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APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS BY ENTERPRISES IN THE CONTEXT OF MODERN CHALLENGES

Collective monograph

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PREFACE

The modern economy sets society the task of transitioning Ukrainian enterprises to International Financial Reporting Standards. The use of IFRS in the practice of Ukrainian enterprises will generate transparent and understandable information for users at all levels, attract financial and credit resources for development and expansion, according to the analysis of reliable reporting to identify ways to optimize business, will be a driving force for enterprise management and gaining competitive advantage.

The implementation of IFRS in the practice of Ukrainian enterprises has not only economic but also social significance, as reliable information allows to make more informed decisions at the level of industries and the country as a whole, provides effective investment of resources to obtain final financial results.

All economic entities, regardless of their organizational and legal forms and forms of ownership, are required to keep accounts and prepare financial statements throughout the period of operation. According to the Law of 16.07.99 No. 996-XIV “On Accounting and Financial Reporting in Ukraine” accounting is the process of determining, measuring, registering, accumulating, summarizing, storing and transmitting information about the company’s activities to external and internal users for decision-making. The main legislative acts regulating the organization of accounting are Law No. 996 and National Accounting Regulations (Standards) in Ukraine (NP (S) BU). The main purpose of the NP (S) BU is to determine the principles and methods of accounting in Ukraine, including the preparation of financial statements in accordance with the laws of Ukraine and International Financial Reporting Standards (IFRS).

IFRS are documents adopted by the International Accounting Standards Board, which determine the procedure for preparing financial statements. International standards, which are set out in the state language and officially published on the website of the central executive body, which ensures the formation and implementation of state policy in the field of accounting, are used to prepare financial statements.

According to the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”, enterprises for which accounting is required by IFRS, prepare and submit financial statements and consolidated financial statements to public authorities and other users at their request in the manner prescribed this Law, on the basis of taxonomy of financial statements according to international standards in a single electronic format.

Possession of knowledge accumulated by the world international accounting community will allow to better understand the principles of accounting and financial reporting, improve the professional qualities of employees and better understand the need to develop accounting and reporting system for further development of Ukraine’s economy.

This monograph is devoted to the above problems and their solutions based on the assessment of International Financial Reporting Standards and the adaptation of Ukrainian enterprises to their practical application.

The monograph reveals the scientific and practical principles of accounting policy in accordance with IFRS, highlights the practical aspects of accounting for assets in accordance with IFRS and practical aspects of accounting for collateral and liabilities in the context of IFRS, reveals the features of accounting in accordance with IFRS.

The research was carried out by the author’s team: Beldii A.M., Boyarova O.A., Vakulyk D.A., Hanyaylo O.M., Hurenko T.O., Gutsalenko L.V., Derevianko S.I., Kolesnikova O.M., Krivorot O.G., Kuzyk N.P., Lytvynenko V.S., Meliankova L.V., Myskiv L.P., Slesar T.M., Popova O.O., Shara Y.Yu., Shevchuk K.V. within the framework of the Initiative scientific subject “Accounting and control support of management of activity and taxation of business entities in the conditions of sustainable development” (state registration number 0121U110614). Head of GDR - Doctor of Economics, Prof. Gutsalenko L.V., responsible executor – Ph.D., senior lecturer Myskiv L.P.

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SECTION 1
SCIENTIFIC AND PRACTICAL PRINCIPLES OF ACCOUNTING POLICY IN ACCORDANCE WITH IFRS

1.1. Practice of accounting policy in accordance with IFRS

Accounting policy remains the most controversial, but at the same time the most effective element of the organization of accounting. In domestic practice, the formation of the accounting policy of enterprises of various forms of ownership is mainly dominated by a formal approach. But the effectiveness of accounting processes and the formation of the information environment in the management of economic activity depends on the accounting policy. The main purpose of accounting policy should be to ensure the creation of a broad information system of the enterprise in accordance to the requirements of legislation and regulations on the financial and property status of the enterprise and its results, necessary for internal and external users to make grounded management decisions. Accounting policy information should be aimed at the needs of information requests of users of different levels and their harmonization. All this actualizes the scientific search for the formation of innovative approaches to the practice of accounting policies of enterprises.

The issue of development of accounting policy, methods of its creation and practice of compilation was paid attention by domestic scientists, such as D.O. Hrytsyshen, B.B. Evdokymov, S.F. Legenchuk, I.V. Zhyhlei, L.V. Chyzhevska, S.O. Levitska, K.V. Romanchuk, V.M. Parkhomenko, N.A. Ostapiuk, V.B. Mossakovskyi, M.V. Zadorozhnyi, M.V. Koriagin, V.A. Derii, O.I. Pylypenko and others. But in Ukraine there are constant zones, the desire of enterprises to expand their potential in foreign markets, the transition of some enterprises to keep records according to international standards, and so on. Therefore, the issue of accounting policy practice remains relevant and needs constant improvement.

Nowadays, the preparation of accounting policies is not a priority of the most companies. At the initial stage of the enterprise and accounting, most businesses aim to:

drawing up a business plan;

assessment of the state of activity of the enterprise;
determination of ways and terms of receiving profit;
definition of market segments;
indication of factors influencing the activity of the enterprise, etc.

But, no less important should be the issues of organization of accounting and accounting policy in enterprises, as its main element. Control over the accounting, content and reliability of business transactions, the conclusion of contracts, the state of cash, fixed assets, inventories, receivables and payables, the tax system is entrusted to the head and accounting department of the entity. Therefore, at the beginning of the establishment of the enterprise and the implementation of its further activities, to reveal the strengths and weaknesses, accounting policies should play a dominant role.

The issue of methodology and practice of drawing up and forming an accounting policy became widespread at a time when accounting policy became mandatory in enterprises of almost all forms of ownership. In our opinion, the disadvantage is that the preparation of an accounting policy document is not required at the legislative level in small businesses and farms. This would allow micro and small enterprises to systematize their activities in more detail by objects of accounting, to establish a control system, to systematize analytical methods of performance, to identify risks in production and non-production processes, to identify ways to improve accounting and production.

There are many opinions about an essence and purpose of accounting policy. We summarize in Table 1.1 interpretation of scholars to define the concept of “accounting policy”.

As you can see, the most widely disclosed the purpose of accounting policy Shchyrba M.T. and Shchyrba I.M., using which it is possible to ensure the formation of various methods of accounting and valuation of enterprise property, analysis of business operations and results of its activities, the ability to determine the strategy of further development of the entity, taking into account information needs of different users, improving the efficiency of organization and accounting at the enterprise.

According to the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” the company independently determines the accounting policy, which is agreed with the owner or his authorized body (official)[1]. Since the manager is obliged to create all the necessary conditions for clear, correct and reliable accounting, strict compliance with the law by all departments and various services of the enterprise, it is necessary to pay considerable attention to creating a document (order, regulation) on accounting policy.

