment and forecast of changes in equity capital
Statement of cash flows (by direct and indirect method)	Generation and use of cash during the reporting period	Assessment and forecast of cash flows from operating, investing and financing activity of the enterprise
Notes	Accounting policies have chosen. Information that is not presented directly in the financial statements, but is necessarily according to the P(S) of accounting. Additional analysis of reporting articles is necessary to ensure its clarity	Assessment and forecast of accounting policies; risks or uncertainties that affect the enterprise, its resources and liabilities; activities of divisions of the enterprise etc.

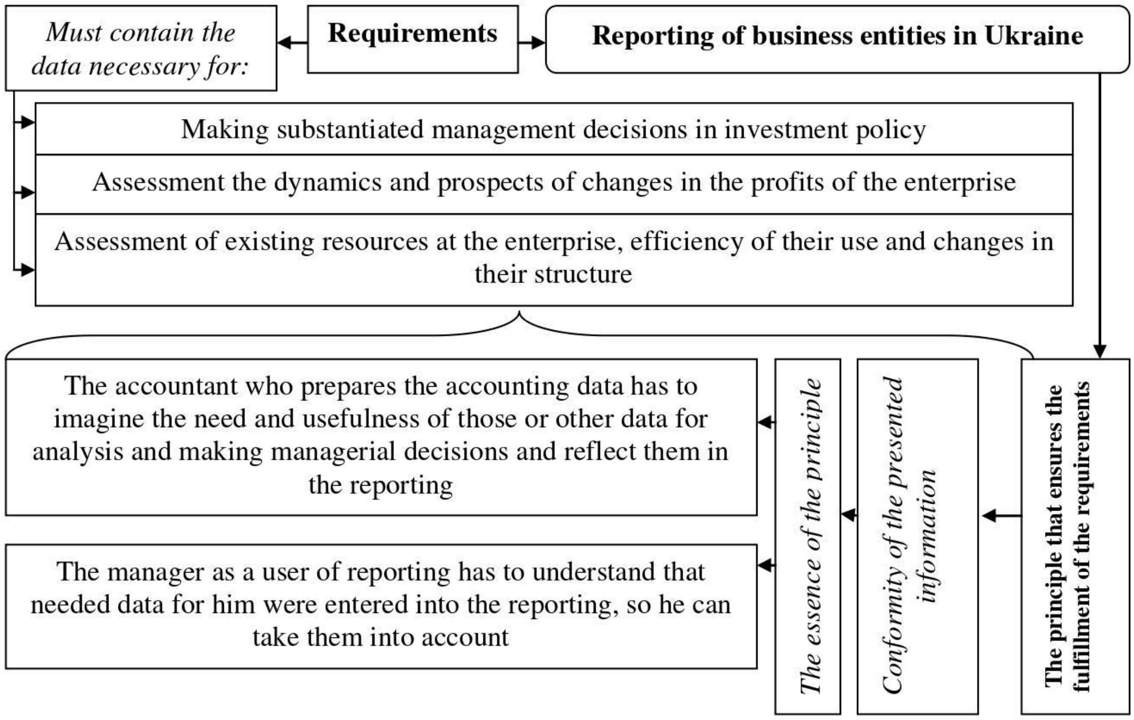

Figure 3.1.3. **Requirements to the reporting in Ukraine by internal users and the basic principle of its formation that enables to provide them**

However, analysis of recent research and publications, and also assessment of current practice testifies a number of problematic aspects regarding the completeness and quality of sources of information base for the establishment of objective level of financial and economic condition of the modern subject of market economy. Thus, H. Kucherenko concludes that «existing construction principles of balance do not correspond to the economic concept of controlled resources, and therefore do not provide useful information to external users on the financial condition of the economic entity» [111, p. 148].

The famous Russian scientist Ya. Sokolov notes concerning reality and transparency of the balance that «new methodologies deleted such concepts as «refunded costs» and «stable passives», the absence of which, of course, distorts the analysis of the financial condition of the firm» [150, p. 28].

The questions about the reliability of evaluation findings of financial and economic state of enterprises of the various economies on the basis of generalized (traditional) methods are widely debated in thematic literature. Ya. Sheveria stresses that «differences in compiling information sources (financial reports by the various standards) require changes and adaptations of methods and techniques to implement proper financial analysis» [149, p. 351].

Indicators of analysis of financial and economic state of enterprises is an important part of the overall information management systems in modern economy, primarily to ensure stable functioning of the enterprise directly in the management system and needs for use this assessment by business partners, investors, creditors and others. In practice, the evaluation of the financial and economic situation of the enterprise, regardless of the used techniques comes down to calculating the numerical values of financial ratios, indicators of structural changes, paces of their change.

On the basis of generalized (integrated) indicator of financial and economic state of an enterprise calculated in some way, investors make decisions on securities portfolio formation and creditors determine the availability of loans issued. According to the usual rules of market institutions «analytical information is being formed by market analysts and accepted directly by investors and financial intermediaries in making investment decisions» [70, p. 21]. Partly for this reason (the need for investment) at Ukrainian enterprises foreign experience of analysis of financial and economic conditions, which is designed for large corporations, is used.

To provide the basic foundations of a comprehensive analysis or the assessment of financial and economic state of an enterprise on the basis of available information various relative indicators (ratios) describing the main performance results and state of economic resources and capital of the enterprises are calculated. For this, for maximum objectivity completeness of information sources that are relevant to the characteristics of the indicator and the reliability of sources of information, including indicators of financial statements are important: «The most important condition for obtaining comprehensive and impartial information on business value, which is determined in the course of its assessment, is reliable and high-quality information base, the main source of which is financial statements» [62].

Financial (including corporate) reporting as public information at the same time is the source for external users. Balance, as a form of financial statements, provides information according to which understanding of the financial position of the enterprise through presents data on the assets, liabilities and equity at a certain date is formed. It is an information carrier of economic and legal rights of economic entities. On the economic side, the balance decrypts the content and structure of assets (the theory of economic unit); legal content (theory of owner) – displays a set of rights and obligations of the enterprise that represent the structure of liability balance and are represented by own capital and various types of debt.

Preferably the balance sheet as the main carrier of financial information for the purposes of evaluation and analysis of the financial and economic situation of the enterprise acts as a form of a clear system of interconnected and interdependent parameters. The question is whether all relevant information includes the balance generalizations (for example full amount of intangible economic potential of actually existing at the enterprise), the level of reserving and insurance fixed capital, compliance with the current level of prices, estimated balance sheet, the reality of expenses and revenues of future periods etc.

One of the most important characteristics of the financial and economic situation of the enterprise is productive energy of its potential (economic resources and capital) from a position of long-term prospects. In our opinion, domestic scholars quite reasonably say that financial analysis of reporting based on different proportions of assets and liabilities, can not according to these correlations give the level of investment attractiveness of the enterprise or characterize the expected return on investments.

External analysis of financial and economic state is based largely on an available (public, disclose) information base, i. e., public financial statements and the disclosure of particular information provided in the notes thereto. However, this information base is not enough to get a more objective description of the financial and economic situation of the modern enterprise and the basis for forecasting the prospects for its development. Internal analysts (or specialized organizations) are forced to attract additional sources of information: «Important aspects of international experience for analyzing financial statements are reviewed and investigated by companies that specialize in providing services of the financial and business consulting, asset management and making investment decisions» [125, p. 462–463].

Independence of domestic enterprises in determining the form and procedure of accounting organization that is provided by the Law of Ukraine «On Accounting and Financial Reporting in Ukraine» [27] is an important prerequisite for improving the information base of analysis for management needs. The mentioned law provides the ability to select accounting forms, order and registration method, synthesis and analysis of information, reporting and control of business operations depending on management purposes. The system of internal (management), which is allowed to use by Ukrainian enterprises according to the law, maximum satisfies the requirements of the domestic users.

Under conditions of internal economic (management) accounting the system of internal accounting, which forms are designed depending on the levels of management, the level of necessary detailed information, its significance and timeliness reflects the practice of information support of ensuring the management of the enterprise. Accordingly, the aim of compiling and submitting forms of internal accounting as a set of economic indicators on the results of management for a given time period is to meet the needs of administrative personnel in operational mode by providing relevant performance indicators both in natural and cost forms, allowing to evaluate, monitor, predict and plan business activity of an enterprise and its structural units [146].

Thematic content, procedure of drawing and submission of internal accounting records is special elements of accounting organization for management because such statements must include information intended for the management of the processes occurring in the enterprise. According to the professor F.F. Butynets, information system of management accounting must be reliable (in terms of information reliability), flexible (in terms of adaptation), open (in terms of integration), productive and efficient (in terms of expenses and outcome correlation) and timely [75; 77].

It has been established that the basic requirements for internal accounting records are accuracy, objectivity, timeliness, completeness, clarity, brevity and accessibility, as their observance improves efficiency of the accepted administrative decisions. State of accounting largely determines the quality of the analysis of financial and economic activity of the enterprise. It is necessary to distinguish two aspects of the problem. Firstly, it is the state of methodological basis of accounting (macroeconomic aspects). In this regard, the financial statements increasingly approach the international standards. Secondly, it is the accounting on a particular company (microeconomic level). Although nowadays all preconditions for possible formation of rather effective system of financial accounting are created (there are methodological guide, computer programs, computer aids), there is a paradoxical situation.

It should be noted that organization of accounting, financial reporting and financial analysis provides generalized ideas about effectiveness of management.

If the company does not apply modern and adequate to its scale system of accounting organization, no matter how competitive products or technology are, it is impossible to assume management level satisfactory. It should be noted that potential investors typically pay close attention to how the activity of financial and accounting service of the enterprise is organized. The formation of reporting focused on the needs of external customers is assessed on how useful it can be in identifying areas to improve production efficiency, better use of productive resources in the development and management decisions-making. Thus investors assess the level of technology, especially computer equipment of financial and accounting departments, the degree of using special software products by them.

As for the subject of analysis, the most common concept states that analyst is a person who is engaged in analytical work and makes analytical notes (reports, conclusions, comments) for management, i. e. line managers of the rank who are entitled to make decision. Probably, this approach was earlier justifiable because line managers because of lack of time and technical means carried out very few analytical calculations. As a result, complete failure of many line managers to understand the structure of basic reporting forms, the relationship between them, and the principles of formation and economic content of a number recorded indicators, the possibility of their use in financial analysis.

It's no secret that the process of making management decisions to a greater extent is an art than a science. The results of the executed formalized analytical procedures are not or at least should not be the sole and absolute criterion for the adoption of this or that management decision. These results in some sense are «material basis» of administrative decisions whose adoption is also based on intelligence, logic, experience, personal likes and dislikes of the person who takes these decisions. Moreover, in some cases, non-material components can have major importance.

Therefore, an essential component of improving the information base of the analysis is to provide functional information system through the recognition of the integrity of the content, methodology, subject and method of its components: planning, accounting, analysis and control. Their unification into a single information process is confirmed by the known thesis: accounting is, above all, the analysis; the procedures of this analysis are formed on the planned indicators and end by the control of compliance with their values. It imposes the criterion of usefulness on the whole complex of information that is the product of accounting and reporting systems and involves introduction into the process of their organization approach based on the making substantiated management decisions.

3.2. METHODOLOGY OF ANALYSIS OF MICRO- AND MACRO-COMPETITIVENESS

Modern transitive economy with its dynamic environment makes domestic enterprises constantly adapt to it in order to develop and implement mechanisms for effective competition and achievement of stable competitive advantages. Today Ukrainian firms are forced to withstand tough competition not only on foreign but also on the domestic markets, and the formation of competitiveness is regarded as one of the priorities of social and economic policy of the state. The relevance of the analysis of competitiveness at the micro and macro levels is growing in terms of entry of Ukraine in WTO, integration into the European economic space, finding ways to enter to foreign markets by national enterprises. Modern trends in the development of economic relations determine the need for the research of methods for analyzing micro- and macro-competitiveness under conditions of the integration processes of the domestic economy.

Analysis of recent research and publications shows that analysis of competitiveness issues are constantly in the focus academic economists. The classical works on the basics of strategic analysis, theory of interaction between the enterprise and the environment, concepts of strategic orientation of the company are works by I. Ansoff [64], R. Ackoff [58] K. Andrews [61] and A. D. Chandler [80]. Works of such scholars as T. V. Holovko [95], I. M. Parasiy-Verhunenko [141], K. I. Redchenko [145] and others are devoted to solving theoretical and methodological problems of competitiveness analysis. However, Ukraine still has no generally accepted methodology for analyzing the competitiveness of enterprises or industry guidelines on the assessment of competitiveness of organizations of various economic activities. Foreign experience in this issue is highlighted weakly in the economic literature. Each company assesses its competitive advantages according to its own methodology, content and effectiveness of which is not disclosed. Analysis of competitiveness of enterprises is a complex and multi-factorial task, which comes down to the interpretation and evaluation of a set of indicators that characterize different aspects of the company’s activities.

Methodical and applied complexity of analysis of enterprise competitiveness is associated with: substantiation of choice of the system of criteria, indicators and methods for analysis of enterprise competitiveness (development of cumbersome and difficult interpreted methods of calculating of enterprise competitiveness limits the real possibilities of the analysis); the choice of base object for comparison (search of information to determine enterprise-leader in the industry); the problematic use of complete and reliable information for the analysis of enterprise competitiveness (lack of experience of the analytical studies on the internal and external markets, lack of information about the activity of competitors can lead to incorrect of conclusions and making unreasonable management decisions). Despite the widespread use of the concept in the specialized literature its interpretation is very ambiguous. The lack of clear terminological apparatus and methodological differences lead to a blurring of the category's essence. As a result the entire set of definitions of competitiveness varies from narrow definitions such as: according to purely technical, functional and aesthetic peculiarities of the product; to enhanced macroeconomic interpretations: as a measure of social and economic stability of the country (Figure 3.2.1).

The study of competitiveness starts at the macro-level. The problem of increasing national competitiveness is particularly relevant and critical today. Relevance of macro-competitiveness research grows in terms of strengthening integration processes and changing geopolitical role of any state.

Recently, there is more and more information about the ranking of countries in the world based on indices that assess the competitiveness of national economies in the world economic system, business climate, economic freedom, quality and efficiency of public administration, the degree of globalization of the economy, the development of human potential, the potential of external loans, the level of corruption in society and so on. Ratings and indexes are a kind of prism through which the world community assesses competitiveness (Table 3.2.1).

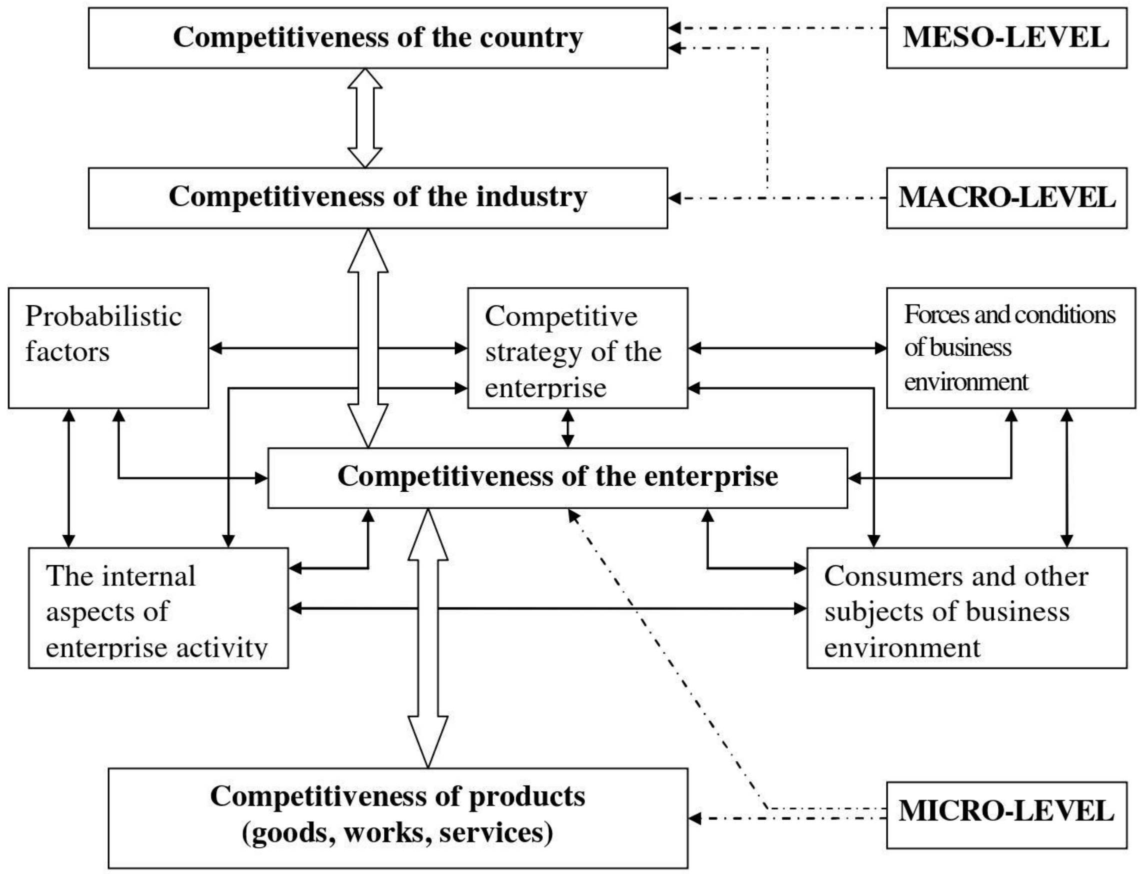

Figure 3.2.1. **Levels and dimensions of competitiveness**

Global indices and ratings reflect the following competitiveness of Ukraine in the system of competitiveness at meso-level:

1. The Global Competitiveness Index (The Global Competitiveness Index) is the research of macro-competitiveness that is conducted by the World Economic Forum, and included into rating countries in the world in terms of economic competitiveness.

The Global Competitiveness Index consists in more than 100 variables that constitute 3 basic sub-indexes: «Basic requirements», «Amplifiers of productivity» and «Innovations and factors of improvement». In accordance with the Global Competitiveness Index (version WEF) Ukraine occupied the 73rd position in 2007 that is lower on four stairs compared to 2006.

Table 3.2.1

Competitiveness of Ukraine in the reflection of ratings of international organizations, 2006–2015

Global indexes and ratings	Years			
	2006	2007	2014	2015
The global competitiveness index by WEF version	69/125	73/131	76/144	79/140
Rating of competitiveness (International Institute for management development. Lausanne, Switzerland)	46/55	46/55	49/60	60/61
The index of economic freedom (The Heritage Foundation & The Wall Street Journal)	54.5	51.5	49.3	46.9
The Corruption Perceptions Index (Transparency International. Berlin. Germany)	99/163	118/179	142/175	130/168
The Project «Doing Business» (Doing Business. The World Bank group)	128/175	139/178	112/189	96/189

At the same time Ukraine ceded to such countries like Lithuania (38th), Latvia (45th), Hungary (47th), Poland (51th), Croatia (57th), Russian Federation (58th), Kazakhstan (61th), Uzbekistan (62th) and Azerbaijan (66th), Vietnam (68th) and Brazil (72th); Switzerland and Singapore heads the rating in 2014–2015 and the USA, Germany, Netherlands, Japan, Hong Kong, Finland, Sweden and the United Kingdom entered the top ten of the most competitive countries.

In accordance with the Global Competitiveness Index Ukraine occupied 76th place from 144 countries in 2014, but in 2015 – 79th place from 140 countries. According to the research, domestic economic competitiveness has suffered the biggest losses by indicators that characterize the development of infrastructure, macroeconomic environment and financial market development of the country. The country «heads» lists from the end according to some positions, in particular: by strength of banks – 140th place from 140 countries of the world; by regulation of stock exchanges – 135th, by inflation changes – 134th.

2. Rating of competitiveness of the countries that that consists of the International Institute for Management Development (IMD) and calculated on the basis of 323 criteria. Among them:

- 79th criteria that characterize the level of economic development (macroeconomic environment, trade policy, investment policy, employment policy and pricing policy);
- 72th criteria that characterize the effectiveness of state policy (impact of government decisions on the financial sector, fiscal policy, institutional development, legislation that regulates entrepreneurial activity);
- 71st criterion that characterizes the business efficiency, labor market and management;
- 101st criterion that characterizes the level of infrastructure, technological development, science and education, health and the environment protection;

Analysts understand competitiveness of the country IMD as the ability of the national economy to create and maintain an environment, where competitive business arises.

In 2007, Ukraine took the 46th position among 55 countries by rating of the International Institute for Management Development. At the same time Ukraine ceded Chile (26th place), India (27th), Lithuania (31st), Bulgaria (41st), Russia (43rd) Romania (44th), the Philippines (45th).

In 2014, Ukraine occupied 49th position among 60 countries of the world and in 2015 the 60th position among 61 countries. The most weak and unattractive components of Ukrainian economy are the business climate, infrastructure and competence of the regulatory structures in the government. Experts believe that highly qualified personnel are the attractive parties of the domestic economy.

3. Since 1995, The Heritage Foundation and the journal «The Wall Street Journal» make up the index of economic freedom, which shows how the economy this or that state corresponds to liberal principles. The authors of the rating argue: the degree of economic freedom in a certain measure matches the level of nation welfare. The index evaluates countries by 10 categories of economic freedom, including the followings (Figure 3.2.2):

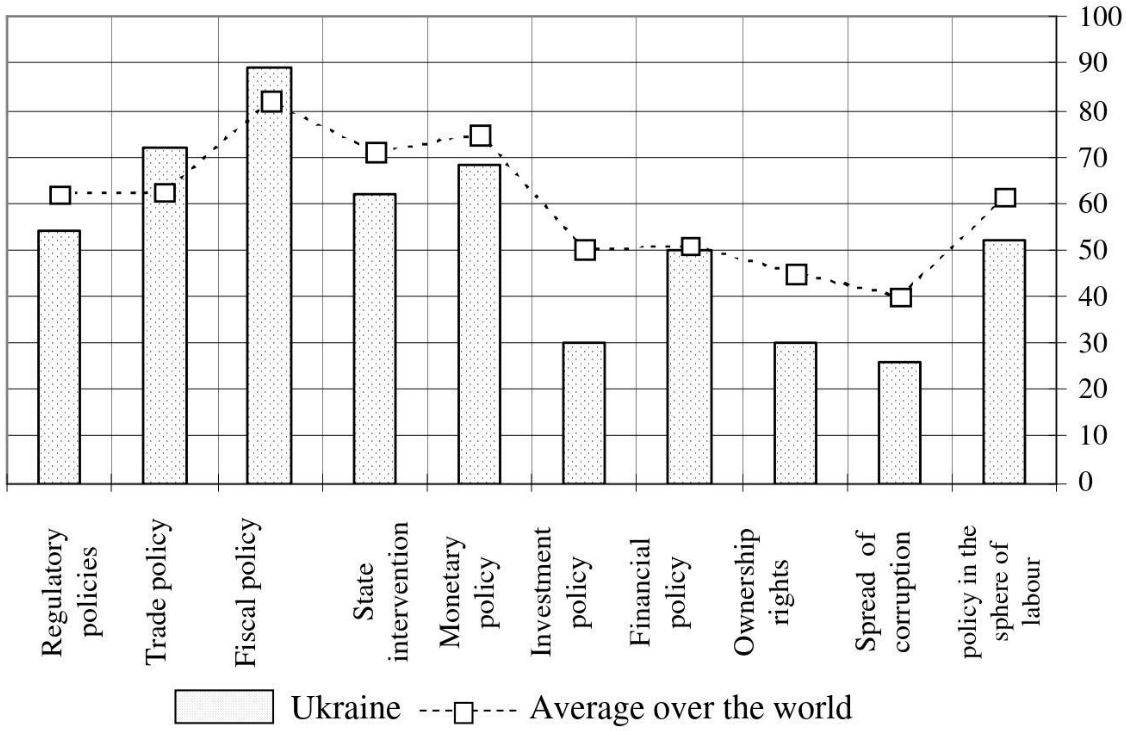

Figure 3.2.2. **The ranking of economic freedom of Ukraine**

- regulatory policies (degree of freedom is estimated on the procedures associated with opening, closing and operation of enterprises according to national legislation);
- trade policy (degree freedom associated with obtaining licenses and permits for export and import operations, rates and rigidity of regulatory sanitary standards);
- fiscal policy (the degree of tax burden);
- state intervention (the degree of burden on the budget of government expenditures, the share of the public sector and government intervention into the policy of private enterprise);
- monetary policy (measures aimed at support of price stability);
- investment policy (the degree of freedom for investment in such sectors as media, energy, military and industrial complex, production of alcohol, etc.);

- financial policy (the degree of the development of the financial system and regulation bodies);
- ownership rights (the degree of protection of property rights);
- spread of corruption (the degree of corruption spread on the basis of reports of Transparency International «Corruption Perceptions Index»);
- policy in the sphere of labour (the degree of freedom in hiring and dismissal of employees of companies, and also the relationship of labour productivity with wages).

Index of Economic Freedom is measured in percentages in the range from 0 to 100, where the lowest degree of economic freedom corresponds to the minimum value. Countries were grouped in five categories:

- «free» with the index from 80 to 100;
- «mainly free» – from 70 to 79.9;
- «relatively free» – from 60 to 69.9;
- «mainly countries that are not free» – from 50 to 59.9;
- «with repressed economies» with the index from 0 to 49.9.

161 countries of the world were included to the list in 2007. Average global index was 60.6, the average European – 67.5. In 2007, Ukraine took the 125th position in the index at 53.3 and has been classified as the category of countries characterized as «mainly countries that are not free».

In 2014, Index of Economic Freedom for the economy of Ukraine was 49.3 points, and the economy is recognized as «repressed». In 2015, the index fell to 46.9 points, which corresponds to the 162nd position of the world ranking (out of 178 world countries). Analysts say that Ukraine worsened its position in eight out of 10 indicators; the worst situation is with guarantees of property rights, investments, public expenditure management. Ukraine is on the last place out of 43 European countries, and a total score is lower than the average in the world.

4. To assess the scale of corruption in countries around the world non-governmental organization Transparency International (Berlin,

Germany) makes the index of perception of corruption. A report containing analytical conclusions on this phenomenon including world countries' rankings according to the degree of corruption is prepared annually according to the study. Nowadays Transparency International encourages government, parliament and the president of Ukraine to make five steps for real anti-corruption changes in Ukraine:

1. Immediately ensure functioning of independent anti-corruption bodies. Establish the National Agency on Corruption Prevention and initiate the work of the system of electronic declaration. Provide adequate funding of this body in the budget. Ensure transparent functioning of the National Anti-Corruption Bureau and specialized anti-corruption prosecutor's office;
2. Implement the law on transparent funding of political parties;
3. Make a real judicial reform. Complete the investigation of crimes of V. Yanukovych's regime. Stop the shameful judicial practice of releasing bribers-officials from the prison;
4. Ensure the principle of inevitable punishment for officials who committed corruption crimes including false information in the declaration.
5. Implement the law on public procurement. Reduce corruption risks during public procurement.

Three leaders in the anti-corruption ranking of CPI in 2015 are Denmark, Finland and Sweden with 91, 90 and 89 points respectively. The most corrupt countries are Somalia and North Korea with 8 points. In the global ranking Ukraine occupied 130th place out of 168 positions in 2015 and in 2014 it was 142nd out of 175 countries.

5. Doing Business rating is investigated by International Finance Corporation, a member of the World Bank. The rating evaluates the conditions for setting up, maintaining and closing a business in most countries around the world and is based on a survey of more than 9.600 authoritative experts from countries which are assessed. Index of the ranking consists of 10 sub-indexes that reflect the regulatory, fiscal and market restrictions that complicate or facilitate doing business in the country. These sub-indexes are generally divided into two types

concerning the reliability of legal institutions and difficulty and unprofitability of regulatory procedures. The first type includes the sub-indexes: «Obtaining a credit», «Protecting the rights of investors», «Fulfillment of obligations under the contract» and «Bankruptcy» and the second includes: «Starting a business», «Connecting to electricity supply», «Registering Property» and «Foreign trade».

In 2007, Ukraine occupied the 139th position among 178 countries, and in 2006 it occupied the 128th position among 175 countries. In 2014, our country occupied 112th place, in 2015 it occupied 96th place out of 189 countries around the world.

Analysis of global indices and ratings showed that indicators of competitiveness of Ukraine are often lower than the world average and the European average, and our state occupies almost the last position in these rankings. Thus solving the problem of national competitiveness, main attention should be paid to increasing the competitiveness of the enterprise as the primary link of state economy.

Analysis of international experience in assessing the competitiveness of the enterprise has showed that there is no single interpretation of the competitiveness criteria. This indicates disadvantages in the development of the theory, particularly in identifying the essence of the concept. Competitiveness criteria should objectively and adequately reflect the essence of the phenomenon. From a scientific point of view criterion is a property and quality of competitiveness, a sign that reflects its most significant essence and is the basic principle of valuation. In the conditions of Ukraine's integration into the European Union and in the environment of implementing European legislation, scientific positions which consider the criteria of competitiveness along with methods of analysis are dominant.

Experts of consulting companies GE/McKinsey, Shell/DPM, Hofer/Schendel, ADL /LC offer to carry out strategic analysis of enterprise competitiveness with the help of matrix method by the following criteria (Table 3.2.2).

Table 3.2.2

Characteristics of the criteria that are used in matrixes for assessment of enterprise competitiveness

Matrixes			
GE/McKinsey	Shell/DPM	Hofer / Schendel	ADL/LC
1	2	3	4
Relative share of the market	Relative share of the market	Relative share of the market	
Increase of market share		Growth of market share	
Coverage of distribution network	Coverage of distribution network	Coverage of distribution network	
Effectiveness of distribution network	Effectiveness of distribution network	Effectiveness of distribution network	
Qualification of personnel			
Faithfulness of consumers of company's products			
Technological advantages	Technological skills		
Patents, know-how			Patents
Marketing advantages		Effectiveness of promotional activities	
Flexibility			
	Width and depth of product line	Variety of products range	
	Equipment and location	Production capacity and location	
	Production efficiency	Production efficiency	Production efficiency

Continuation of Table 3.2.2

1	2	3	4
	The curve of experience	The curve of experience	
	Inventories		
	The quality of the products		
	Scientific and Research potential	Scientific researches and developments	
	Economy of production scale	Raw materials for production	
		The amount of product	
		Advantages of the basic calculation	
		Competitive of prices	
		Vertical integration	Vertical integration
		Image (reputation)	
	After sales service		Guarantee service
			General competitiveness
			Attitude of management to risk

* – [97, p. 301–302]/

The following criteria are the basis of matrix methods of analysis of enterprise competitiveness, which can include the range of models of strategic analysis (Fig. 3).

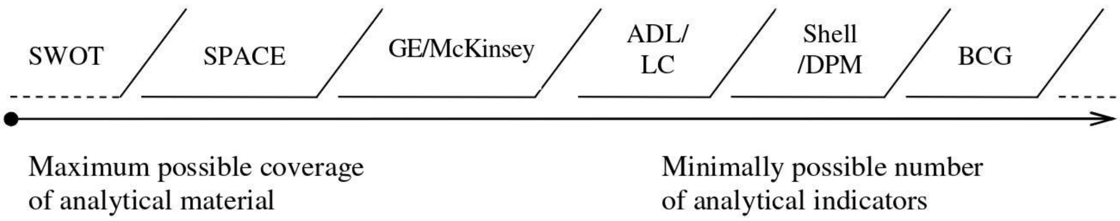

Figure 3.2.3. **Spectrum of models for strategic analysis** [134, p. 118]

It should be noted that used analytical indicators in different models are quite homogeneous. Always two criteria structuring matrix and doing essentially unidirectional analysis whatever specific cases which were not considered with the help of matrix models. In all cases we are talking about:

- competitive position, which enables to evaluate competitiveness, profitability of the activity or competitive risk of the enterprise in certain segments; – value of some direction of activity for the enterprise due to its attractiveness, the industry risk, financial needs.

In general matrix models contribute to the development of analytical and strategic thinking of managers, help highlight important issues and make decisions in conditions of a shortage of information and so on. However, their use involves a number of limitations: simulation results are determined by a subjective statement of the analyst creating the opportunities for manipulation and increasing dependence on the skills of the performers. This methodical apparatus is characterized by simplicity and clarity, but over-simplification can lead to the loss of essential information.

The practical use of matrix methods of analysis of competitiveness of the enterprise in their unchanged form is impossible because they were developed by Western specialists and these methods are not adapted to the conditions of the national economy and the data derived with their help may not be representative and may not be interpreted analytically.

Analytical methods for evaluating competitiveness of the enterprise based on calculating the integral indicator cause considerable interest among domestic and foreign scholars today (Table 3.2.3).

As the criteria of competitiveness authors use the potential of the company, efficiency of financial and economic activity, market share and competitiveness of goods. The presence of a single criterion, which reflects a comprehensive assessment of phenomenon, does not deny other indicators that quantitatively reflect various aspects of economic processes, and even suggests their presence.

This relationship of criteria and indicators is natural, which often leads to the identification of these concepts. Indicator is quantitative changes in certain economic phenomena, it describes the results. The criterion as the dimension of competitiveness is specified by indicators that should most accurately represent its level and dynamics.

Having considered integral indicators of analysis of competitiveness of the enterprise, we conclude that the essential problem is the use of weighting coefficients in the models, where the function is expressed by the sum of factors. Meanwhile sum of factors that is not weighted ignores their importance, but they differ in the strength of their influence on the result. Alternatively, the authors suggest using weighting coefficients determined by methods which are based on expert assessments, recommend different ways of implementation of expert assessments and often simply indicate that «weighting coefficients are determined by an expert». The probability of estimates depends on the skills of experts and is in many ways a subjective process. This approach, in our view, is inconsistent. First, it is unclear what is expressed by the number obtained by summarizing individual factors. If it has real analytic interpretation or these are abstract numbers that do not have adequate prototype in economy.