Table 1.1

Interpretation of the concept of "accounting policy"

Author	Definition
1	2
Deriy V.A.[2]	the accounting policy should be understood as officially approved at the enterprise and granted by the state the right to choose relevant methods and forms, accounting techniques in accordance to its objectives, the specifics of the enterprise and current legal acts
Golovai N.M., Yasyshena V.V.[3]	disclose information that the order of the accounting policy should have a management direction, which will increase the effectiveness of accounting and analytical functions in the management of current activities and strategic development of the enterprise
Polyvana L. [4]	sees in the concept of "accounting policy" replacement of the synonymous term "balance sheet policy", arguing that etymologically we are talking about accounting policy, as accounting policy is designed to provide the company with the necessary methods and methodological approaches to financial reporting

[1] On Accounting and Financial Reporting in Ukraine: Law of Ukraine No. 996-XIV. (1999, July 16). Retrieved from: https://zakon.rada.gov.ua/laws/show/996-14 (accessed 20 August. 2020) (in Ukrainian).

[2] Deriy. V.A. (2003). *Organizatsiia byhgalterskogo obliky v pidpryemstvi: kyrs lektsii* [Organization of accounting in the enterprise: a course of lectures]. Ternopil: Jura, 92 p. (in Ukrainian).

[3] Golovai, N.M., Yasyshena V.V. (2018). *Do pitannia formyvannia oblikovoi polityky yak faktora ypravlinnia dialnistiy subekta gospodarayvannia* [On the issue of formation of accounting policy as a factor in managing the activities of the business entity]. Efektivna economika. Retrieved from: http://www.economy.nayka.com.ua/pdf/4_2018/40.pdf (accessed 13 August 2020). (in Ukrainian).

[4] Polyvana, L., Gubar, A. (2015). *Organyzatsia oblikovoi polityky na pidpryemstvi* [Organization of accounting policy of the enterprise]. Buhgalterskiy oblik i aydit. No. 5, P. 45 - 53. Retrieved from: http://nbuv.gov.ua/UJRN/boau_2015_5_8 (accessed 20 August.2020). (in Ukrainian).

Continuation of table 1.1

1	2
Kulyk V.A.[5]	defines the accounting policy of the enterprise as "a system of methods of accounting and financial reporting, which is used by the enterprise for information support of economic decision-making and provides the most reliable reflection of the facts of economic activity"
Shchirba M.T., Shchirba I.M.[6]	determine the main purpose of the accounting policy of the enterprise, which consists in: streamlining the accounting process and liberalization of the accounting system at the enterprise; ensuring the formation of methods of accounting for the property of the enterprise, business operations and the results of its activities on the basis of its generally accepted principles and rules; ensuring the provision of complete, reliable and unbiased management information for the effective management of financial and economic activities of the enterprise and determining the strategy for its further development; ensuring the formation and timely provision of information to various users on financial reporting indicators; explaining to users of internal and external reporting specific rules and procedures for accounting and reporting; providing accounting with regularity and consistency; improving the efficiency of accounting at the enterprise
Voitenko T.V.[7]	defines the accounting policy as selected by the company, taking into account the established rules and features, accounting methodology, which is aimed at achieving its goals and objectives and is used to ensure the reliability of financial reporting and quality management system

[5] Kulyk, V.A. (2014). *Oblikova polityka na pidpriemstva: nabutyiy dosvid ta persrektivi rozvitku: monographia* [Accounting policy of the enterprise: gained experience and prospects of development]. Poltava: RVV PUET. 373 p. (in Ukrainian).
[6] Shchirba, M.T., Shchirba, I.M. (2017). *Oblikova polityka yak instrument organizatsii ypravlinskogo obliy na pidpriemstvi* [Accounting policy as a tool for organizing management accounting in the enterprise]. Buhgalterskiy oblik, analiz i aydit. Economika i syspikstvo. No. P. 830-837. Retrieved from: http://www.economyandsociety.in.ua/journal/8_ukr/138.pdf (accessed 13 August 2020) (in Ukrainian).
[7] Voitenko, T.V. (2010). *Oblikova polityka* [Accounting policy]. Podatki i buhgalterskiy oblik. No. 1. P. 16-22. (in Ukrainian).

Ukraine has developed its own procedure for accounting at the enterprise, which is specified in the Law of Ukraine "On Accounting and Financial Reporting in Ukraine". We systematize the information in Table 1.2 indicating the advantages and disadvantages.

Table 1.2

Rules of accounting at the enterprise, in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine"

Accounting rules	Section of the Law	Appointment	Disadvantages
1	2	3	4
Questions of the organization of accounting at the enterprise	Part 2 of Art. 8 - disclosure of the issue of accounting	- certain entities must organize accounting, provide conditions for recording business transactions in documents and conditions for their preservation; - display a record of the responsible person who will carry out organizational issues; - indication in the charter of the enterprise (employment contract) with the separation of their responsibilities	it is not specified who may be the authorized body
Choice of form of organization of accounting	Part 4 of Art. 8 - introduction to the staff of the position of accountant; - creation of an accounting service; - services of accounting specialists;	depending on the form of organization, the company draws up an order on accounting policies, the order of the head and job description with the rights and responsibilities of an accounting officer or a contract for services	inaccurate prescribing of rights and responsibilities at enterprises, overloading of work per employee, which reduces the efficiency of work,

Continuation of table 1.2

1	2	3	4
	- conditions of independent accounting by the owner	between the parties	increases the number of errors and late performance of tasks
Approval of the order on accounting policy	Part 5 of Art. 8, Methodical recommendations No. 635	- mandatory indication of the principles, methods and procedures of accounting inherent in the enterprise; - determining the procedure for preparing and submitting financial statements; - taking into account the types of assessment that will be used by the company. It is desirable to describe the estimates that will be applied to different objects of accounting; - accounting policy is mandatory, but should be free to choose its content	there is either low information or overload of irrelevant accounting policy information that does not affect the financial results of the enterprise
Start of accounting at the enterprise	Part 1 of Art. 8	- application of the principle of continuity: accounting is carried out from the date of registration of the enterprise until its liquidation; - reflection of contributions to the authorized capital;	lack of a clear system and definition of all necessary accounting policies in the enterprise

Continuation of table 1.2

1	2	3	4
		- acquisition and accounting for fixed assets and inventories; - reflection in the accounting of receivables and liabilities; - reflection of enterprise costs; - preparation of financial statements, etc.	

Thus, as can be seen from the analysis of this law, the preparation and approval of the document on accounting policy is already given priority in the legislation. Accounting policy is an integral part of the effective operation of the enterprise for a long period, provided there is stability in the tax and market system.

Also, according to this law and the list of enterprises defined by the Cabinet of Ministers of Ukraine, that is enterprises of public interest, public joint stock companies and others, are required to keep records and prepare financial statements in accordance with international standards. Other companies independently determine the feasibility of applying international accounting standards and financial reporting. Therefore, entities that still comply with International Financial Reporting Standards (IFRS) and Accounting Standards (IAS) are required to prepare accounting policies in accordance with international requirements or those that do not conflict with them.