Research of methods of analysis of competitiveness at macro- and micro-levels based on the provisions of the economic theory, standards of domestic and European legislation on protection of economic competition and the practice of market analysis gives the right to the following conclusions:

Table 3.2.3

Integral indicators of evaluation of competitiveness of the enterprise

№	Indicator, author	Equation	Disadvantages
1	Integral indicator of the competitiveness potential of the enterprise, A. E. Voronkova	II = 0,14PP + 0,15IP + 0,16FP + 0,13MP + 0,13MM +0,11 MTP + 0,10CP + 0,08LP, where II – integral indicator; PP – production potential; IP – innovation potential; FP – financial potential; MP – marketing potential; MM – managerial potential; MTP – motivational potential; CP – communication potential; LP – labor potential.	The use of expert assessments and formalized calculation of partial indicators
2	Integral indicator of the competitiveness, V. F. Oberemchuk	$CE = \sqrt[8]{0{,}22I1 \times 0{,}14I2 \times 0{,}10I3 \times 0{,}19I4 \times 0{,}14I5 \times \times 0{,}07I6 \times 0{,}04I7 \times 0{,}1I8}$, where *CE* – competitiveness of the enterprise; *I*1 – competitiveness of goods; *I*2 – financial state of the enterprise; *I*3 – the effectiveness of sales and promotion of goods; *I*4 – the effectiveness of production; *I*5 – competitive potential; *I*6 – ecological compatibility of production; *I*7 – social effectiveness; *I*8 – the image of the company.	The proposed groups of indicators duplicate one another to some extent.
3	Integral indicator of competitiveness of motor transport enterprise, H. S. Bondarenko	$COM_{MTEj} = R_j \times CT_{TEj} \times D_j$, where COM_{MTEj} – competitiveness of *j* motor transport enterprise; R_j – rating evaluation of financial condition of *j*-motor transport enterprise; CT_{TEi} – competitiveness of transport services of *j* enterprise; D_j – market share of *j*-enterprise.	The problems with the analysis of service competitivness
4	Integral indicator of competitiveness, N. A. Drobitko	$C_i = C_{Gi} \times a + M_{ACi} \times b + C_B \times c$, where *C* – competitiveness of enterprise; Cg_i – competitiveness of goods of the enterprise; M_{ACi} – market activity of the enterprise; C_B – enterprise's own capacity; *a, b, c* – weighting coefficients.	Insufficient substantiation of determining the importance of indicators.

1. The most respected indicators of macro-competitiveness are rankings and indices of international organizations, which are a kind of prism through which the world community assesses competitiveness;

2. Analysis of global indices and rankings showed that indicators of competitiveness of Ukraine are often lower than the world average and the European average, and country occupies almost the last position in rankings. In such circumstances, solving the problem of improvement in national competitiveness of Ukraine lies in the plane of increasing competitiveness of enterprises as the primary link of state economy;

3. In conditions of implementing European legislation the main objectives of the analysis of competitiveness of the enterprise is to determine the state of competitiveness of the enterprise at the time of diagnosis, to identify trends and patterns in the increase (decrease) of competitiveness of the enterprise over the investigated period, to determine factors that have negative impact on the competitiveness of enterprise, to search for reserves for increasing competitiveness. The purpose of determining the level of competitiveness is to obtain reliable information for decision-making, on the one hand, by the management of the company about the adjustment of the concept of competitiveness and changing strategies in this area of activity, and on the other hand by the external users about the implementation of specific plans for the enterprise (acquisition, investment, contracting, etc.)

4. The solution of issue about improving the competitiveness of enterprises is the responsibility of senior management and methodologically should be based on the concepts and tools of strategic analysis. The influence of factors of internal and external environment are taken into account in strategic analysis procedures and the company is considered as a single system, this provides the development of analytically sound strategy of object's development and the competitiveness at all levels. The lack of an integrated approach to the assessment, analysis and management of competitiveness requires a detailed study of its criteria and evaluation methods. The solution of this issue is the responsibility of senior management and methodologically should be based on the concepts and tools of strategic analysis. The influence of factors of internal and external environment

are taken into account in strategic analysis procedures and the company is considered as a single system, this provides the development of analytically sound strategy of object's development and the competitiveness at all levels. The lack of an integrated approach to the assessment, analysis and management of competitiveness requires a detailed study of its criteria and evaluation methods.

3.3. PROBLEMS FOR ENSURING CONFORMITY OF PROFESSIONAL COMPETENCE FOR WORKERS OF ACCOUNTING SERVICES TO THE REQUIREMENTS OF TODAY

The dynamics of modern economic development is characterized by a number of characteristic features, including increasing complexity as the facility of management and liaison of internal and external systems, the need for reflection and implementation organizations and agencies for reorient of economic mechanism for urgent challenges in accounting policy, taking into account the sharp increase of the role and the importance of global factors. Post-industrial stage of internationalization of social and economic development in planetary scale activated new causal relationships and regularities that carry increasing impact on the individual national economic, especially accounting and information systems.

However, the implementation of internationalization processes, globalization and European integration objective requires providing certain degree of preparedness to this process, especially the system of management and economic security. In our view, the degree of defined readiness is indicated by the following main points as: conformity of the management system with the help of specified process to international standards and introducing the system of training, retraining, economic conformity of management apparatus to international rules and norms of doing business.

Beginning of the modern era – the era of knowledge economy, qualitatively different from the industrial age in which knowledge, information, human capital become the most important factors of production, – would give a chance to the Ukrainian economy as such that has quite a strong human potential. It is difficult to overestimate the role and importance of intellectualization of production in these conditions. Specific weight of human capital in such developed countries as Finland, Switzerland, Germany, Japan, USA and others amounts up to 80% of their national wealth [63, p. 211-215].

Human capital is the main productive factor in the creation of new technologies, development of production and increasing the efficiency of social sphere. Formally resources of Ukraine in this respect are quite significant. Number of higher education institutions and students getting higher education in Ukraine, is simply impressive.

According to the indicators we have left far behind the other European and not only European countries. According to statistics our affairs with economic education are even better. According to the number of certified specialists as well as students studying on economic specialties, Ukraine confidently holds first place of the world ranking. However, we can claim that we were late, perhaps not so hopeless, but significantly. The assertion on the Ukrainian nation as advanced and highly educated nation with progressively minded intellectuals, no matter how to do interpretation it into the heads of ordinary Ukrainians, domestic media go to the past.

Modern Europe increasingly changes assessment of this stereotype to the downside and unfortunately there are all grounds for this. Thus, according to the promulgated data by the UN Commission on the index of human development in 2011, Ukraine has found itself far behind the other European countries. In 2011 it amounted 0.729 for our country – much less than in neighboring Poland (0.813), Hungary (0.816), Belarus (0.756) and Russian Federation (0.755).

The situation is so terrible that allegations on degradation of the Ukrainian nation are considered as a fait accompli in a number of economic studies[7]. To our deep conviction this process can be stopped only by economic methods on the basis of economic development by providing increased wealth and standard of living. Other measures of

[7] Human Development Report (2011). Sustainable Development and Equity: Better Future for all, Translated from English, PROON, Publishing house «The whole world», Moscow, Russia, 458 p.

administrative, cultural and educational, ideological and psychological impact will not help here.

Without conditions of decent earnings, normal conditions of work and recreation, economic welfare of young people will continue massive departure for earnings abroad, villages and cities will be devastated, crime, alcoholism, drug addiction will massively extend in society, morbidity of population will increase against the background of unsanitary conditions and deterioration of environmental security. The list of the social consequences from economic stagnation you could continue for a long time.

A vicious circle arises. Innovative economic development taking into account the requirements and trends of internationalization and globalization can not be provided in conditions of today's realities in Ukraine on institutional reasons. In addition, the possibilities of Ukraine with maximum efficiency to use the existing human capital, as required in conditions of the growth of the role and importance in a globalized economic environment the intellectual component, are rather problematic. The decline of the economy leads to further degradation of society and conversely.

Business, bearing in mind its lower level, economic structures, has long been ready to implement the needs of global innovation development, it needs them and without them it will not withstand competition on the international arena. And none of the orders, instructions, concepts, programs of the government is unable to move the case from the point because priori authority is not interested in this. They remain empty and declared signposts, a tribute to the fashionable general economic trends that are not backed up by either resources or organizational structures or means of implementation. The root causes of conservatism in Ukrainian economy, its resistance to innovation development lie exactly in this.

In these circumstances, the most progressive part of intellectuals in Ukraine is in a position of active search for a better life. It is not necessary to hope for help from the outside: foreign investments regarding described above reasons «do not go» or «do not go there» (in any case providing innovative orientation of investments in economic growth of Ukraine is not included into the strategic plans of the foreign business partners), and enough that you have to pay credit, it is difficult to ensure their target orientation and transparency. Going out from this situation is seen again in the most efficient use of opportunities that in a globalized economic environment providing objective processes of knowledge internationalization, information and democratization of society.

It is necessary that economic laws began to work in order to ensure normal (in the traditional sense) functioning of the economy of Ukraine. It is very problematic to achieve it in conditions of extremely corrupt economy. It is important to find a «the most important link» of circuit, the decisive lever that would start to spin the flywheel of the economy. Informatization of society is intended to become such lever. Corrupt government afraid publicity most of all. When it will be able to ensure the transparency of economic processes for the general public and the conditions for this are: informatization and computerization of public life, the development of global electronic information networks (like the Internet), the introduction of electronic government. Thus, it will be more difficult for government to «withdraw» funds and resources from the economic turnover of the country, distribute and use them not as intended.

Taking the above separately it is necessary emphasize the importance of democracy. Yu. Pahomov describing the situation of this issue in Ukraine indicates: processes is developed that under the guise of democracy do not serve citizens' rights, but avarice and absolute power of the oligarchs who took authorities.

This is quasi-democracy. Therefore, the main task is purification of the country from evil and recovery of democracy, including through liquidating lawlessness of the common people. However, we with our democracy reached to feudalism. It is meant domination of feudal large estates and lawlessness new landlords in the country [138, p. 3–6]. The democratization of society is the objective and inevitable process, which you need to use the most primarily for economic recovery.

Undoubtedly, all said fully and primarily relates to the vast army of workers of accounting and audit system, which in Ukraine there are about 600 thousands of people. The circumstances of doing business in Ukraine imposes a significant imprint on professional qualification characteristics of the accounting profession, because risks regarding the adoption of positive management decisions of innovative direction in the globalized economy at the level of economic entities increase sharply.

Let's stop, especially on such essential characteristic of international development as an innovative orientation of the economy. We recall that exactly the accountant has the primary responsibility for the personal use of funds at the enterprise until the criminal responsibility.

The unpredictability of obtaining positive financial results of investment activity, the presence of significant objective and subjective barriers for its conducting, the existence of a wide range of factors in the market of innovative services, variability of public policy at all levels of hierarchical control systems in terms of conducting military operations require qualified economic substantiation of certain activities related to investment, particularly innovative character for economic services and departments of the enterprise. In these circumstances, the temptation is too attractive «to leave everything as it was», without incurring the risk investment spending – albeit will not special financial gains, but then there is no any risks.

Thus, the adoption of positive management decisions to enhance investment and innovation activity in the globalized economy requires for an accountant, firstly, a certain courage and patriotism, and secondly, high qualification, ability to substantiate reasonably and at the high scientific and professional level the strategic vector of innovative development of enterprise.

According to the qualifying characteristics of workers of accounting professions approved by the Ministry of Labour and Social Policy of Ukraine and the Ministry of Finance of Ukraine[8], modern accountant is a person with higher education in relevant areas of training (master, specialist).

The mandatory requirements are availability of postgraduate education in the field of accounting with experience in professions of

[8] Handbook of qualifying characteristics of workers' professions [Electronic resource], available at: http://www.uazakon.com/document/spart20/inx20247.htm

lower level managers: to master – at least 2 years for specialist – at least 3 years. Employees of accounting services should know rather extensive current normative and legislative base concerning the legal principles of regulation of business enterprises' activities, provisions (standards) of accounting and other normative legal acts of the Ministry of Finance of Ukraine regarding accounting procedures and financial reporting, and methodological documents of ministries and other central executive authorities concerning industrial peculiarities of the application of provisions (standards) of accounting; fundamentals of manufacturing, procedure of processing operations and organization of document circulation by sections of accounting, forms and manner of payment, procedure of acceptance and passing to the balance, storage and expenditure of funds, inventory and other assets; rules for conducting inventorying of assets and liabilities; economy, production organization, labour and management organization; taxation, the foundations of civil law; labour, finance and economic law.

Modern accountants head the area of information provision of company management and prepare draft administrative decisions within their competence.

The implementation of strategy of European integration, Ukraine's joining the world and the European globalized economic community objectively requires significant structural changes in the domestic economy in different ways. Not underestimating the importance of correcting other structural deformations and considering the subject of our study, let us focus on such important area of reformation as the strengthening of the role and importance of small business in the national economic system.

In most cases, problems of functioning of economic systems in a globalized space are associated with the activities of large national, international, multinational companies and corporations. In fact it is not so. This is just the tip of the iceberg of a single business environment, based on the small and medium business. In developed countries the small and medium enterprises produce the bulk of gross domestic product and national income.

Collective and family forms of national businesses, small business in many countries (the USA, Canada, Germany, Britain, France and

Japan) produce 75–85% of GDP. In today's technotronic information revolution, people small business, armed with high technology, becomes «big» business that can withstand the competition of big business and global capital[9]. The importance of the development of small forms of business deepens by the fact that they maximally contribute to the development of innovation in the economy, are true incubators of new technologies and their practical implementation.

When Ukrainian economy enters the world globalized geo-space, there will inevitably be a problem of taking into account and the implementation of the general trends and patterns of economic development, including (above all) small business development. Their number in Ukraine will increase dramatically; this process is objective and inevitable. Accordingly, the need will increase both in the number of people managing data of enterprises, and in ensuring the compliance of their professional qualification characteristics with the needs of the globalized economy. This refers to the first institute of information (accounting) provision for entrepreneurial activity, since even in the smallest enterprise which is endowed with status of legal or natural person staff of management personnel must consist of (at least) Director (Head) and the Chief Accountant (financially responsible person).

Outlined problem has at least three aspects. First, the personnel of management information support of small businesses currently by their qualification and professional characteristics is objectively inferior to the relevant departments of economic services of big business, which has an objective basis (greater workload as a result of universalization, limited access to information database due to shortage of resources, especially financial, etc.). Secondly, as a result of the developing processes of internationalization and globalization of business a considerable number of new small and medium enterprises will arise and reorientation of almost all the players on business field of Ukraine on international economic activities objectively require a great number of high quality new workers who will provide management of the

[9] Belorus O. H. (2013), Global convergence of transitive and transformation social and economic systems, Economic Journal – XXI, 11-12 (1), p. 3–7.

company (accountants) with the information, with basic knowledge of economic functioning and accounting of at least business partner countries and in the future – at least of the most successfully operating in the global economic market national economies and international companies and corporations. Thirdly, presently, in a globalized economic environment in the information support system of business activities everything is not as smooth and easy as it might seem at first glance; in the accounting system, there still long exist certain contradictions, discrepancies, various methodological and methodical approaches to the calculation of individual performance indicators etc. Accordingly, there is a need for setting up work for coordination of categorical system, developing unified summarizing approaches to information support of management at all levels. Among other things, solving the problem objectively requires a setup of information management support staff training system, bringing it into conformity with generally accepted international rules and norms.

The accounting system is one of the most common forms of business communication in business. Among other things, it is most trusted among information users, as its main products such as financial statements of enterprises, institutions and organizations are submitted in business language of numbers by financially responsible people. In the conditions of functioning of the globalized economy, this information must be understandable to external users of foreign countries, meeting the diverse needs of partners, competitors, creditors, shareholders and investors. Thus, all functioning business entities in the business scene – from the owners, investors, bankers, lawyers and accountants to simple employees of companies to some extent operate with concepts of accounting.

Accordingly, it may seem that the financial statements of the economies of different countries should be absolutely identical. However, in the real economic reality there are some differences between financial statements of economic entities of different countries, sometimes quite substantial, due to national characteristics, belonging to different accounting schools and systems, a variety of social, economic and legal conditions and rules, due to different interpretations of indicators. The following circumstances led to unequal interpretation of some elements of financial statements such as assets, liabilities, equity, revenues, expenses, investment activity and so on. Quite often there are problems of universal understanding of information carriers of financial statements which is used by parties concerned in the development process and management decision-making. Existing differences in methodology and methods of accounting and constructing basic elements and reporting in general, not just generate some difficulties in communication, but often lead to wrong its understanding, and ultimately to the incorrect decision making.

The foregoing fully can be extended to the audit institution. The main tasks of auditing firms' employees are certification of authenticity and reliability of financial information. It is clear that the use of different standards, methodologies and methods imposed on different skills, ultimately will lead to different degree of reliability of the financial statements confirmed by auditors of different economic systems.

The key to success of rational accounting, development and formation of financial reporting in a globalized economic environment is the exchange of experiences and international relations. Quite logical consequence of the development of international economic cooperation, deepening of specialization and closely connected with it cooperation of production, the creation of international and multinational corporations is the task of solving the problem of coherence and consolidation of accounting and auditing standards of different countries, which led to the organization in 1966 of Accountants International Study Group composed of leading experts of the American Institute of Certified Public Accountants and similar institutions in Canada and the UK. The result of the group's activity was the publication of the report, which presented the characteristic features and compared the practice of accounting in these countries. The success of the project implementation speeded up the emergence of more effective bodies of management of the accountants' activity in different countries to make joint decisions on accounting issues and develop fundamental documents on organization of accounting at the international level. This refers to the creation of the Committee on

International Accounting Standard Board and the International Federation of Accountants.

International Accounting Standards Committee (IASC) was established in 1973 with the participation of leading professional accountancy bodies of Australia, Britain, Canada, Ireland, Mexico, the Netherlands, Germany, USA, France and Japan. Sources of IASC funding are professional accountancy organizations that are members of the Board, International Federation of Accountants, multinational companies, financial institutions, accounting firms and other organizations. Serving basic needs accounting development in the global economic environment, this organization developed rapidly. In 1976 Committee combined six national organizations, but from 1983 to 2000 professional accounting organizations were IASC members representing 104 countries. According to the new statute, adopted in May 2000, individual membership in the organization was cancelled and the Committee was renamed into the Council for IAS.

The main objectives of IAS Council are the development of accounting standards to be followed in the preparation of financial statements, assistance to their distribution in world economic space, carrying out work on the improvement and harmonization of accounting. To fulfil these objectives IAS Board implemented a number of projects aimed at achieving comparability of financial statements of different countries, developed and published 41 standards, the content of which are methodological and methodical principles of accounting organization.

The International Advisory Group Since was established in 1981 at IASC (now – Council on IAS) – a permanent body whose functions include technical discussions concerning projects of IAS, the strategy of international accounting development.

At this moment members of the Advisory Group are the following:

- The Basel Committee on Banking Supervision;
- Division of the United Nations on transnational corporations and investments;
- The European Commission;
- International Actuarial Association;
- International Association of Insurance inspectors;

- International Bar Association;
- International Association on Accounting Education and researches;
- The International Organization of Securities Commissions;
- International Confederation of Free Trade Unions and the International Confederation of Labor;
- International Chamber of Commerce;
- International Federation of Stock Markets;
- International Finance Corporation;
- International Committee on Standards of assessment;
- International Banking Associations;
- The Organization on Economic Cooperation and Development;
- The World Bank;
- Federation of Bankers of the European Union.

The International Advisory Council was established at the Council of the IAS in 1995. Leading representatives of the accounting profession, business, users of financial statements, holding management positions are the Members of the Advisory Board.

The task of the Advisory Board is to promote the adoption of international accounting standards and enhance the credibility of the IASC by:

a) Reviewing and providing comments on the strategy and plans of the Council to meet the needs of the countries whose representatives are elected to the IASC;

b) Preparation of annual reports on the effectiveness of the Council in achieving its objectives and compliance with proper procedures.

c) Promoting participation in the committee and the adoption of IASC representatives of the accounting profession, the business community, users of financial statements and other stakeholders;

d) Search and ensuring the funding of the IASC so that it did not restrict independence of the IASB IASC

e) Consideration of budgets and financial statements of IASC.

Advisory Board ensures compliance with independence and objectivity in making technical decisions on International Accounting Standards.

Another authoritative international organization is International Federation of Accountants (IFA) – (International Federation of Accountants – IFA), that was established in 1977 in Munich at the XI International Congress of Accountants. At present, it is the most powerful institution that provides the solution of problems of accounting development at the international level and sets a common policy in the field of accounting and auditing in the global economic space. It is the only international organization that brings together representatives of the accounting profession from the private and public sectors of the economy, the sphere of audit and advisory services, education.

The main objective of IFAC is to promote development and improvement of accounting based on harmonized standards for the provision of professional accounting services of high quality in the public interest. The main mission of IFAC is declared to be maximum convergence and harmonization of accounting standards and reporting in the international level.

The International Accounting Education Standards Board (IAESB) and The International Ethics Standards Board for Accountants (IESBA) were established in the structure of the organization to fulfil the mission and tasks of IFAC activity. The list of objectives of the described structures, in particular includes: the development of methodical recommendations for improving the professional standards of accounting and reporting in the world; training and testing practical knowledge; organizing and conducting courses to improve professional skills of accountants; the development of standards on ethics and implementation of practices on the application of ethical standards internationally.

International Federation of Accountants acts as official representative of the Institute of accountants around the world on the international scene and is a kind of organizer and coordinator of the process of information support of cooperation between business structures of national economies. A necessary condition for achieving these goals is the close cooperation of the body with national organizations of accountants and auditors and national educational and teaching institutions that are preparing specialists in the specified field.

Regarding the analysis of accounting services market in Ukraine one should note the following: an accountant especially of appropriate qualification – is the only one economic specialty, for which there is a steady demand. In contemporary rapid development of integration processes the compulsory condition of guaranteeing high level of professional accountant is, in addition to the diploma of higher education and practical experience, the international certificate by the qualification training program officially recognized by the international community.

Accordingly, issues related with advanced training of workers of accounting professions are particularly important. In Ukrainian realities is important to provide an informal approach, proper quality of education and at an affordable (given the low standard of living) price. This process should take place with the direct participation of international accounting organizations and in organized control system both from their side and from the state. Ensuring effective interaction of the described at least four parties: international accounting organizations, national professional accounting organizations, national universities and the relevant state authorities; education, training and certification of accountants will enable training of professionals of accounting professions (accountant, auditor, controller) of high qualification which is recognized by the international community.

Such an important element, as a higher educational institution also should be mentioned. Currently training specialists in accounting of Ukraine is done by considerable number of educational institutions, most of which are is non-core educational institutions that neither have adequate personnel nor proper framework. Using contemporary conjuncture of market requests, in which among the large list of economic specialties there is a real demand only in these professions, most universities of economic and not only the economic profile, instantly reoriented to preparation of accountants. With this approach it is problematic to talk about acquiring real knowledge of future specialists. Most of them receive only diplomas of higher education, and even then they are often of internal use, not recognized by the international accounting organizations. It appears that the training of specialists of truly high qualification at regional level (with respect to

Ukraine administrative region is meant) should be organized by one or maximum two universities. Mandatory conditions for this must be: adequate personnel (at least 5-6 doctors in professional specialties), the involvement of specialists of practicing organizations (accounting, auditing firms), close cooperation with the international accounting organizations and educational institutions, proper material and technical base.

Compliance with the above requirements will provide the increase of the prestige of the accounting profession; contribute to a harmonization of the national system of accountants training according to international standards in the light of the requirements of the globalized economy.

3.4. PECULIARITIES AND RESULTS OF TRANSITION OF THE NATIONAL FINANCIAL REPORTING STANDARTS TO INTERNATIONAL PRINCIPLES

The steady growth of foreign economic cooperation between countries with different levels of integration into the world financial market that has a growing positive effect on the pace and nature of economic and social development, overall economic and political situation is a characteristic feature of the modern world. The development of international relations is a direct result of the gradual internationalization of management process by manufacturing and the formation of patterns of domestic markets entry to the world market of goods and services.

Ukraine is extremely attractive source for foreign investors at the global financial market, conducts effective export and import policy, therefore the economic strategy of the state should be directed at approximation to the financial and economic policy of world partners and investors. For this purpose there must be a corresponding information base of financial statements that would provide meeting the needs of both domestic and foreign users. The appeal to globalization with international capital markets requires creation of unified system of financial accounting and presentation of unified financial statements. A proper understanding of this need is the basis for the establishment of international standards of accounting and auditing. Full transition or the creation of different model to adapt to IFRS is one of the efficient ways of improvement of accounting as companies that switched to IFRS conduct accounting by the related rules and maximum bring together financial statement presentation according to the international requirements. This process increases the efficiency of enterprises which intend to conduct business activities not only in Ukraine but also abroad.

Ukrainian enterprises apply IFRS and National Regulations (Standards) of accounting. A complete list of enterprises (economic entities), which are required to apply IFRS, is indicated in part 2, Article 121 of the Law «On Accounting and Financial Reporting in Ukraine» [27]. The main difference between international and national standards is the concentration on the details, as well as a huge variety of notes, which reveal the essence of financial transactions in detail. It should be noted that IFRS are not obligatory; as a rule they contain an advisory implication.

International Financial Reporting Standards are the basis of methodology to ensure clarity and comparability of reports of business entities around the world to international investors. International Financial Reporting Standards are adopted by the International Accounting Standards Board documents that define the procedure for the formation of financial reporting (Article 1) [24]. The structure of IFRS consists of three groups of elements (Figure 3.4.1).

IFRS are used in more than 120 countries: continental countries, United States and Canada, Japan, Australia and all EU countries (except Malta and Liechtenstein) and countries that were part of the former Soviet Union. IFRS are not the clear rules for the application but more recommendations with farther right of choice, as a result formed different approaches to their application by entities around the world were formed (Figure 3.4.2).

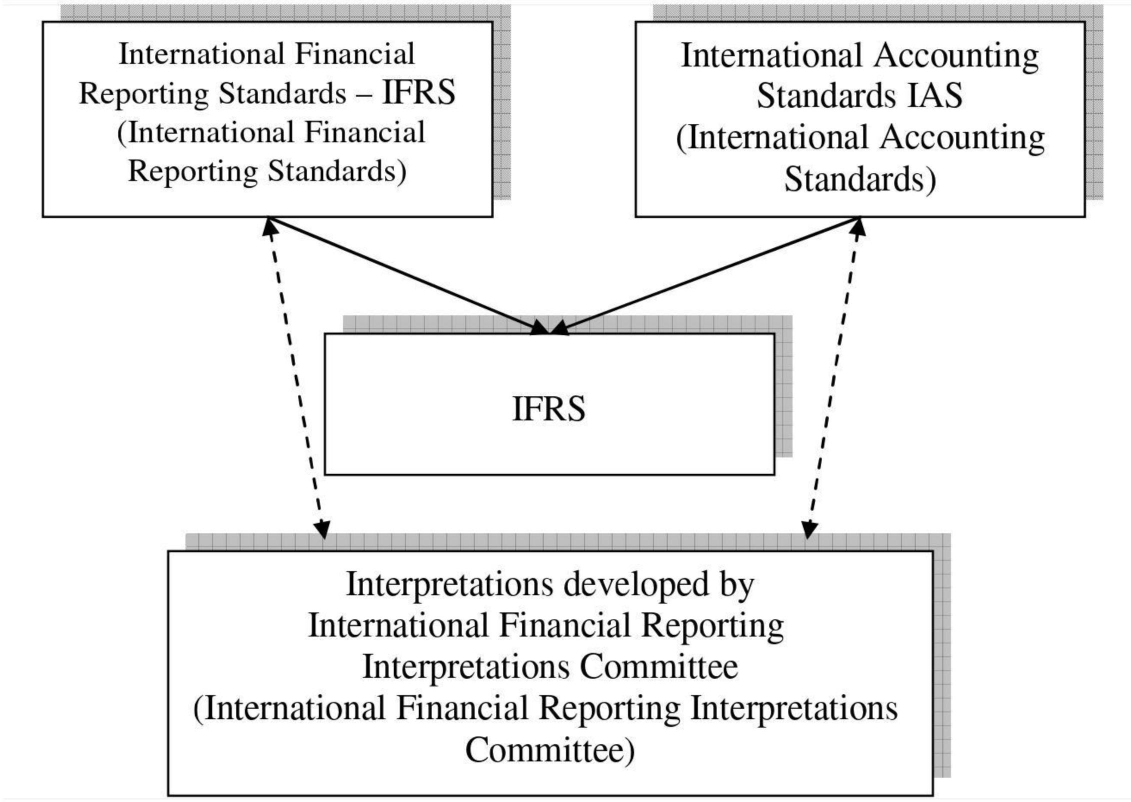

Figure 3.4.1. **The structure of IFRS**

The official date of «birth» of IFRS is 1973 (the foundation of IFRS). Since 2005 IFRS has been mandatory for use in the EU, regardless of the type or scope. Historically two large systems of accounting and financial statement presentation European and American were formed. European standards of financial reporting and accounting standards differ significantly from similar American standards. European standards are aimed at displaying the final result of the activity, i. e. investors make decisions based on accurate final activity results for a certain period of time, at the same time reporting of American companies is aimed at management in progress, i. e. it contains not only the facts that have already occurred, but it contains forward-looking information, plans, budget forecasts and more which gives more complete picture about what is happening in the company.

The form of using IFRS	Countries
Development of Nationalstandards without using basic concepts of IFRS	USA, Canada, UK, Germany, Spain, Austria, Japan, Korea, Belgium, Russia
National standards are developed independently using basic concepts of IFRS	France, Lithuania, Portugal, Slovakia, Czech Republic, Ukraine, Turkey, Norway, India, Singapore, South Africa, Mexico
National standards are developed independently using basic concepts of IFRS, where each national standard contains a section, which provides a comparative characteristic of these standards with appropriate IFRS	Italy, Sweden, Denmark, Yugoslavia, Australia, Hong Kong
Norms and regulations of appropriate IFRS are taken into account in the development of National standards	Moldova, Bulgaria, Slovenia, Iran, the Philippines, China, Chile, Tunisia
IFRS are used as national standards, but with additional explanations	Latvia, Armenia, Georgia, Romania, Croatia, Nepal, Macedonia, Kyrgyzstan, Malta, Panama, Haiti
IFRS are used without changes as national standards with complementary own national standards	Malaysia, Papua - New Guinea
IFRS are used as national standards, but can be adapted to local requirements and circumstances	Poland, Albania, Colombia, Jamaica, Thailand, Uruguay, Zambia, Kenya, Sudan
National standards are absent. IFRS are not formally recognized, but used	Botswana, Lesotho

Figure 3.4.2. **The form of using IFRS in different countries** [135]

At present, there is a process of integration of European financial reporting standards with the US, but this process is too complicated and the results can be expected after a long period of time. Thus, issue of integration of national financial reporting standards to certain international systems is rather rhetorical; since there is no single unique international financial reporting system that would meet the demands of all investors and provide an unambiguous assessment of the activity of the business entities.

The transition to IFRS takes place in phases (Figure 3.4.3) through difficulties of the process of their adoption and implementation (Figure 3.4.4).

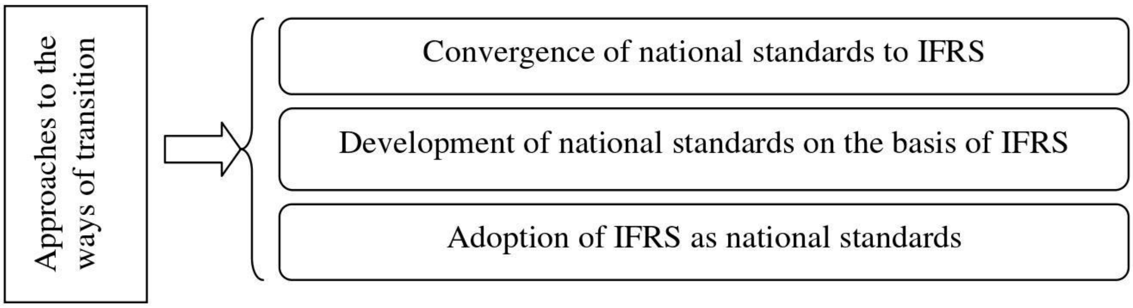

Figure 3.4.3. **Approaches to the ways of transition to IFRS**
[147]

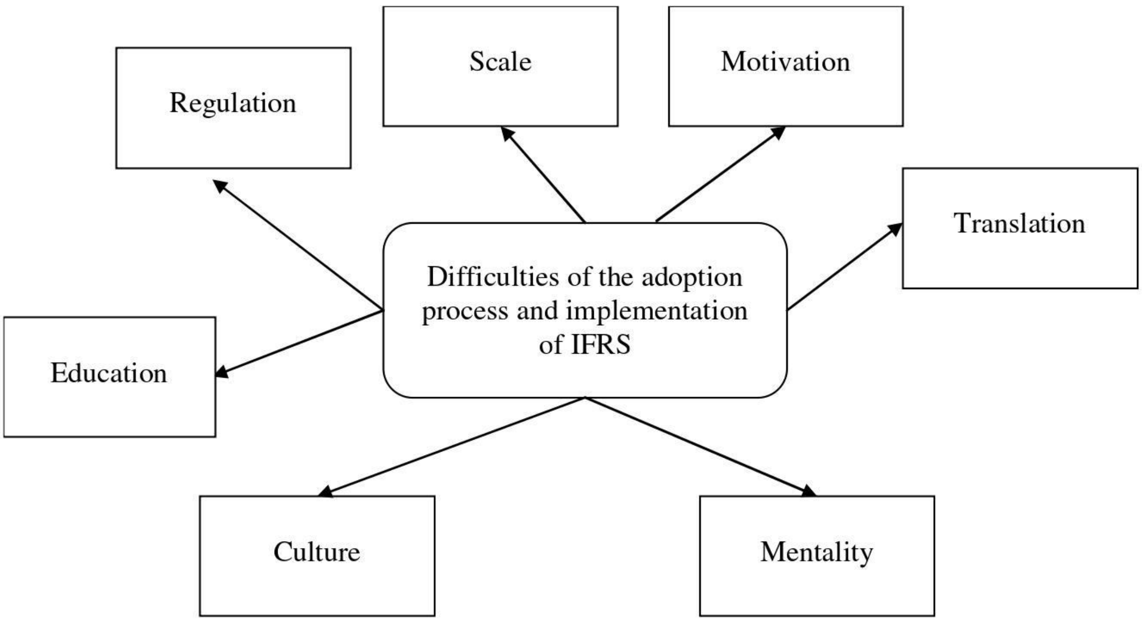

Figure 3.4.4. **Difficulties of the adoption process and implementation of IFRS**
[166]

IFRS can be used in two directions: the direct use of IFRS (in accordance with the international practice, this approach is used by banks, insurance and listing companies); «adjustment» to national financial reporting standards to IFRS (small and medium business).