According to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", "Accounting Policies – Specific Principles, Basis, Arrangements, Rules and Practices Applied by an Entity in the Preparation and Presentation of Financial Statements"[8]. That is, as can be seen from this definition, considerable, if not the main,

[8] International Accounting Standard 8 "Accounting Policies, changes in Accounting estimates and errors", No. 929_020, current version as of 01 January 2012 (accessed 19 July 2020) (in Ukrainian).

attention is paid to the preparation and submission of financial statements. However, prior to preparing the financial statements, accounting information must be accumulated, recorded, processed, summarized and evaluated. In our opinion, the basis for the preparation of financial statements are the relevant stages:

– legal value and provability of primary documents for registration of business transactions;

– synthetic and analytical accounting with the analysis of registers and forms of accounting;

– choice of methods of valuation of assets and liabilities of the enterprise;

– analysis of the advantages and disadvantages of the selected assessment methods with an impact on the final result of the activity;

– risk analysis in accounting, production activities and business activities in general;

– analysis of additional activities of the enterprise (social and environmental issues) with an impact on foreign markets and improving investment attractiveness.

That is, in our opinion, the accounting policy is the relevant and essential principles, bases, agreements, rules and practices at the first stage of accounting, its methods and techniques that will facilitate the preparation and submission of financial statements for management decisions and effective choice of strategic directions of the enterprise in order to reduce risks in the process of enterprise activity.

Also, the content and structure of accounting policies are of great importance. IAS 1 Presentation of Financial Statements is a disclosure issue for accounting policies[9]. Paragraph 117 states that an entity shall disclose, in a summary, significant accounting policies:

1) the basis (or bases) of valuation used in preparing the financial statements. Thus, it is important to inform users about the basic assessment, which may be historical cost, current cost, net realizable value, fair value, etc.; the impact of awareness of valuations and analysis by users of financial statements. A group or category of

[9] International Accounting Standard 1 "Presentation of Financial Statements" (revised in 2003 and amended in 2005), No. 929_013, current version as of 01 January. 2012. Retrieved from: https://zakon.rada.gov.ua/laws/show/929_013#Text (accessed 19 July 2020) (in Ukrainian).

assets and liabilities may be designated provided that only one type of measurement is used;

2) other applicable accounting policies that are relevant to the understanding of the financial statements. Indication of all necessary objects of accounting in the accounting policy, which can act as alternatives. Application of the main objects of accounting to meet the needs of users with some detail and taking into account the specifics of their application.

Therefore, before displaying information in accounting policies, it is necessary to determine:

1. The value of information about a particular accounting policy for management;

2. Understanding of information provided by users in the accounting policy and financial statements about the objects of accounting and financial results of activities;

3. The value and usefulness of accounting policies selected from alternatives to IFRS and IAS;

4. Taking into account the needs of users regarding the interest in the assessment and accounting of certain objects of accounting and their possible detail;

5. Disclosure of each significant accounting policy (although this is not required by IFRS).

According to Luchyk G.M., the process of forming an order on accounting policy may have an appropriate structure (Fig. 1.1).

In our opinion, it is possible to single out in more detail the needs of all levels of the structure of the order on accounting policy to facilitate the practice of its preparation:

Organizational level – provides rules for the work of the chief accountant and employees of structural units (with reference to the relevant documents indicating their rights and responsibilities); selection of primary and consolidated documents and implementation of document flow; stages of inventory and methods of distribution of inventory results; application of the working chart of accounts; the procedure for compiling and submitting financial, tax, statistical and non-financial statements; list of internal documents of accounting management reporting.

Technical level – the choice of the simplest and most effective software for registration and processing of all business transactions, preparation of financial and tax reporting, analysis of financial activities of the enterprise (graphical display, dynamics in tabular form, charts, etc.).

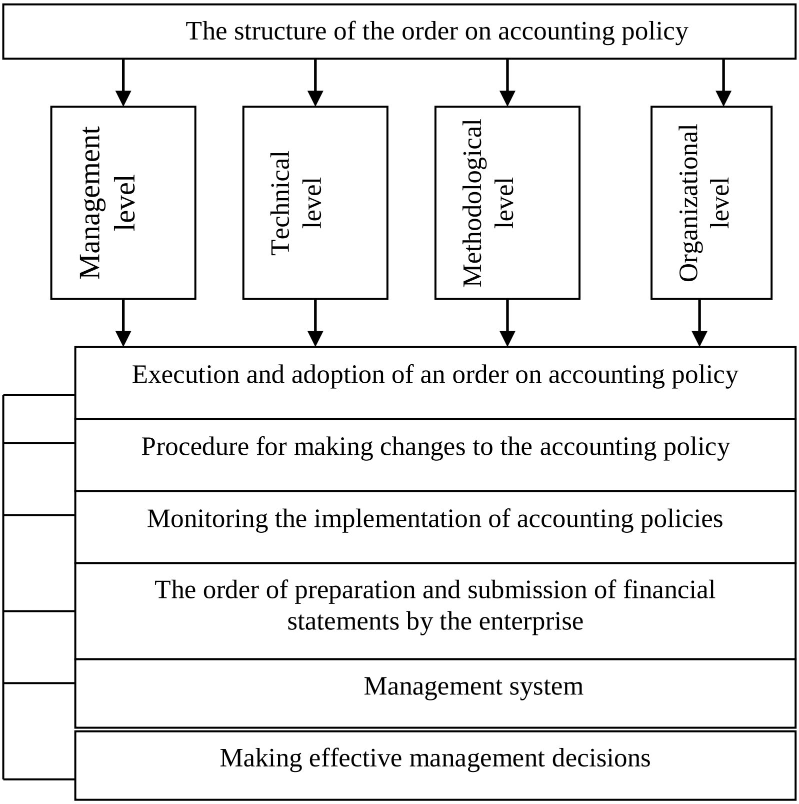

Fig. 1.1. Stages of formation of the order on the accounting policy for management [10]

[10] Luchik, G.M. (2015). *Oblikova polityka yik insryment formyvannia oblikovo-analitichnoi informatsii v ypravlinni* [Accounting policy as a tool for the formation of accounting and analytical information in management]. Effektivna ekonomika. No. 12. Retrieved from: http://www.economy.nayka.com.ua/?op=1&z=4664 (accessed 15 July 2020) (in Ukrainian).

Methodological level – the allocation of methods and procedures for assessing the receipt and disposal of assets and liabilities in the enterprise.

Management level – indication of methods and ways of analysis of financial and economic activities of the enterprise; definition of strategic directions of the enterprise (to prescribe strategy of activity of the enterprise for the certain period, to specify stages of introduction of strategic plans in action, to specify methods and ways of achievement of the purpose); analysis of identified risks of accounting policies.