And also, it is possible to allocate a full transition when IFRS are used by investment funds, financial groups and state enterprises.

In Ukraine, the national provisions on accounting and financial statement presentation have begun operating since 1999 and major basis for their creation still were international standards, although the first are presented in much shorter form. The main obstacles for conducting reporting and accounting according to IFRS in Ukraine are conventionally divided into several groups (Figure 3.4.5):

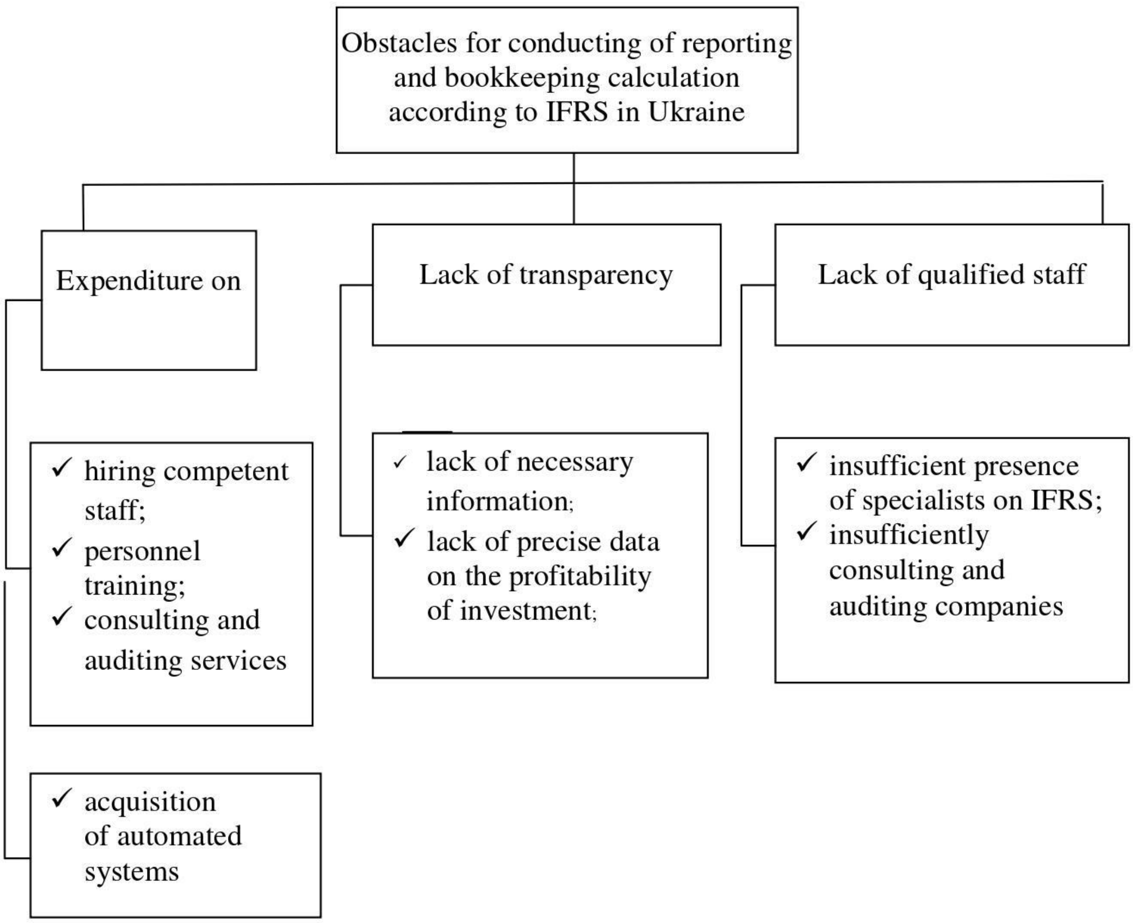

Figure 3.4.5. **Obstacles for conducting of reporting and bookkeeping calculation by enterprises according to IFRS in Ukraine**

You can also include a number of other obstacles: different versions of IFRS; the gaps in application of IFRS; different translations of IFRS; transitional periods. Problematic aspects are divided into three groups: technical, organizational and educational problems. There are two possible directions for conducting national reporting in accordance with IFRS:

- the application of international practice according to which it is possible to transfer data of Ukrainian accounting in accordance with IFRS;
- the use of practice for parallel conducting of bookkeeping calculation according to both Ukrainian and international standards.

Qualitative use of IFRS gives the advantages in achieving such results at the macro-level, such as:

1. The formation of the credible, transparent, understandable reporting for international investors, banks and partners with minimal costs;
2. Global audit companies can check and confirm the accuracy of conducting reporting of enterprises;
3. The reporting according to international standards is the basis for impartial assessment of the state of the enterprise according to the international criteria for making substantiated management decisions;
4. Gradual reducing costs for conducting IFRS.
5. Conducting of bookkeeping calculation and reporting according to international standards is the basis for international recognition and maintaining of business relations with foreign companies.

IFRS have the following advantages on the global financial market:

1) expanding the limits of the world trade;
2) enlargement of multinational corporations and companies;
3) increasing the role of global capital markets;
4) growth of flows of direct foreign investments;
5) enlargement of multinational political organizations;
6) minimization of expenses in the preparation of the consolidated financial statements by the companies. The organization of the process of IFRS implementation is carried out by consecutive stages (Figure 3.4.6).

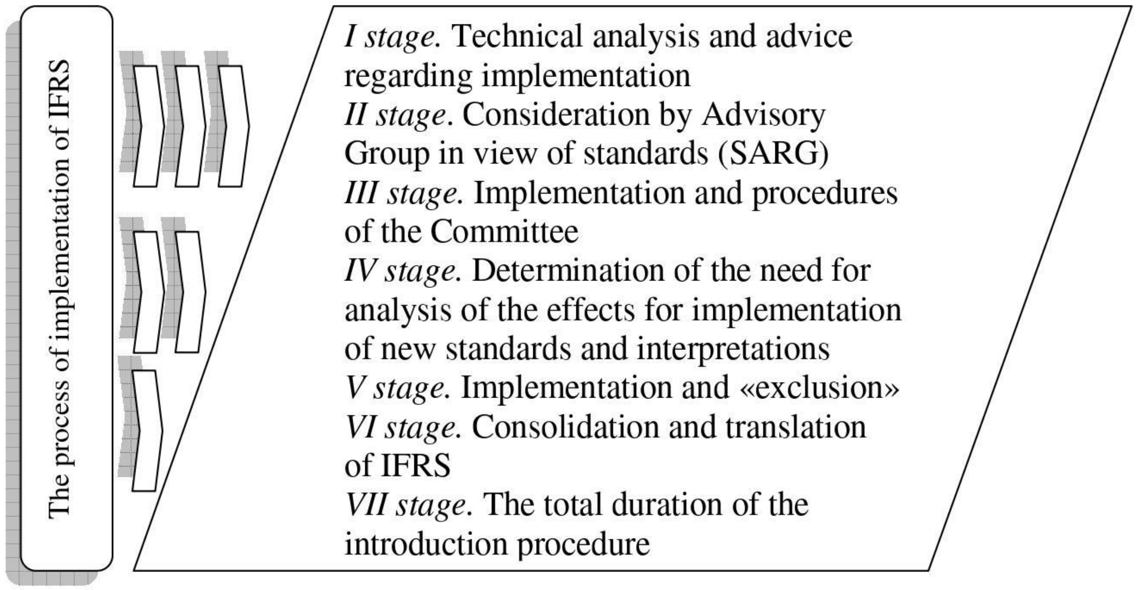

Figure 3.4.6. **Phased process by the stages of IFRS implementation**

The main advantages of IFRS at the micro-level are:

- attraction of foreign funding (direct foreign investments);
- improving the image of enterprises by publishing more high-quality financial information;
- strengthening financial transparency and clarity in disclosure of financial statements;
- achieving comparability of financial information, prepared in different countries;
- increasing the degree of popularity of the companies among the competitors and buyers on financial markets.

Ukraine gradually moves to the financial statements in accordance with IFRS (by proposed plan) (Figure 3.4.7), and the national P(S) of accounting are as close as possible to IFRS since 2012.

Progressive is the fact that the banking sector began using IFRS, as banks are intermediaries who work with cash flow and capital markets[10].

[10] The decision of the State Securities Commission and stock market in 2010 and changes to the law on accounting in 2012

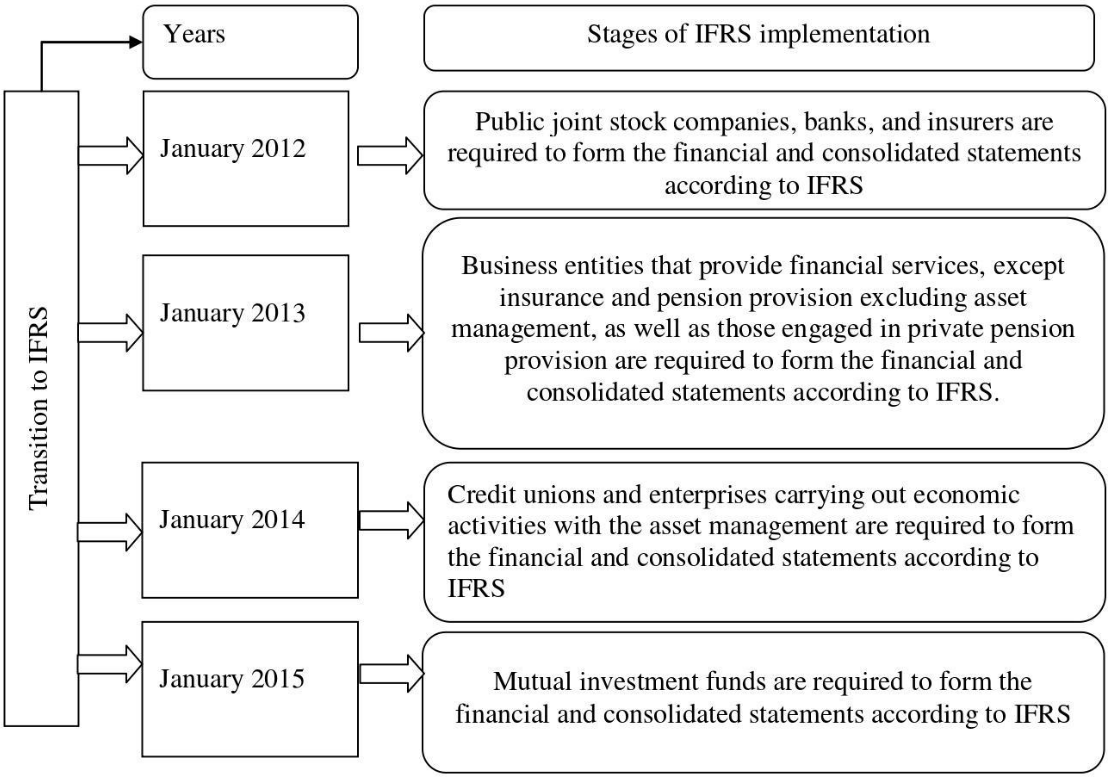

Figure 3.4.7. **The transition of the domestic system of financial reporting to IFRS**

A positive step can be a mandatory transition to IFRS of companies working with loan capital. All public joint stock companies operating in foreign markets have introduced reporting according to IFRS, which is required for listing of securities on the exchange market. According to technical specifications the adaptation process of IFRS includes four stages (Figure 3.4.8).

General sequence of transformation of financial reporting (Figure 3.4.9).

After the transition of large enterprises to IFRS it is SMEs' turn to use IFRS, it is especially true for companies that cooperate with foreign companies, or are investment-dependent on foreign investors. Council on IFRS adopted accounting standard designed for small and medium enterprises. This standard doesn't have a separate number and is called «IFRS for SMEs»[11].

[11] SME – International Financial Reporting Standard for Small and Medium businesses.

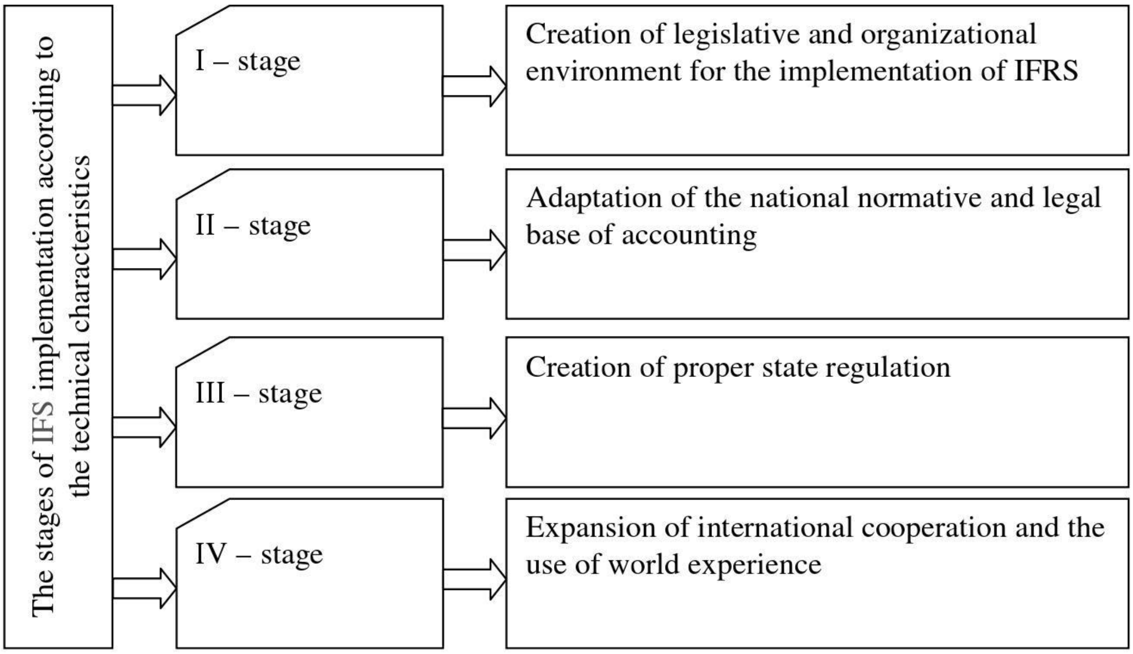

Figure 3.4.8. **The stages of IFS implementation according to the technical characteristics**

IFRS for SME – is a systematized collection of general rules for forming statements, it contains 35 chapters with a help of which general and specific accounting issues are regulated. However, the number of SMEs in Ukraine that use IFRS is very low, because the enterprise requires additional funds for transition to new forms of accountability. However, such transfer is necessary for economic development and cooperation with foreign partners [133].

The most important problem of the transition to IFRS is the process of transformation of costs of the enterprise, as their representation in accounting and reporting is not straightforward but controversial. Costs are an important element in economic activity and a key indicator in the formation of financial reporting – there is the urgent issue of determining the costs according to the requirements of IFRS. Regulation (Standard) 16 «Costs» of the accounting defines principles of forming in accounting of information on the costs of the enterprise and its disclosure in financial reporting in Ukraine. In IAS there is no similar standard, which greatly complicates costs management process (Table 3.4.1)

General transformation sequence of financial statements

1) The choice of accounting policies and financial reporting formats
2) The transformation of balance sheet items at the beginning of the year (except of retained earnings and deferred taxes)
3) Determination of income tax for the last year and deferred taxes at the beginning of the year in accordance with IASB 12
4) Transformation of the income statement for the previous year
5) Determination of retained earnings at beginning of year
6) The transformation of balance sheet items at year-end (excluding retained earnings and deferred taxes)
7) Determination of deferred taxes at the end of the year in accordance with IASB 12
8) The transformation of the income statement for the reporting year
9) Determination of retained earnings at end of year
10) The completion of the transformation of balance sheet
11) The preparation of shareholders' equity statement in accordance with IASB 1
12) The preparation of Cash Flow Statement in accordance with IASB 7, 13.
13) The preparation of notes to the financial statements in accordance with IFRS

Figure 3.4.9. **The sequence of transformation of national financial reporting to IFRS**

Table 3.4.1

Differences between Ukrainian P (S) of accounting and IAS according to the interpretation of «costs» of the enterprises
[17; 118]

P(S) of accounting	IAS
P (S) of accounting 16 «Costs»	IAS 2 «Inventories» (IAS 2 – Inventories) – in part of costs
	IAS 16 «Fixed assets»- (IAS 16 – Property, Plant and Equipment) – in part of costs
	IAS 19 «Employee Benefits» (IAS 19 – Employee Benefits) – in part of costs
	IAS 23 «Borrowing costs» (IAS 23 – Borrowing costs) – in part of costs

According to IAS 2 «Inventories» two categories of costs are distinguished: the cost of products and period costs. Ukrainian accounting standard 16 «Costs» does not include such a distinction. A special place is occupied by period costs, i. e. costs that are not included in the cost of inventory and are related to time, taking into account the principle of conformity in the cost of reporting period. Also, classification of expenditure on administrative costs and marketing costs is not provided in IAS.