Also, IAS 1 states that "in the presentation of significant accounting policies or in other notes, an entity shall disclose information about judgments made by management in the application of the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements" [11]:

– the use of various judgments by management to more clearly analyse and understand the amounts in the financial statements in order to influence them;

– the ability to indicate the reasons for the use of a method; reasons for investing, real estate, etc.

Before starting to develop an accounting policy, it is necessary to systematize and model the stages to provide the enterprise activity (Table 1.3).

This systematization will allow the persons who will compile the document on the accounting policy, to accumulate more clearly the information on all accounting policies which need their full account, an estimation and the analysis.

Also, it is necessary to take into account after the analysis of international accounting and reporting standards, whether a standard has been developed for a particular accounting policy or whether other regulations need to be applied. That is, considerable attention should be paid to the application and selection of accounting policies (Table 1.4).

[11] International Accounting Standard 1 "Presentation of Financial Statements" (revised in 2003 and amended in 2005), No. 929_013, current version as of 01 January. 2012. Retrieved from: https://zakon.rada.gov.ua/laws/show/929_013#Text (accessed 19 July 2020) (in Ukrainian).

Table 1.3

Stages of modeling the enterprise for the preparation of accounting policies

Need	Appointment
1	2
Input information	a set of initial data needed to solve problems in the management process
Regulatory information	acquaintance with the normative-legislative base on accounting issues; establishing an information base for obtaining, accumulating and carrying out an analysis of the state and changes in the legislation on contracting enterprises and the activities of the enterprise as a whole
Analytical accounting	detailing of accounting and information elements of accounting objects, their classification; assessment of objects of accounting; calculation by types of products (goods, works, services)
Synthetic accounting	generalization of results of activity on objects of the account on the basis of data of the analytical account; formation of the financial result of the enterprise
Reporting	formation of types of financial statements taking into account the methods of accounting (NP (S) BU or IFRS); creation of forms of management accounting for the needs of management (operational accounting)
Model of analysis of management decisions	creation of enterprise management models; organizational structure of submission, processing, analysis of generalized and processed information by management staff; making management decisions from the group of alternatives for the enterprise; identification and analysis of risks in accounting and management in general
Maintaining an information base	analysis of computer programs for accounting and analytical procedures; selection (creation) of a computer program taking into account the capabilities, specifics and needs of the enterprise
Internal control of economic activity of the enterprise	setting up an internal control system at the enterprise; development of the schedule of carrying out internal control over objects of the account; monitoring the results of internal control

Table 1.4

Selection and application of accounting policies in accordance with IFRS

IFRS is specifically applied to transactions or other events	it is necessary to apply the accounting policy to a specific item with the application of IFRS	Under IAS 8, paragraph 8, such policies are not recommended if the impact of their application is insignificant
However, it is important that non-significant deviations from IFRS and their non-revision may lead to negative consequences in the formation of financial results		
There is no IFRS that is directly relevant to transactions or other events	application of judgments by management during the development and application of accounting policies	relevance of information for the needs of users; reliability of financial statements; indication of the economic essence of operations
It is necessary to take into account the most recent provisions of other bodies that develop standards, various professional literature, industry practices. But these regulatory sources should not conflict with IFRS and the Conceptual Framework for Financial Reporting.		

As IAS and IFRS are not prepared for all accounting items and management personnel consider it necessary to enter information in the accounting policy document, management judgments should be applied to a particular transaction, event, as noted above. Such judgments should be applied both in the development and application of accounting policies. This is to ensure that information was [12]:

– reliable. The reliability should follow from the fact that the financial statements:

a) accurately reflects the financial position, financial performance and cash flows of the entity;

[12] International Accounting Standard 8 "Accounting Policies, changes in Accounting estimates and errors", No. 929_020, current version as of 01 January 2012 (accessed 19 July 2020) (in Ukrainian).

b) reflects the economic nature of transactions, other events or conditions, and not just the legal form;

c) is neutral, free from prejudice;

d) is cautious;

e) is complete in all material respects.

That is, when making such judgments, management should be guided and take into account:

– IFRS requirements for similar and related matters;

– definition of recognition criteria and concepts of valuation of assets, liabilities, income, expenses in the conceptual basis of financial statements.

It is also important to take into account the legal framework, all the requirements that do not contradict IFRS. If an entity accounts in accordance with International Financial Reporting Standards and such standards do not contain certain concepts, national accounting provisions (standards) may be applied, provided that this does not conflict with IFRS and the Conceptual Basis of Financial Reporting. Based on this, we can distinguish two options for implementing a sequence of accounting policies (Table 1.5).

Table 1.5

Sequence of accounting policies

Option 1	Option 2
If IFRSs do not require the category of items to be determined or cannot be identified, entities may disclose them on their own if the information is material to the financial statements	If IFRS defines the categories of objects of accounting, it is important to choose an acceptable accounting policy and the sequence of its application

In essence, an accounting policy is a set of basic principles and rules for accounting for assets, liabilities, income and expenses. That is, in order to properly form a document on accounting policy, it is necessary to know all the requirements for accounting, both according to international financial reporting and accounting standards, and national regulations (accounting standards).

In essence, an accounting policy is a set of basic principles and rules for accounting for assets, liabilities, income and expenses. That is, in order to properly form a document on accounting policy, it is necessary to know all the requirements for accounting, both

according to international financial reporting and accounting standards, and national regulations (accounting standards).

Therefore, to control accounting profit or loss and to keep tax indicators under control, accounting policies should not remain formal. It is a conscious choice between the normative set of possibilities provided by standards. Also, when drawing up a document on accounting policy, it is not necessary to completely rewrite the accounting standards and all the rules that are specified in them. The order must contain certain principles, methods and procedures for carrying out economic activities and assessment of objects of accounting selected by the enterprise for use. That is, the main emphasis should be placed on the nature and content of accounting policies, and the company should indicate such points that are related to accounting and which, according to regulations, provide for more than one application. In the accounting policy document, it is also desirable to indicate the preliminary estimates used by the enterprise to allocate costs between the relevant reporting periods. And thanks to estimates by periods, tax reporting indicators are formed. If one-variant valuation methods are applied to the objects of accounting, it is inexpedient to include them in the administrative document.

That is, each accounting estimate must be formalized by an accounting policy, as the tax authorities may, at any particular time, ask questions about the reasons for choosing the appropriate estimate. This in turn makes it possible to reduce the tax risks that may arise. However, it should be noted that the tax authorities do not have the authority to criticize or assess the correctness of the company's choice of accounting policy.

In order to clearly understand how to keep accounts and not make mistakes in the application of estimates of objects of accounting, in the document on accounting policy it is necessary to clearly prescribe the information (Table 1.6).

These objects of accounting are not a complete list to reflect in the document on accounting policies. The company can independently identify and expand them, according to the activities of the company and management needs.

Table 1.6

Information about objects in the account in the order on accounting policy

Objects of accounting	Information that should be in the order of the accounting policy
1	2
Fixed assets	conditions of recognition of the object and assessment at its acquisition or production; useful life; the choice of measurement after recognition: a) by the cost model or b) by the revaluation model (as specified in IAS 16). When applying the cost model, after recognizing the object as an asset, it is accounted for at cost without accumulated depreciation and accumulated impairment losses. And the revaluation model is used if the fair value of the object can be clearly and reliably estimated. It is necessary to specify the timing and stages of the revaluation, which should be regular, as the carrying amount should not differ materially from the fair value at the end of the reporting period; establishment of the revaluation method: 1) transfer in proportion to the change in the gross book value of the asset or 2) exclusion from the book value of the asset of the net amount, which is transferred to the net amount of the asset; ways to involve an independent appraiser; write-off of revaluation results; ways of carrying out current and capital repairs; ways to reflect depreciation deductions in accounting; indication of one of the depreciation methods: straight-line method, the method of reducing the balance, the method of the sum of units of production; conditions of assessment and reflection in the accounting of leased fixed assets
Stocks	indication of methods of inventory valuation: 1) cost or 2) net realizable value; an approximate list of costs associated with the processing of stocks; determining the formula for the use of cost; taking into account inventory methods, which according to IAS 2 are: identification of individual cost, FIFO, weighted average

Continuation of table 1.6

1	2
	cost, standard costs, retail prices; indication of internal management accounting reports for the analysis of information on the state and movement of stocks by type for in UAS 10 or transfer from one class to another, taking into account the professional opinion of the specialist
Investment real estate	indication of types of investment real estate; development of criteria for consistent application of the judgment in accordance with the recognition of the object as investment property; conditions for recognizing investment property as an asset; types of measurement at recognition and after recognition: 1) fair value model or 2) cost model (according to IAS 40); conditions for termination of use of investment real estate
Receivables	IAS and IFRS do not provide for a separate standard, but information can be derived from IAS 1, IAS 18, IAS 16, IAS 32, IAS 39, IFRS 7, IFRS 9: classification of receivables; terms of recognition and measurement of receivables; reflection of receivables in the balance sheet; the lack of methods for estimating the provision for doubtful debts in international accounting standards and financial reporting allows companies to choose the methods provided
Obligations and security	classification and assessment of liabilities and collateral; identification of risks for the best assessment of collateral; a list of management accounting reports for the analysis of accounts payable and collateral
Cash	indication of types of activity (operational, investment, financial) used by the business entity; determining the components of cash and cash equivalents; determination of the method of preparation of the Statement of cash flows (direct or indirect method)
Equity	the amount of authorized capital; terms of dividend distribution; the order of formation of reserve capital
Income	conditions of recognition and types of income assessment; conditions of recognition of income that brings interest, royalties, dividends; an indication of the method used to determine the degree of completion of operations involving the provision of services;

Continuation of table 1.6

1	2
	indication of methods for determining the degree of completion of operations (which involve the provision of services). IAS 18 provides for the following methods: 1) determining the amount of services provided at a given date as a percentage of the total services to be provided; 2) determination of the share of expenses incurred before a certain date in the total amount of previously estimated transaction costs; 3) review of work performed
Costs	conditions of recognition and types of cost estimation; determination of items of direct and indirect costs; method of distribution of overhead costs

If we consider the practice of compiling accounting policies in accordance with national standards, the issue of changes in financial statements and retrospective application is not widely used. The concept of "retrospective application" is defined in IAS 8 and is the application of a new accounting policy to transactions, other events and conditions as if this policy is always applied[13]. However, this does not prove that entities can make changes and adjustments to their accounting policies on the dates that have elapsed and pretend that no changes have taken place. It should be noted that IFRS 1 allows you to apply a change in accounting policy only in the event of the adoption of a new standard or amendments to existing ones, as well as to increase the informativeness of financial statements. This requirement is justified by the fact that the stability of accounting policies allows you to compare financial statements for different periods. If there is a need to change the accounting policy of the entity will have to re-list the financial statements for the previous three years. This recalculation is called retrospective, which is a general rule for reflecting changes in accounting policies.

Also, considerable attention is paid to the definition of "retrospective transfer" as a correction of the recognition, measurement and disclosure of the amounts of financial statements

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[13] International Accounting Standard 8 "Accounting Policies, changes in Accounting estimates and errors", No. 929_020, current version as of 01 January 2012 (accessed 19 July 2020) (in Ukrainian).

as if there had never been errors in the previous period[14]. That is, all previous indicators of forms of registers and forms of financial reporting are subject to adjustment. This requires significant reasons and explanations for such changes, as these reports have already been made public and the company has been subject to analysis of its activities by external users of accounting information.

It is desirable not to change accounting policies at all. Under IAS 8, changes in accounting policies may be:

– impossible – when the business entity, after all relevant attempts, can't apply certain changes to the objects of accounting that will adversely affect management decisions. Also, for a specific prior period, it is not possible to determine retrospective application or retrospective transfer. As the financial statements contain a significant amount of information about the objects of accounting and their evaluation, there is a difficulty in recalculating the estimates of amounts. The grouping of articles also makes it impossible to objectively separate from the general information more detailed information about such estimates by objects of accounting and the financial statements have already been published;

– long-term application – the recognition of the impact of a change in an accounting estimate may be the application of a new accounting policy to transactions or the recognition of the impact of an accounting assessment in the current and future periods affected by the change. If events and conditions occur after the date of the change in accounting policy, no change can be made;

– significant – if the information of the financial statements is valuable for users and on the basis of their analysis the influence on economic decisions is carried out, the omission or distortion of articles is essential. Significance depends on the size and nature of the omission or distortion assessed in the particular circumstances. Also an important factor may be the size or nature of the article, as well as their combination.

Let's define the main cases of change in accounting policy (Table 1.7).

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[14] International Accounting Standard 8 "Accounting Policies, changes in Accounting estimates and errors", No. 929_020, current version as of 01 January 2012 (accessed 19 July 2020) (in Ukrainian).

Table 1.7

Changes in accounting policies

Cases of changes in accounting policies	Changes in accounting policies are not considered
The change is required by international financial reporting standards	Application of accounting policies to certain transactions, various events that differ in substance from previous transactions
The change may result in the financial statements providing more reliable and relevant information about the impact of transactions, various events or conditions on the financial position, financial performance or cash flows of the entity	Application of new accounting policies to certain transactions and events that were not previously recognized or were immaterial in the accounting and preparation of financial statements

When keeping records and compiling accounting policies, errors may occur regarding the accuracy of recognition of objects of accounting and their evaluation, inaccuracy in the disclosure of information about the elements of financial statements, etc.

Errors can be:

significant – affect management decisions, they can be identified only in fact at the onset of the subsequent period by comparing indicators with the financial statements of the period;

insignificant – errors that are made intentionally in order to provide data that is beneficial to the company.