Important differences exist in reflecting information in the cash flow statement: essential articles are mixed with minor ones, financial assets are shown separately. Thus, an assessment is not carried out at fair value but at the lowest value by «free receipt». Similarly, the hallmark of National Accounting Standards differs from IAS in fact that in accordance with the second system statements are formed not being based on legal norms, but being based on specific financial realities.

Another important problem that arises in the application of IAS is different approaches in interpreting the same terms as a list of financial transactions for Ukrainian enterprises is not customary and has no place in economic activity. In the national standards there are no conceptual bases in comparison with international standards. One of the first practical contradictions was the deadline for submitting financial statements (the limits of the financial year) – in Ukraine financial year and calendar year are the same i. e. all companies must prepare a financial report up to 31st December of the current year, in international standards there are no such limits. According to international standards, companies must themselves determine their financial year i. e. foreign companies are allowed to prepare financial statements, for example, at the end of March.

It is impossible not to take into account the problems of consolidation of accounting and financial reporting in accordance with IFRS and tax accounting because there are significant differences in this area (Figure 3.4.10).

Small and middle enterprises play a significant role in shaping the socio-economic environment of the state and are the source of creation of additional jobs, which greatly supports the middle class population. Ukraine has already accumulated enough experience in applying international standards by large enterprises that cooperate with foreign partners, but SMEs feel greatly the lack of practical application of

IFRS. The beginning of IFRS application for SMEs was launched in July 2000, and IFRS for them were announced on the 09th July 2009. It suggests the process of simplifying the procedures for accounting and financial reporting and ensures meeting the needs of external users in an objective and timely information internationally.

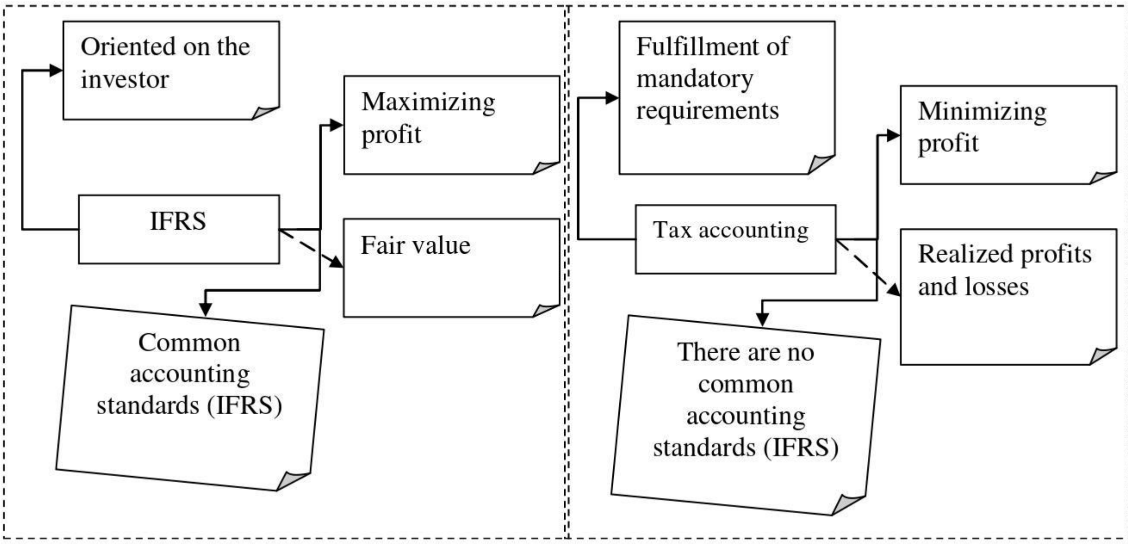

Figure 3.4.10. **Problematic aspects of consolidation for conducting accounting and presentation of financial statements according to IFRS** [61]

The main difference in the application of IFRS for SMEs from National accounting standard 25 «Financial Report of business entity» is that in the first one in comparison with the last a short form of preparation of financial statements is not provided. Another characteristic difference between comparable objects is that when applying National accounting standard 25 «Financial Report of business entity» SMEs should make the following forms of reporting: 1st «Balance»; 2nd «Report on financial results».

SMEs must prepare the following reporting forms using IFRS: 1. Statement of financial position at the reporting date; 2. Statement of comprehensive income for the reporting period, or separate statement of profit and loss and a separate statement of comprehensive income. 3. Statement of changes in equity for the reporting period. 4. Statement of cash flows for the reporting period.

However, at the starting stage a number of obstacles arose, including IFRS in Ukraine only medium, small and micro enterprises have a legal basis to apply them, but quantitative standards of enterprises' classification to small and medium are not presented in IFRS, which greatly complicates the selection criteria. According to the provision 12 of IFRS for SMEs, SMEs are economic entities that are not accountable to the public. According to IFRS for SMEs, the company is accountable if its debt obligations are in circulation on financial market (or public market). Thus, most enterprises, which according to national legislation are required apply IFRS, but are accountable to the public, can not apply IFRS for SMEs.

Adoption of IFRS has given a number of positive consequences for business entities:

1. Improving the investment conditions and the possibility of obtaining additional sources of investment.
2. Financial and credit institutions are more loyal towards enterprises that have moved to reporting according to IFRS, since the information is presented in a transparent, widely accepted and available format for analysis.
3. The growth of confidence from side of suppliers and buyers.
4. The opportunity to compare statements of different enterprises.
5. The possibility for comparison of reporting of different enterprises.

Thus, the process of effective application and implementation of IFRS into the practice for SMEs is dependent on the integrated efforts of researchers and practitioners in this sphere, in which the first task is the need to investigate and compare: the basic elements of financial reporting according to national accounting standards and IFRS for SMEs, quality characteristics and principles, common and different features of reporting formed by two approaches; to determine the qualitative characteristics of financial reporting forms for SMEs, which will meet the requirements of IFRS for SMEs.

Considering the analyzed information, it can be argued that the transfer of Ukrainian enterprises to IFRS is inevitable process, but it should be implemented gradually paying attention to the international experience (Figure 3.4.11), since the establishment of single standards of professional accounting activities will help improve the quality of accounting professionals and enterprises' management activities in general.

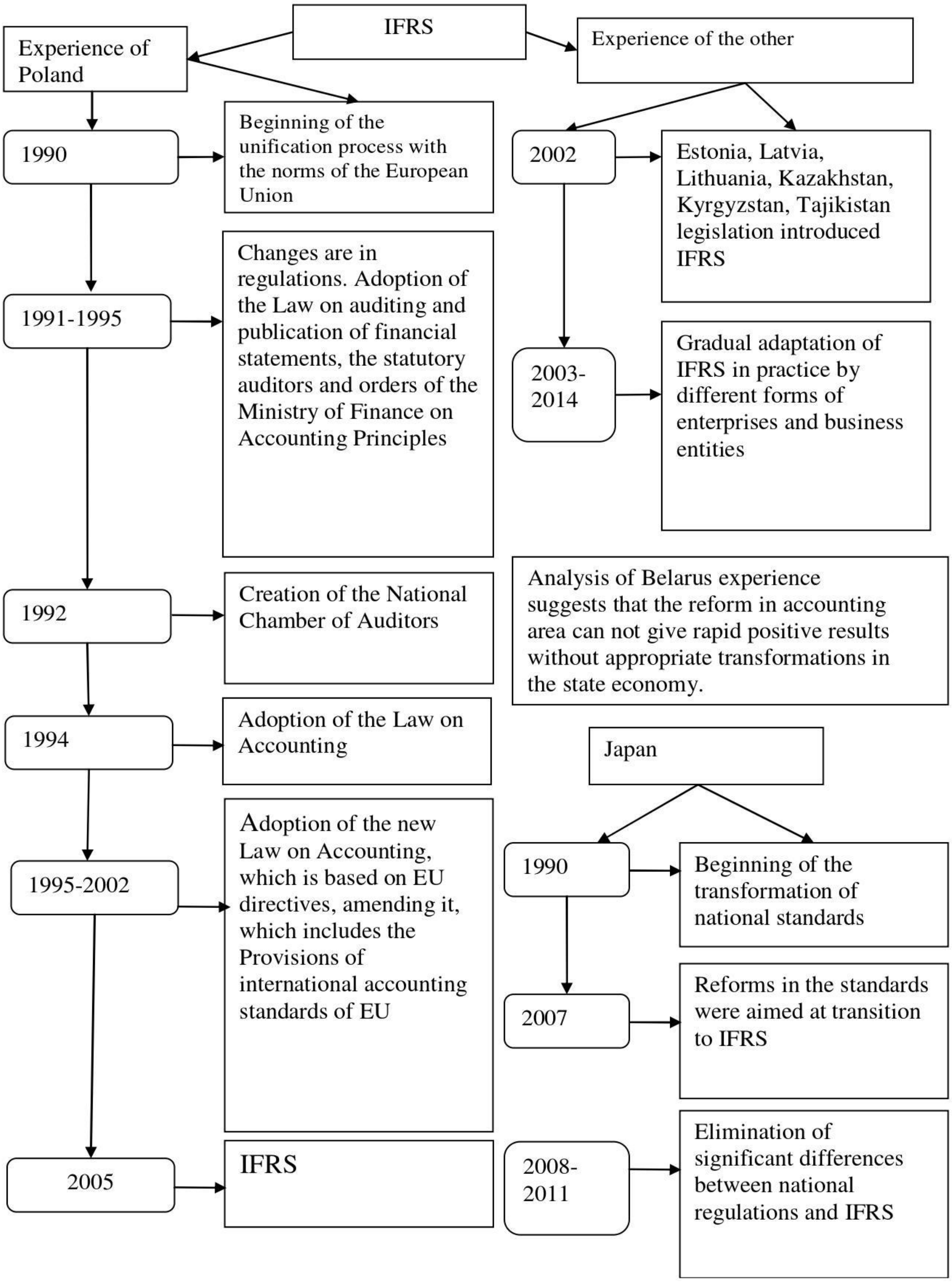

Figure 3.4.11. **International experience of transition to IFRSs of countries with stable and transition economies**
[101]

It is advisable to include the process of transition to IFRS in the UK and the USA into the separate group (Figure 3.4.12).

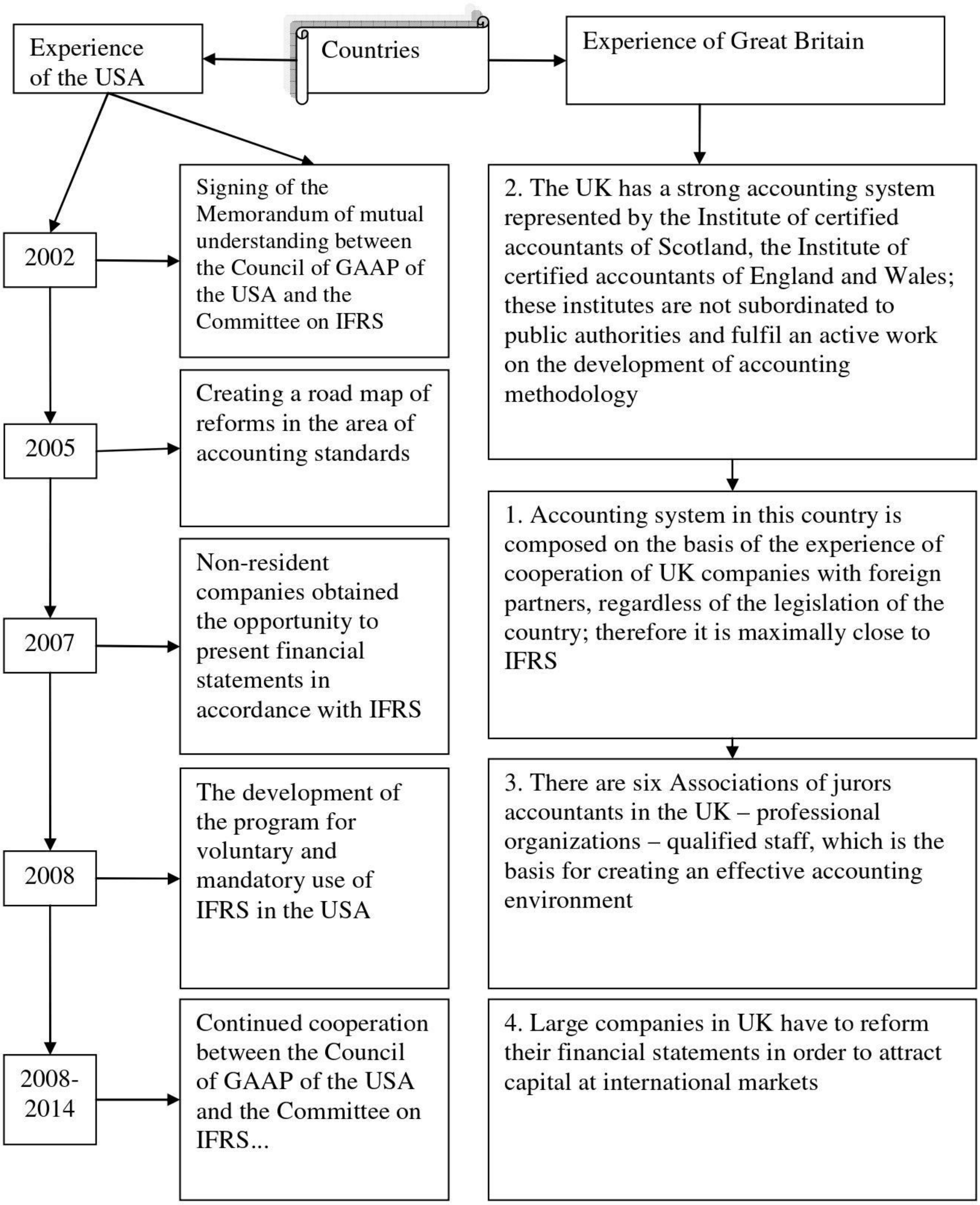

Figure 3.4.12. **The implementation of IFRS into the USA and the UK** [16; 79]

The most optimized version of transformation of accounting and reporting is maximum available harmonization of domestic accounting standards with IFRS that will allow making timely necessary amendments in them along with the development of international standards.

Successful implementation of IFRS is possible only in case of improvement of the business climate, as well as establishing effective and constructive partner relations between institutions that are appointed to control the process of adaptation and implementation of standards.

Reference

1. «About State program of adaptation the legislation of Ukraine to the legislation of the European Union», the law of Ukraine from 18.03.2004, no. 1629-IV, available at: http://zakon4.rada.gov.ua/.
2. «Accountants and auditors have discussed reporting according to IFRS», available at: http://n-auditor.com.ua/uk/component/na_archive/1041?view= material.
3. «Adaptation of Ukraine's legislation to EU legislation: state, problems and prospects», available at: http://razumkov.org.ua/ukr/article.php?News_id=138.
4. «Agreement on Partnership and Cooperation between Ukraine and the European Communities and their Member States (APC)», Protocol, International Document from 14.06.1994, Ukraine, EU, Belgium, etc., available at: http://zakon4.rada.gov.ua/laws/show/998_012.
5. «Code of Ethics for professional Accountants», IFAC, available at: https:// ifac.org/system/files/publications/files/ifac-code-of-ethics-for.pdf.
6. «Corruption by country», available at: http://www.transparency.org/country.
7. «Dictionary. Interpretation of the words. The economic encyclopedia», available at: http://slovopedia.org.ua/53/53392/362976.html.
8. «Directive 2013/34/EU of the European Parliament and the Council» of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the

European Parliament and the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF
9. «Directive 2004/109/EC of the European parliament and of the council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC», available at: http://eur-lex.europa.eu/
10. «Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013», available at: http://eur-lex.europa.eu/
11. «EBA Investment Attractiveness Index», ABOUT THE EBA, available at: http://eba.com.ua/en/about-eba/indices/investment-attractiveness-index.
12. «EPSAS», available at: http://www.epsas.eu/en/
13. «Expenses»: Provisions (S) of accounting 16, available at: http://zakon2.rada.gov.ua/laws/show/z0027-00.
14. «GASB White Paper: Why Governmental Accounting and Financial Reporting Is and Should Be Different», GASB – governmental accounting standards board, available at: http://www.gasb.org/cs/ContentServer?c=Document_C&pagename= GASB %2FDocument_C%2FGASBDocument Page&cid=1176156741497.
15. «General information. Government portal», available at: http://www.kmu.gov.ua/control/uk/publish/article?art_id=247677455&cat_id=247677375 .
16. «General requirements to the financial reporting» : National position (standard) of accounting 1 approved by the Order of Ministry of Finance of Ukraine from 07.02.2013, no. 73, available at: http://zakon3.rada.gov.ua/laws/show/z0336-13.
17. «Glossary of Terms described in the International accounting standards for the public sector», available at: http://minfin.kmu.gov.ua/document/81067/C.pdf.