If an entity wishes or is required to proceed to accounting for international standards, the first application of IFRSs affects the current period (or any prior period) or may have an impact on future periods, and the entity shall disclose such information[15]:

a) the name of IFRS;

b) the fact that the change in accounting policy is made in accordance with its provisions of the transition period (if applicable);

c) the nature of changes in accounting policies;

[15] International Accounting Standard 8 "Accounting Policies, changes in Accounting estimates and errors", No. 929_020, current version as of 01 January 2012 (accessed 19 July 2020) (in Ukrainian).

d) a description of the provisions of the transition period (if applicable);

e) provisions of the transition period that could have an impact on future periods (if applicable);

e) the amount of the adjustment for the current period and each previous period submitted (as far as possible):

(i) for each item in the financial statements affected; and

(ii) for basic and diluted earnings per share, if IAS 33 Earnings per Share applies to the entity;

f) the amount of the adjustment related to the periods preceding the submission (as far as possible);

g) if retrospective application is not possible for a particular prior period or for periods prior to the submission, disclose the circumstances that led to the existence of such a condition and a description of how and since when the change in accounting policy is applied.

Management may also wish to make voluntary changes in accounting policies that will affect the current period, any prior period, the reporting period or future periods. The entity will disclose information about:

a) the nature of the change in accounting policy (preferably indicating the impact of the change on the financial result);

b) the reasons for such changes and confirmation of the provision of reliable and more relevant information;

c) calculation of the amounts of adjustments for the current period and each submitted previous period on the items of financial statements (for which the adjustment occurred).

If retrospective application is not possible for a particular prior period or periods, it is necessary to disclose the circumstances that led to the existence of such a condition and provide a full description of how and since when the change in accounting policy is applied.

In his own research, it has been noted that accounting policies should take into account all changes that occur not only at the legislative level and reflected in the standards of accounting and financial reporting, but also significantly affect management decisions and strategic plans of the enterprise. Recently, business entities have begun to pay considerable attention to social and environmental issues as an integral part of their activities. Large enterprises of Ukraine and those that are defined by law, the last few years, are required to submit a report on management.

This report is in addition to the main forms of reporting and should influence the financial result and effective management decisions. The Balance Sheet, Statement of Financial Performance and other forms of financial reporting do not provide articles to disclose social and environmental issues. The Supplementary Management Report not only discloses information of an economic and financial nature, but also expands users' information opportunities on social and environmental issues. Therefore, such important and problematic issues should find their place in the document on the accounting policy of the enterprise and provide relevant and reliable information to assess its financial and non-financial condition (Table 1.8).

Table 1.8

Additional articles of formation of accounting policy according to requirements of external and internal users are recommended

Accounting policy articles	Questions for disclosure
Social accounting	Staff planning; the schedule of advanced training of employees of different levels; analysis of personnel movement indicators; labour protection conditions and responsible persons; motivational mechanisms for retaining human capital in the enterprise; list of charitable activities (amount of contributions, centers, organizations)
Environmental accounting	List of emissions carried out by the company with reference to the requirements of the Tax Code of Ukraine; references to the norms of deductions in accordance with the Tax Code of Ukraine; cooperation with relevant companies (amount of contributions, centers, organizations); list of environmental protection measures
Strategic accounting	Stages of the adopted strategy at the enterprise for a certain period; indication of costs for the implementation of strategic accounting; list of methods and programs for receiving and processing information; determining a system of balanced scores
Managerial Accounting	List of internal management reports; stages and procedure for their submission

Also, when drawing up accounting policies, it is necessary to pay attention to various factors that will affect the efficiency of the enterprise and management decisions for different periods. An important factor of influence is the risks that arise in the formation of costs, evaluation of objects of accounting, analysis of performance, and so on.

Let's define risks which arise at conducting accounting and drawing up of accounting policy and their influence on final result of financial and economic activity of the enterprise (Table 1.9).

Table 1.9

Risks in accounting and accounting policy

Risks that arise when keeping records	Risks that arise when drawing up accounting policies
1	2
inaccuracies in determining the valuation of fixed assets, inventories, valuation (initial or fair value) of biological assets, additional biological assets, in the initial recognition of agricultural products and in determining the financial result from the initial recognition of agricultural products and additional biological assets	formal availability of an accounting policy document
incorrect choice of depreciation method for the relevant groups of fixed assets	use of borrowed accounting policies that do not comply with the practice of accounting at the enterprise
incorrect procedure for writing off and liquidation of fixed assets	multiple changes to any provision of accounting policies
inaccuracy of classification of objects to fixed assets or low-value non-current tangible assets	frequent changes in the method of depreciation or disposal method
inaccuracy in accounting for revaluation and depreciation of fixed assets, which will affect the profit and amount of equity	attribution to the accounting policy of provisions that do not relate to the preparation of financial statements (overload of the document on accounting policy)

Continuation of table 1.9

1	2
inaccuracy in the analysis of sources of investment income	formal assessment of the level of materiality (omission or distortion of articles)
terms of supply of stocks (drawing up a contract, quality of raw materials, timeliness of delivery, price, terms of payment, uninterrupted production, material flow management)	non-compliance with the requirements of the provisions of the accounting policy may lead to tax risks
production conditions; assortment; markets (consumer analysis)	annual re-approval of accounting policies
lack of clear information on the channels of receipt and expenditure of funds	the presence of provisions that are not applied in accounting
lack of control over the balance of funds on the current account of the bank and cash transactions	lack of careful analysis
late payment from debtors and breach of contract	
lack of a reserve for doubtful debts and an increase in the percentage of doubtful and bad debts	
the choice of the enterprise as an object for investment in the future	
liquidity risk	
inflation and currency risks	
lack of reserve capital, loss	
non-compliance with the terms and conditions of payment of obligations by the enterprise	
loss of the company's authorized capital	
occurrence of unforeseen obligations	
creation and use of collateral for other purposes	
errors in the reflection of business transactions in the accounts	

Thus, the accounting policy is a very flexible document in which you can specify all the information about the company needed to prepare financial statements, insure yourself against unforeseen events, tax risks and minimize the number of risky transactions.

Also, one of the items of accounting policy can be attributed to the methods that will be used by the company to analyse the feasibility of appropriate accounting policies and the activities of the enterprise as a whole (Table 1.10).

Table 1.10

Methodical techniques of carrying out the analysis in accounting policy on objects of the account

Objects of accounting	Methodical techniques of analysis
1	2
Fixed assets	Analysis of the volume and dynamics of fixed assets Analysis of the composition and condition of fixed assets Analysis of the degree of depreciation of fixed assets Analysis of the intensity of recovery of fixed assets Analysis of efficiency of use Reception of systematization of the received results Grouping and generalization of the obtained results Calculation of the amount of unused reserves Indicators of the state and efficiency of use of fixed assets
Stocks	Analysis and synthesis Abstraction (to determine the factors influencing the behaviour of stocks) Documentary (reliability of receipt, storage, evaluation and write-off of stocks, improvement of the document flow schedule) Calculation and analytical techniques (compilation of tables for settlement operations) Generalization and implementation of results (can be submitted in text format for the formation of conclusions and proposals)
Cash	Horizontal analysis of cash flows (analysis of the dynamics of cash flow formation, calculation of their growth rates, analysis of trends in their change) Vertical analysis of cash flows (by operating, financial and investment activities; by centers of responsibility) Factor analysis of net cash flow (using the indirect method - to explain the reasons for discrepancies between financial results and free cash balances

Continuation of table 1.10

1	2
Accounts receivable and accounts payable	Analysis of the dynamics of receivables and payables Acceptance of comparison Graphic way Grouping Balance method Economic and mathematical modelling Quantitative and qualitative analysis of receivables and payables
Financial investments	Technical analysis (supervision of the securities market) Fundamental analysis (assessment of the issuer's market position, condition of assets and liabilities, income forecasting, etc.) Assessment of the impact on the activities of the enterprise environment Assessment of financial risks of investing
Equity	Coefficient method Cost approach (net income capitalization method, cash flow discounting method) Cost method (net assets method, liquidation value method) Market method Capital multiplier EBIT-EPS approach

Therefore, on the basis of the conducted researches it is possible to draw the grounded conclusions:

accounting policy is the relevant rules and principles of accounting for a particular enterprise and an auxiliary document in accounting;

the accounting policy of the enterprise may not contradict the current provisions (standards) of accounting, international standards of accounting and financial reporting (IFRS and IAS) and should not be a simple census of all standards;

in the absence of specific rules only due to the accounting policy the company can justify the financial result and the amount of income tax;

creates grounds for reducing risks in accounting and financial reporting.

1.2. Accounting estimates in IFRS reporting

Each business entity keeps in production certain objects which directly or indirectly influence its financial result. All objects are subject to assessment in the account which method of calculation depends on the purpose of their application and requirements to them.

For the requirements for accounting policies, the issue of accounting valuation is important, as changes in them are the result of new information or new developments.

In general, the assessment is a way of cost measurement of objects of accounting.

International Accounting Standards interpret valuation as the process of determining the amounts by which elements of financial statements should be recognized and reflected in the balance sheet and income statement.[1]

As noted by Koryagin M.V., the implementation of accounting objects is one of the most important prerequisites for the formation of reliable and relevant information accounting system, and knowledge of its fundamental conceptual framework allows users to understand the essence of data and information to be disclosed in financial statements, contribute to effective management decisions. [2]

If we consider the assessment according to national standards, taking into account the principle of prudence, we see that it should not increase assets and reduce liabilities, as this leads to an increase in capital.

V.M. Zhuk approached the issue of valuation in accounting quite widely. He believes that evaluation depends most on institutional influences. Assessment in accounting is a system of professional interpretation of processes and phenomena of life of economic entities in terms of value, carried out according to the “rules of the game” (formal institutions – laws, standards), the methodology of

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[1] Conceptual bases of financial reporting No. 929-009 (2010, September 01). Retrieved from: https://zakon.rada.gov.ua/go/929_009 (accessed 19 July 2021) (in Ukrainian).

[2] Koryagin, M.V. (2018). Otsinka v sistemi *byhgalterskogo obliky* [Valuation in the accounting system]. Effiktivna ekonomika. No. 10. Retrieved from: https://www.economy.nayka.com.ua/?op=1&z=6576 (accessed 19 July 2021) (in Ukrainian).

which ("rules of the game") is formed by economic institutions and their unity at the national and global levels.[3]

That is, approaches to the concept of "assessment" should change with the change of modern requirements for accounting and search for certain ways to improve and stabilize the assessment of objects.

A change in an accounting estimation is an adjustment to the carrying amount of an asset or liability, or the amount of recurring consumption of an asset that results from an assessment of the status of the assets and liabilities and the related expected future benefits and liabilities. Changes in accounting estimation are the result of new information or new developments and, accordingly, are not a correction of errors.[4]

Marenich T.G. generalizes this concept as a common measure of all economic means, sources and processes; component of the method of accounting; the basic principle of accounting and financial reporting; a prerequisite for the functioning of other elements of the method of accounting; expression of institutional interests of institutional groups of national and global scale. [5]

In general, the financial statements provide for different types of valuation, depending on which item is considered and accounted for. This is the historical cost, current cost, present value, cost of sales. Assets, liabilities, expenses, income in accounting are valued according to different approaches and each of them has several types of valuation (for example, as fixed assets, inventories, etc.) (Table 1.11).

IAS 16, in our view, has the disadvantage that it does not specify measurement units for recognition (i.e., what an item of property, plant and equipment consists of). In Regulation (standard) of accounting 7 "Fixed assets" it is provided. Also, IAS 16 requires judgment when applying recognition criteria to specific circumstances of an entity.

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[3] Zhuk, V.M. (2001). B*yhgalterskiy oblik: shliahi virishennia problem praktiki i nayki* [Accounting: ways to solve problems of practice and science: a monograph]. Kyiv: NSC "Instityt Agrarnoi Ekonomiki". 454 p. (in Ukrainian).

[4] International Accounting Standard 8 "Accounting Policies, changes in Accounting estimates and errors", No. 929_020, current version as of 01 January 2012 (accessed 11 July 2021) (in Ukrainian).

[5] Marenich, T.G. Otsynka v *byhgalterskogo obliky* [Valuation in accounting]. PP. 19-25. Retrieved from: http://www.irbis-nbuv.gov.ua (accessed 11 July 2021) (in Ukrainian).

Table 1.11

Valuation of assets and liabilities under IAS

Object of accounting	IAS	Evaluation in accounting
1	2	3
Fixed assets	IAS 16 "Property, Plant and Equipment"	- cost; - fair value; - revalued value; - book value; - liquidation value; - the value determined by the business entity (present value). Depreciation of fixed assets: straight-line method, the method of reducing the balance and the method of the sum of units of production.
Stocks	IAS 2 "Inventories"	- net realizable value; - fair value; - cost (methods of determining the cost estimate: the method of standard costs, the method of retail prices); - book value of inventories. Inventory write-off methods: FIFO, weighted average cost, cost identification.
Receivables	There is no separate IAS, IAS 10 "Receivables"	According to the Regulation (standard) of accounting 10: - current receivables – is reflected at cost; - long-term receivables – are stated at current value. According to IAS 39 "Financial Instruments: Recognition and Measurement": - valuation at amortized cost using the effective interest method. According to IAS 1 Presentation of Financial Statements: - receivables are considered and trade, which is reflected in the financial statements at net realizable value without specifying the original cost and the amount of the provision for doubtful debts.

Continuation of table 1.11

1	2	3
Obligations	IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”	- the best estimate of expenses; - assessment of results and financial impact (determined on the basis of judgments of management of the entity); - present value; - historical cost – the cost of sales (repayment); - current cost.