18. «Handbook of qualifying characteristics of professions for workers», available at: http://www.uazakon.com/document/ spart20/ inx20247.htm.
19. «Human Development Report» (2011), Sustainable development and equality of opportunity: a better tomorrow for all mankind, Translated from English, PROON, Izd-vo «Ves mir», Moscow, Russia, 458 p.
20. «Implementation of International standards of financial reporting: the best world practices, Ukrainian realities and experience of CIS countries», available at: http://www.nabu.com.ua/Analitics/MSFO.pdf.
21. «Information of National Agency of Ukraine on Civil Service on the implementation of the Association Agenda of Ukraine – EU for 2014», available at: file:///C:/Users/user/Downloads/PDA_VERESEN.pdf.
22. «International accounting standard 1 (IAS 1)», Presentation of financial statements the IASB; Standard, international document from 01.01.2012, available at: http://zakon5.rada.gov.ua/laws/ show/929_013.
23. «International accounting standard 8 (IAS 8)», Accounting policies, changes in accounting estimates and errors of IASB; Standard, international document on 01.01.2012, available at: http://zakon1.rada.gov.ua/laws/ show/929_020/ed20120101/ paran2#n2&test=SE7MfTNFZoChfRQMZiSHJw7PHI41Ms80msh8Ie6.
24. «International financial reporting standards», the Ministry of Finance of Ukraine, available at: http://minfin.gov.ua/control/ publish/article/main?artid= 92410&cat_id=92408.
25. «International principles of preparation and drafting financial reporting», available at: http://dsbrickworks.com/mzhnarodnij-oblk-ta-audit/185.
26. «International standard of accounting in the public sector 9 (IASPS 9)», Revenue from Exchange Transactions, available at: http://195.78.68.18/minfin/control/publish/article/main?art_id= 80965&cat_id= 83024.
27. «On accounting and financial reporting in Ukraine», the Law of Ukraine from 16.07.1999, no. 996–XIV (with changes and

additions from 07.07.2011, no. 3614-VI), available at: http://zakon2.rada.gov.ua/laws/show/ 996-14.
28. «On approval of the National provision (standard) of accounting 1 «General requirements to the financial reporting», the order of the Ministry of Finance of Ukraine from 07.02.2013, no. 73 available at: http://minfin.gov.ua.
29. «On approval of the strategy for modernization of the accounting system in the public sector for 2007-2015», the Resolution of the Cabinet of Ministers of Ukraine from 16 January 2007, no. 34, available at: http://zakon1.rada.gov.ua.
30. «On consolidated statements», the Seventh Directive no. 83/349 from 13 June 1983, available at: http://eur-lex.europa.eu/ LexUriServ/LexUriServ.do?uri=CONSLEG:1983L0349:20090716 :EN:PDF.
31. «On the annual accounts of certain types of companies», the Fourth Directive no. 78/660 from 25 July 1978, available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri= CONSLEG:1978L0660: 20090716:EN:PDF .
32. «On the application of international accounting standards», Regulation (EC), no. 1606/2002, European Parliament and of the Council from 19 July 2002, available at: http://minjust.gov.ua/file/ 31948.
33. On the full Act can be accessed at: http://news.findlaw.com/ hdocs/docs/gwbush/sarbanesoxley072302.pdf
34. «On the Concept of adaptation of Ukraine legislation to the legislation of the European Union», The Resolution of the Cabinet of Ministers of Ukraine from 16 August 1999, no. 1496, available at: http://zakon4.rada.gov.ua/ laws/show/1496-99.
35. «On the open use of public funds» the Law of Ukraine from 11.02.2015, no. 183-VIII, available at: http://zakon3.rada.gov.ua/ laws/show/183-19.
36. «Partnership and Cooperation Agreement between the European Communities and their Member States, and Ukraine», ratified by the Law of Ukraine from 10.11.94, № 237/94-ВР, available at: http://zakon5.rada.gov.ua/laws/show/237/94-%D0%B2%D1%80

37. «Quality Management Systems», Basic Provisions and a dictionary, standard of ISO 9000-2001, available at: http://iso.dsmu.edu.ua/st 19011. doc.
38. «Registers of stock market participants», the National Commission on Securities and Stock Market, available at: http://nssmc.gov.ua/fund/registers.
39. «Report on the state of information context and development of information society in Ukraine for 2011», available at: http://nc.gov.ua/menu/ publications/.
40. «Some issues of adaptation of Ukrainian legislation to the legislation of the European Union», the Resolution of the Cabinet of Ministers of Ukraine from 15 October 2004, no. 1365, available at: http://zakon4.rada.gov.ua/laws/ show/1365-2004.
41. «Supervision over the financial sector», available at: http://finrep.kiev.ua/structure/fs_supervision/general_ua.php.
42. «The Association agenda of Ukraine – the EU for the preparation and facilitate the implementation of the Association on Agreement», the Order, Note, International paper from 20.11.2009, available at: http://zakon2.rada.gov.ua/laws/show/994 _990.
43. «The Budget Code of Ukraine», the Law of Ukraine, no. 2456-VI from 08.07.2010, available at: http://search.ligazakon.ua/l_doc2.nsf/link1/T102456.html.
44. «The chart of accounts of budget institutions» approved by the Order of the Ministry of Finance of Ukraine from 26.06.2013, no. 611 (in edition from 04.09.2015), available at: http://zakon2.rada.gov.ua/laws/show/z1214-13.
45. «The development strategy of public finance management system Ukraine» approved by the Cabinet of Ministers of Ukraine from August 1, 2013 p. 774-p, available at: http://zakon3.rada.gov.ua/laws/show/774-2013-%D1%80?test=dCCMfOm7xBWMWj5EZi/k.3hFHI4Tcs80msh8Ie6
46. «The National Program for Adaptation of Ukraine's legislation to EU legislation», available at: http://zakon3.rada.gov.ua/laws/show/1629-15.

47. «The progressive plan of adaptation of Ukrainian legislation to the EU legislation» approved by the Protocol decision of the coordination Council on the adaptation of Ukrainian legislation to the EU legislation from 10 June 2011, available at: http://mu.gov.ua/control/uk/publish/article?art_id=247677455&cat_id=24767737 5.
48. «The Tax Code of Ukraine», the Law of Ukraine, no. 2755-VI from 02.12.2010, available at: http://zakon0.rada.gov.ua/laws/show/2755-17.
49. «Towards the integration of Ukraine into the EU», *Information Bulletin on European integration issues*, 2013, no. 2 (April), available at: http:// kmu.gov.ua/docs/Euro_bulletin-2.pdf.
50. «Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities», available at: http://ifac.org/Translations/database.php.
51. «Treaty establishing the European Community», available at: http://zakon3.rada.gov.ua/laws/show/994_017.
52. «Wikipedia encyclopedia – International Public Sector Accounting Standards», available at: http://encyclopedia.thefreedictionary.com/International+ Public+Sector+ Accounting+Standards.
53. «Wordpedia. The economic encyclopedia», available at: http://slovopedia.org.ua/32/53411/32514.html.
54. «Wordpedia. The economic encyclopedia», available at: http://slovopedia.org.ua/39/53392/260654.html.
55. «Wordpedia. The economic encyclopedia», available at: http://slovopedia.org.ua/53/53392/362976.html.
56. «World Bank helps to improve financial reporting in Eastern Europe», available at: http://worldbank.org/uk/news/press-release/2013/10/01/world-bank-helps-improve-financial-reporting-in-eastern-europe.
57. Abdel-khalik A. Rashad (2008) «The Case against Fair Value Accounting» available at: www.sec.gov/comments/4-573/4573-229.pdf
58. Ackoff, R.L. (1970), «A Concept of Corporate Planning», John Wiley and Sons: N. Y.

59. Adamyk, O.V. (2012), «Revenues for entities of public sector: economic essence, domestic and international interpretation», *Bukhhalterskyi oblik i audyt*, no. 1, pp. 29-36.
60. Adamyk, O.V. (2014), «Budget allocations and subsidies for entities of public sector of economy, their interpretation in order of accounting and differences», *Torhivlia, komertsiia, pidpryiemnytstvo: zb. nauk. prats,* Iss. 16, pp. 141-144, available at: http://lac.lviv.ua/ fileadmin/www.lac.lviv.ua/data/pidrozdily/Naukovi_ Vydannya/ Vydan_ Torg/Docs/Torhivlya_komerts_pidpryyemnytstvo16.pdf#page=141.
61. Andrews, K.R. (1971), «The Concept of Corporate Strategy», Dow Jones-Irwin: Homewood, IL.
62. Andrieieva, H.I. and Yaroshenko, A.S. (2013), «To the question of information support quality of the economic activity analysis», *Efektyvna ekonomika*, no. 2, available at: http://economy.nayka.com.ua/ ?op=1&z=1835.
63. Andrusenko, Yu.V. (2012), «Social and economic role of knowledge capitalization in the national economy», *Innovatsiina ekonomika,* no. 3, pp. 211–215.
64. Ansoff, I. (1999), *Novaya korporativnaya strategiya* [The new corporate strategy], [Translated by S. Zhiltsov and J. Mc. Donnell], St. Petersburg, Russia, 416 p.
65. Avramenko, G.M., Biryukov, V.A., Merzlikina, Ye.M., Nikandrova, L.K. and Sharonin, P.N. (2012), «Problems of harmonization of the Russian accounting system and IFRS requirements», *Mezhdunarodnyy bukhgalterskiy uchet,* no. 11 (209), 62 p.
66. Benko, I.D. (2008), «Analysis of the telecommunications services market and prospects for development of OJSC «Ukrtelecom», *Ekonomichnyi analiz. Zbirnyk naukovykh prats kafedry ekonomichnoho analizu,* Iss. 3, pp. 26-29.
67. Benko, I.D. and Benko, V.S. (2007), «Analysis of the dynamics of tariff revenues of Ternopil branch of OJSC «Ukrtelecom», *Ekonomichnyi analiz. Zbirnyk naukovykh prats kafedry ekonomichnoho analizu,* Iss. 1(17), pp. 184-186.
68. Benko, I.D. and Benko, V.S. (2009), «Analysis of accounts receivable for communication services», *Ekonomichnyi analiz.*

Zbirnyk naukovykh prats kafedry ekonomichnoho analizu, Iss. 4, pp. 162–166.
69. Benko, I.D., Sysiuk S.V. (2012), «Peculiarities of accounting organization by small business entities that use simplified taxation system», *Zbirnyk naukovykh prats Cherkaskoho derzhavnoho tekhnolohichnoho universytetu, Seriia: Ekonomichni nauky*, part 1, no. 30, pp. 221–225.
70. Benko, M.M. (2001), «Place of accounting in information technology of trade enterprise management», *Ekonomika. Upravlinnia. Innovatsii*, no. 1, available at: http://nbuv.gov.ua/UJRN/eui_2011_1_8.
71. Bezrukykh, P.S. (1966), *Orhanizatsiia bukhhalterskoho obliku na pidpryiemstvakh* [Organization of accounting at the enterprises], Moscow, Russia, *Finansy*, 208 p.
72. Bilorus, O.H. (2013), «Global neo-convergence of transitive and transformation social and economic systems», *Ekonomichnyy chasopys – XXI*, no. 11–12 (1), pp. 3–7.
73. Brodska, I.I. (2006), «Methodology of study of financial statements in assessing the value of the enterprise», *Zbirnyk naukovykh prats Lutskoho derzhavnoho tekhnichnoho universytetu*, no. 3(12), pp. 21–32.
74. Busel, V.T. (2005), *Velykyi tlumachnyi slovnyk suchasnoi ukrainskoi movy* [Great Dictionary of Modern Ukrainian], Irpin, Perun, Kyiv, Ukraine, 1728 p.
75. Butynets, F.F. (2001), «Accounting: problems of determination», *Visnyk ZhITI, Seriia: Ekonomichni nauky*, no. 17, pp. 3–14.
76. Butynets, F.F. (2002), *Audyt* [Audit], textbook, Ruta, Zhytomyr, Ukraine, 672 p.
77. Butynets, F.F. (2002), *Orhanizatsiia bukhhalterskoho obliku* [Organization of accounting], high school textbook for students of specialty «Accounting and Audit», Iss. 3, supplemented and revised, PP «Ruta», Zhytomyr, Ukraine, 592 p.
78. Butynets, F.F. (2003), *Bukhhalterskyi oblik v Ukraini. Myfolohia* [Accounting in Ukraine. Mythology], part 2, Zhytomyr, Ukraine, 524 p.

79. Chabanova, L.O. (2013), «Advantages and problems of implementation and use of International Accounting Standards and financial reporting in Ukraine», *Upravlinnia rozvytkom*, no. 23, pp. 36-39, available at: http://nbuv.gov.ua/j-pdf/ Uproz_2013_23_ 17.pdf.
80. Chandler, A.D. (1962), «Strategy and Structure: Chapters in the History of the Industrial Enterprise», M.I.T. Press: Cambridge.
81. Chepets, O.H. and Hubaryk, O.M. (2012), «Harmonization of accounting and financial reporting in Ukraine with international standards», *Ekonomichni nauky, Seriia «Oblik i finansy»,* Iss. 9 (33), part 3, available at: http://archive.nbuv.gov.ua/portal/ soc_gum/en_oif_9_3/60.pdf. зор 15.
82. Doing Business 2015. Economy profile: Ukraine, available at: http://www.doingbusiness.org.
83. Doing Business 2015. Regional Profile: Europe and Central Asia (ECA), available at: http://www.doingbusiness.org.
84. Eldon, S. Hendriksen and Michael F. Van Breda, (2002), «Teoria rachunkowości», Wydaw, Naukowe PWN, 893 p.
85. Forssbaeck J., Oxelheim L. (2014) «The Oxford Handbook of Economic and Institutional Transparency», USA, 616 p.
86. Gevlich, L.L. (2008), «Modern content of the conceptual basis of accounting in Ukraine», *Ekonomichnyi prostir*, no. 20/2, pp. 116–123.
87. Global Open Data Index, available at: http://index.okfn.org/
88. Hendryksen, E.S. and Van Breda, M.F. (1997), *Teoriya bukhgalterskogo ucheta* [Theory of Accounting], translated from English and edited by Ya.V. Sokolov, Finansy i statistika, Moscow, Russia, 576 p.
89. Herasymenko, S.S., Yepifanov, A.O. and Korinko, M.D. and others (2010), *Bukhhalterskyi oblik: aktualni problemy ta rishennia* [Accounting: actual problems and solutions], monograph, Sumy, Ukraine, SHEI «UABS NBU», 162 p.
90. Hnilitskyi, V.V. and Oriekhov Ye.H., (2009), *Zakhyst informatsii* [Information protection], tutorial for students of economic specialties, IMIDZh, Zhytomyr, Ukraine, 164 p.

91. Hohol, T.A. «Harmonization of accounting in the EU countries: peculiarities for small businesses», available at: http://economic-vistnic.stu.cn.ua/ index.pl?task= arcls&id=618.
92. Hollander, S. Jeremy, Bentham and Adam, Smith on the usury laws (1999), «European Journal of the History of Economic Thought», no. 4, pp. 523–551.
93. Holov, S. (2012), «IFRS in Ukraine: by the way of trial and error», *Bukhhalterskyi oblik i audyt*, no. 3, pp. 3–6.
94. Holov, S.S. (2011), «International Financial Reporting Standards, improvement and application», *Bukhhalterskyi oblik i audyt*, no. 11, pp. 7-13.
95. Holovko, T.V. and Sahova, S.V. (2002), *Stratehichnyi analiz* [Strategic analysis], tutorial for independent study of the discipline, edited by Dr.Sc. (Econ.), Prof. Kuzhelnyi, M.V.], Kyiv, Ukraine, KNEU, 198 p.
96. Holton, Glyn A. (2004), «Defining Risk«, *Financial Analysts Journal,* no. 60 (6), pp. 19-25.
97. Hordon, O.B. (2007), «Strategic analysis at the enterprise», *Menedzhment ta pidpryiemnytstvo v Ukraini: etapy stanovlennia i problemy rozvytku*, herald, Lviv, Ukraine, no. 577, pp. 97–102.
98. Igumnov, V.M. (2013) Metodika formirovaniya transparentnoy finansovoy otchetnosti organizatsii [Method of forming transparent financial reporting of the organization] *Extended abstract of candidate's thesis*. Moskov [in Russian].
99. Implementation of the IAS Regulation (1606/2002) in the EU and EEA, available at: http: //www.iasplus.com/country/useias.html.
100. Kamenska, T. (2012), «International financial reporting standards in Ukraine: current state, practices and problems of implementation», *Bukhhalterskyi oblik i audyt*, no. 12, pp. 39–43.
101. Kharlamova, O. «Experience of implementing IFRS in Poland», *MSFZ: doslidzhennia, nauka, praktyka, implementatsiia* [IFRS: research, science, practice and implementation], *Visnyk vidkrytoi Mizhnarodnoi internet-konferentsii* [Bulletin of Opened International Internet Conference], available at: http://konf.amsfo.com.ua.
102. Khomuliak, T.I. (2010), «International Financial Reporting Standards: problems and prospects of application», *Visnyk*

Universytetu bankivskoi spravy Natsionalnoho banku Ukrainy, no. 1, pp. 212-216.

103. Khorngren, Ch. T. and Foster, Dzh. (2000), *Bukhgalterskiy uchet: upravlencheskiy aspect* [Accounting: administrative aspect], edited by Ya.V. Sokolov, Finansy i statistika, Moscow, Russia, 416 p.
104. Khorunzhak, N.M. (2009), «Problems and prerequisites for unification of accounting in a budgetary sphere», *Halytskyi ekonomichnyi visnyk*, no. 2, pp. 152-156.
105. Kindrat, O. (2012), «Information base and sources of analysis and assessment of financial and economic state of enterprises», *Zbirnyk naukovykh prats «Efektyvnist derzhavnoho upravlinnia»*, no. 30, pp. 462-465.
106. Kindratska, L.M. (2012), «Institutions of accounting and analysis in the informational system of business entities», *Zbirnyk materialiv Mizhnarodnoi naukovo-praktychnoi konferentsii* [Role and place of accounting, control and analysis in the development of economic science and practice. Conference proceedings of the International conference] (Kyiv, 6-7 December 2012), KNEU, pp. 39–40.
107. Kladnytska, T.A. (2009), «The main directions of reforming the system of accounting and financial reporting in a budgetary sphere», *Visnyk Khmelnytskoho natsionalnoho universytetu, Seriia: Ekonomichni nauky*, no. 6, vol. 1, pp. 156–159.
108. Kopylov, V. and Lovinska L. (2004), «Conceptual bases of methodical maintenance of accounting for business entities in Ukraine», *Ekonomika Ukrainy*, no. 7, pp. 4–9.
109. Kovalchuk, M.I. (1997), *Stratehichnyi analiz u silskomu hospodarstvi* [Strategic analysis in agriculture], tutorial, KNEU, Kyiv, Ukraine, 224 p.
110. Kramarovskiy, L.M. and Maksimova, V.F. (1990), *Otsenka kachestva bukhgalterskogo ucheta na predpriyatiyakh* [Quality assessment of accounting at the enterprises], Finansy i statistika, Moscow, Russia, 191 p.
111. Kucherenko, T. (2009), «Balance in the context with the resource concept of capital», *Visnyk Ternopilskoho natsionalnoho ekonomichnoho universytetu,* no. 1, pp. 148–159.

112. Kuzminskiy, A.N. (1979) *Uchetnaya i analiticheskaya informatsiya v obyedinenii* [The accounting and analytical information in uniting], Vyshcha shkola, Golovnoye izd-vo, Kyiv, Ukraine, 96 p.
113. Kuzminskyi, A.M. and Sopko, V.V. (1986), *Orhanizatsiia bukhhalterskoho obliku i analizu hospodarskoi diialnosti* [Organization of accounting and analysis of economic activity], Vyshcha shkola, Kyiv, Ukraine, 256 p.
114. Len, V.S. (2006), *Orhanizatsiia bukhhalterskoho obliku* [Organization of accounting], tutorial, Tsentr navchalnoi literatury, Kyiv, Ukraine, 696 p.
115. Luchko, M.R. (2007), *Konsolidovana finansova zvitnist: teoretichna kontseptualizatsiya pobudovi*: [Consolidated financial statements: theoretical conceptualization of the development] monograph, Kyiv, Ukraine, 263 p.
116. Luchko, M.R. (2008), «Consolidated financial statements: a systematic approach to the construction and development», Thesis abstract of Dr. Sc. (Econ.), 08.00.09, State higher educational institution «Kyiv national economic University named after Vadym Hetman», Kyiv, Ukraine, 29 p.
117. Luchko, M.R. (2013), «Cost that are not taken into accounting determining taxable income and expenditure of dual-use», *Practical science edition «Independent auditor»*, no. 4 (II), pp. 12–19.
118. Luchko, M.R. (2013), «Uncertainty and probability of economic transactions: to the question of accounting», *Social and economic problems and the state,* Iss. 2 (9), pp. 98-109, available at: http://sepd.tntu.edu.ua/ images/stories/pdf/2013/13lmrpbo.pdf.
119. Luchko, M.R. (2015), «Cognition in the development of accounting theory», *Naukovyi visnyk Uzhhorodskoho universytetu. Seriia: Ekonomika*, no. 1(2), pp. 33–38.
120. Luchko, M.R. and Revasevych, I.S. (2012), «Personal adaptability of accountant as a leading feature of his professionalism», *Nezalezhnyi audytor,* no. 1, pp. 10–19.
121. Luchko, M.R., Melnyk, N.H. and Sysiuk S.V. (2015), *Oblik zovnishnoekonomichnoi dialnosti* [Accounting of foreign economic activity], tutorial, TNEU, Ternopil, Ukraine, 356 p.

122. Lukanovska, I.R. (2015), «Adaptation of financial statements in Ukraine to the requirements of international standards and legislation of the European Union», *Naukovyi visnyk Uzhhorodskoho universytetu, Seriia «Ekonomika»*, Iss. 1 (45), Vol. 2, pp. 321–325.
123. Maliuha N.M. (2006), «The concept of accounting development in Ukraine: theoretical and methodological foundations», Thesis abstract of Dr. Sc. (Econ.), 08.06.04, Kyiv, Ukraine, 36 p.
124. Melnyk, A. (2014), «Identification of structural and technological deformation of regional economy as the base for the choice of mechanisms of regional structural policy», *Visnyk Ternopilskoho natsionalnoho ekonomichnoho universytetu,* Iss. 1, pp. 23–35.
125. Melnyk, A.F. and Benko, I.D. (2014), *Yevropeiskyi soiuz: instytutsiyni ta ekonomichni osnovy intehratsiyi* [European Union: institutional and economic framework for integration], Matviey, Ternopil, Ukraine, 410 p.
126. Melnyk, N. (2014) «Transparency of accounting as a demand of modernity» *Zbirnyk materialiv Mizhnarodnoi naukovo-praktychnoi konferentsii* [Status and prospects of accounting and information systems in Ukraine. Conference proceedings of the International conference] (Ternopil, 10-11 October 2014), TNEU, pp. 82–84.
127. Melnyk, N. (2015) «Accounting transparency as a part of the ease of doing business in Ukraine» *Bukhhalterskyi oblik i audit*, no. 11, pp. 18–22.
128. Metius, M.R. and Perera, M.Kh. (1999), *Teoriya bukhgalterskogo ucheta* [Accounting Theory], textbook, translated from English, edited by Ya.V. Sokolov, I.A. Smirnova, Audit, YUNITI, Moscow, Russia, 663 p.
129. Milken Institute Associates, available at: http://www.milkeninstitute.org/blog/view/149
130. Mnykh, Ye.V. (2011), *Ekonomichnyi analiz* [Economic analysis], textbook, Kyiv, Ukraine, 630 p.
131. Mochernyi, S.V., Larina, Ya.S., Ustenko, O.A. and Yurii, S.I. (2006), *Ekonomichnyi entsyklopedychnyi slovnyk* [Economic

Encyclopedic Dictionary], in 2 volumes, Vol. 2, Svit, Lviv, Ukraine, 568 p.

132. Mossakovskyi, V. (2007), «The concept for construction of accounting in Ukraine», *Bukhhalterskyi oblik i audyt*, no. 10, pp. 18–25.
133. Mysko, N.S. (2013), «Problems of introduction of international financial reporting standards in Ukraine», *Upravlinnia rozvytkom*, no. 13, pp. 13–15.
134. Nalyvaiko, A.P. (2001), *Teoriia stratehii pidpryiemstva. Suchasnyi stan ta napriamky rozvytku* [The theory of enterprise strategy. Modern state and directions of development], monograph, TNEU, Kyiv, Ukraine, 227 p.
135. Nikitina, L.V. (2015), «Application of IFRS in the countries of the world», *MSFZ: doslidzhennia, nauka, praktyka, implementatsiia* [IFRS: research, science, practice, implementation], *Visnyk vidkrytoi Mizhnarodnoi internet-konferentsii* [Bulletin of Opened International Internet Conference], the 1st quarter of 2015, edited by O.V. Kharlamov, Agency for IFRS, Kharkiv, Ukraine, 41 p.
136. Nobes, C. and Parker, R. (2002), «Comparative International Accounting», 7th ed., Prentice Hall, p. 136.
137. Pakhomov, Yu. and Pakhomov, S. (2009), «The situation in Ukraine: pre-crisis, crisis, post crisis», *Ekonomichnyi chasopys*, XXI, no. 7, pp. 4–7.
138. Pakhomov, Yu.N. (2010), «The main objectives of post-crisis model formation for the economy development of Ukraine», *Ekonomichnyi chasopys* – XXI, no. 1–2, pp. 3–6.
139. Paliy, V.F. (2013), *Mezhdunarodnyye standarty ucheta i finansovoy otchetnosti* [International standards of accounting and financial reporting], textbook, NITS INFRA-M, Moscow, Russia, 506 p.
140. Pankov, V.V., Nesvetaylov, V.F. and Kozhuhov V.L. (2001) «The transparency of business and disclosure in the financial statements» *Audit i finansovyiy analiz* no. 2, available at: http://www.auditfin.com/2011/2/toc.asp.
141. Parasiy-Verhunenko, I.M. (2007), *Stratehichnyi analiz u bankakh: teoriia, metodolohiia, praktyka* [Strategic analysis in banks:

theory, methodology, practice], monograph, TNEU, Kyiv, Ukraine, 360 p.

142. Parkhomenko, V. (2008), «Principles and approaches to the regulation and regulation of accounting», *Bukhhalterskyi oblik i audit*, no. 11, pp. 18–22.
143. Partyn, H.O. (2000), *Bukhhalterskyi oblik: osnovy teorii ta praktyky* [Accounting: Fundamentals of Theory and Practice], tutorial, Znannia, KOO, Kyiv, Ukraine, 245 p.
144. Ralph, B. and Holt, R. (1995), *Polnyy tsikl finansovogo ucheta* [Full cycle of financial accounting], translated from English, Respublika, Moscow, Russia.
145. Redchenko, K.I. (2003), *Stratehichnyi analiz u biznesi* [Strategic analysis in business] tutorial, Iss. 2, supplemented, Novyi Svit-2000, Lviv, Ukraine, 272 p.
146. Savytskaia, H.V. (2009), *Analiz hospodarskoi diialnosti pidpryiemstva* [Analysis of economic activity of the enterprise], Iss. 5, revised and supplemented, Infra-M, Moscow, Russia, 536 p.
147. Semeniuk, M.O. (2015), «Problems, prospects and possibilities of preparing statements according to the IFRS in Ukraine», *MSFZ: doslidzhennia, nauka, praktyka, implementatsiia* [IFRS: research, science, practice, implementation], *Visnyk vidkrytoi Mizhnarodnoi internet-konferentsii* [Bulletin of Opened International Internet Conference], the 1st quarter of 2015, edited by O.V. Kharlamov, Agency for IFRS, Kharkiv, Ukraine, 41 p.
148. Sherr, I.F. (1925), *Bukhhalteriya i balans* [Accounting and balance], translated from German, Ekonomycheskaya zhyzn, Moscow, Russia, 575 p.
149. Sheveria, Ya.V. (2007), «Methods of analysis and making decisions on the basis of financial statements prepared in accordance with international accounting standards», *Naukovyi visnyk Uzhhorodskoho universytetu. Seriia Ekonomika*, part II, no. 22, pp. 351–357.
150. Sokolov, Ya. (2004), «Experience of changes in accounting of Russia», *Bukhhalterskyy oblik i audit*, no. 5, pp. 28–34.

151. Sokolov, Ya.V. (1985), *Istoriya razvitiya bukhgalterskogo ucheta* [The history of accounting development], Finansy i statistika, Moscow, Russia, 397 p.
152. Sokolov, Ya.V. (1996), *Bukhgalterskiy uchet: ot istokov do nashikh dney* [Accounting: from the beginnings to our days], tutorial for universities, Autsit, YUNITI, Moscow, Russia, 638 p.
153. Sokolov, Ya.V. (2006), «The International standards and we are», Anthology of accounting thought. From the history of accounting: compilers D. Nazarov, M.Yu. Medvedev, Moscow, Russia, pp. 340–348.
154. Solovyeva, O.V. (2004), *Mezhdunarodnaya praktika ucheta i otchetnosti* [International accounting and reporting practices], textbook, INFRA–M, Moscow, Russia, 332 p.
155. Sopko, V.V. (2009), «Globalization processes and their impact on accounting», *Bukhhalterskyi oblik i audyt*, no. 10, pp. 2–11.
156. Statistical data of UACAA, available at: http://uacaa.org/pro-uasba/statistichni-dani.
157. Strelnikov, O.I. (2009), «Mechanisms of state regulation of national accounting system in Ukraine», Thesis abstract of Cand. Sc. (*Public Administration*), 25.00.02, *Donetsk State University of Management*, Donetsk, Ukraine, 20 p.
158. Sushko, N. (2012), «Prospects for the introduction of national provisions (standards) of accounting into the public sector», *Balans-biudzhet,* no. 4, pp. 2–4.
159. The 2015 Legatum Prosperity Index, available at: http://www.prosperity.com/.
160. The Effects of Mandatory IFRS Adoption in the EU: A Review of Empirical Research, available at: http://www.icaew.com/en/technical/financial-reporting/information-for-better-markets/ifbm-reports/the-effects-of-mandatory-ifrs-adoption-in-the-eu.
161. The Fragile States Index, available at: http://ffp.statesindex.org/rankings-2015
162. Transparency in corporate reporting: assessing emerging market multinationals, available at: http://www.transparency.org/whatwedo/pub/transparency_in_corporate_reporting_assessing_emerging_market_multinational.

163. Tsyhan, R.M. and Kashuba I.V. (2012), «Prospects of Ukraine's transition to International Financial Reporting Standards», *Visnyk ZhDTU. Seriia: Ekonomichni nauky*, no. 1(47), pp. 145-147.
164. Van Greuning, Hennie and Koen, Marius (2004), *Mezhdunarodnyye standarty finansovoy otchetnosti: Prakticheskoye rukovodstvo* [International Financial Reporting Standards: A Practical Guide], Iss. 2, amended and supplemented, Izd-vo «Ves mir», 336 p.
165. Van Greuning, Hennie and Koen, Marius (2004), *Mezhdunarodnyye standarty finansovoy otchetnosti: Prakticheskoye rukovodstvo* [International Financial Reporting Standards: A Practical Guide], Iss. 2, amended and supplemented, Izd-vo «Ves mir», 336 p.
166. Veriha, H. and Savro, A. (2010), «Problematic aspects of financial reporting transformation of Ukrainian enterprises in accordance with the principles of IFRS», *Bukhhalterskyi oblik i audyt*, no. 9, pp. 23–24.
167. Volot, O.I. (2012), «Accounting as a basis of information support of enterprise management», *Naukovyi visnyk ChDIEU*, no. 1 (13), available at: file:///D:/Users/Admin/Downloads/NvChdieu_2012_1_35%20(3).pdf.
168. Yatsyshyn, S. (2015), «Experience of the EU countries in the formation of accounting policy of the enterprises with the requirements of European legislation», *Efektyvna ekonomika,* no. 6, available at: http://economy.nayka. com.ua/?op=1&z=4137.
169. Zhuk, V. (2010), «To the problems of strategy implementation of IFRS in Ukraine», *Bukhhalterskyi oblik i audyt,* no. 10, pp. 16 –22.
170. Zolotukhin, A. «Why does Ukraine need international standards, or what kind of accounting is not necessary for us?», available at: http://el–buh.com/ index.php?id=652.

Наукове видання

M. Luchko, N. Khorunzhak, I. Benko, N. Zoriy,
S. Sysiuk, N. Melnyk, I. Lukanovska, L. Shtymer,
O. Adamyk, S. Yatsyshyn, V. Rozeluk, S. Zhukevych,
T. Burdeniuk, L. Savchuk, A. Farion

ACCOUNTING IN UKRAINE UNDER IMPLEMENTATION OF THE EUROPEAN LEGISLATION

Monograph

Комп'ютерна верстка *Юрія Хомацького*

Дизайн обкладинки *Марії Одобецької*

Підписано до друку 22.12.2016 р.
Формат 60х84/8. Гарнітура Times.
Папір офсетний. Друк на дублікаторі.
Ум. друк. арк. 13,49. Обл.-вид. арк. 15,87.
Зам. № М012-16. Тираж 300 прим.

Видавець
Тернопільський національний економічний університет
вул. Львівська, 11, м. Тернопіль

Свідоцтво про внесення суб'єкта видавничої справи
до Державного реєстру видавців ДК №3467 від 23.04.2009 р.

Виготовлено у видавничо-поліграфічному центрі
«Економічна думка ТНЕУ»
вул. Бережанська, 2, м. Тернопіль, 46004
тел. (0352) 47-58-72
E-mail: edition@tneu.edu.ua
тел. (0352) 47-58-72