Therefore, which classes of fixed assets to allocate – is the prerogative of each enterprise. Also, this IAS does not allocate low-value non-current tangible assets and for the most part their value is immediately written off. But, in our opinion, allocation of fixed assets in classes should be obligatory as for various classes it is possible to choose various models of an estimation. At a revaluation the simultaneous estimation of objects of fixed assets of one group that gives the chance not to make mistakes in doubling of increase in cost of the same object has to be an obligatory requirement.

The lack of a cost criterion in international standards is also a disadvantage. Information that is not reflected in the financial statements is irrelevant. However, determining whether information is relevant or not should be based on the high competence of the company’s management to apply professional judgment.

If we consider the assessment of receivables according to international standards, then separate IAS and IFRS are not provided. Issues of receivables as:

– method of reflection in the financial statements (IAS 1 “Presentation of Financial Statements”);

– recognition and accounting for receivables as a financial instrument and termination of its recognition as an asset (IAS 32 “Financial Instruments: Presentations” and IAS 39 “Financial Instruments: Recognition and Measurement”);

– requirements for disclosure of receivables in the reporting (IFRS 7 “Financial Instruments: Disclosures”).

Also, a broader classification under UAS 10 “Accounts receivable”, which classifies receivables as ordinary, doubtful and bad. A big advantage is the use of the method of calculating the provision for doubtful debts, which allows for partial compensation of bad debts. As IAS and IFRS do not provide for such classification and creation of the provision for doubtful debts, Ukrainian companies (which keep records according to international standards) may still apply the requirements of UAS 10 and existing methods for calculating the provision for doubtful debts.

As for the issue of liability, it is regulated by many international standards and is often not adapted to the realities of Ukrainian business, including different approaches to evaluation. The basis of the assessment is the historical value. But if there is a specific type of obligation, it can be combined with other types of assessment. Therefore, it is important to consider the contractual terms, types of obligations specified in individual financial transactions, etc.

Also, in the financial statements, some liabilities are subject to adjustment. For example, arrears on advances issued or received are adjusted by the amount of value added tax. Therefore, it is necessary to compile accounting certificates with information on the balances of liabilities and amounts of tax credit and tax liabilities and the algorithm for their calculation. This will avoid errors in the preparation of financial statements.

If we consider the assessment of income and expenses, we note that the new International Financial Reporting Standard 15 “Income from contracts with customers” was introduced. However, this standard does not establish specific rules for revenue recognition and measurement. It can be noted that international standards are still more focused on conducting transparent business, as this standard contains a set of principles for independent decision-making.

Therefore, to ensure comparability of financial statements of different companies, countries, etc., valuation methods must be identical. In general, valuation is an important element of accounting and the most complex. The balance sheet and forms of financial statements are based on and formed based on valuation results, and in themselves lose their essence. The conclusions which are formed since data of the financial reporting essentially depend on a correct estimation of objects. Therefore, approaches to the choice of valuation methods should be based on user needs, but not be the result of manipulation of financial results. Also, the methods of assets and liabilities should still be determined for all objects by international standards and / or at the level of legislation. But, as practice shows, IFRS often requires professional judgment, which is not always effective for our society.

There are always several factors in economic activity that lead to uncertainty. Therefore, when preparing financial statements, there are articles that are difficult to assess and can only be approximate.

As stated in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, preliminary estimates may be required:

– bad debts;

– aging of stocks;

– the fair value of financial assets or financial liabilities;

– the usefulness of the depreciable assets or the expected pattern of consumption of the economic benefits embodied in them;

– warranty obligations.[6]

Such preliminary estimation is connected with judgments which are connected with the last research and the last information.

In the financial statements there is an opportunity under IFRS to review accounting estimates and their changes. Changes in accounting estimates may be influenced by analysis of the impact of accounting valuation methods on the financial result, previous experience, legislative changes, etc. This revision of estimates will not apply to prior periods and is not a correction of the error.

According to IAS 8, the effect of a change in an accounting estimate is recognized prospectively, including its gain or loss:

a) in the period when the change occurred, if the change affects only this period;

b) in the period when the change occurred and in future periods if the change affects them together.

Individual items of financial statements can only be assessed in advance, as there are many uncertainties in business activities. Any item in the financial statements may be subject to prior assessment, which in turn may have tax consequences.

Under IAS 8, there are certain rules for reflecting changes in accounting estimates or their additions:

– retrospective application;

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[6] International Accounting Standard 8 "Accounting Policies, changes in Accounting estimates and errors", No. 929_020, current version as of 01 January 2012 (accessed 11 July 2021) (in Ukrainian).

– promising application (Table 1.12).

Table 1.12

Rules for reflecting changes in the addition of accounting estimates in accordance with IAS 8

Retrospective application	Promising application
Cannot apply: - if retrospective application requires significant estimates of amounts and it is objectively impossible to distinguish information about estimates for different periods, which: provides evidence of the circumstances that existed at the date on which these amounts are to be recognized or measured; was available when the financial statements for that previous period were approved for issue.	Changes in accounting estimates reflect prospects. Recognition of the effect of accounting estimates in the current and future periods affected by the change.

In our opinion, the accounting estimates for the reporting period should not be variable. This will enable businesses:

– avoid tax differences;

– assess the possibilities and impact of the choice of accounting valuation on the financial result of the enterprise;

– carry out the analysis of efficiency of the chosen estimation on objects of the account;

– identify risks in selecting and applying the valuation of assets and liabilities.

Changing the choice of valuation method for assets and liabilities may depend on:

– decision-making of management staff to change the applied methods to others;

– changes in legal requirements and accounting and financial reporting standards;

– the impact of accounting estimates on future periods (prospects).

It is a mandatory requirement when changing the accounting estimate of the adjustment of information in the accounting policy document if such changes are significant. Here are examples of changes in accounting estimates (Table 1.13).

Table 1.13

Changes in accounting estimates

Objects of accounting	Changes in accounting estimates[7]
1	2
Fixed assets	Changes in the amount of liquidation value, pre-estimated costs for dismantling, relocation or restoration of fixed assets, useful lives, depreciation methods
Financial instruments carried at amortized cost	Changes in maturities, interest rates
Financial lease	Changes in the lease term, the number of minimum payments, interest rates on rent
Receivables	Changes in circumstances that indicate a deterioration in the solvency of the counterparty and are the basis for the reflection of receivables in the assets of the enterprise at net realizable value and the creation of a provision for doubtful debts; circumstances that indicate the restoration of the solvency of the counterparty is the basis for the restoration of receivables in the assets of the enterprise and reduce the provision for doubtful debts
Impairment of assets	Changes in the circumstances that indicate the impairment of assets; circumstances that indicate the restoration of the usefulness of assets; determining the fair value of assets
Creating reserves	Changes regarding the assessment of creation of reserves; assessments of the creation of warranty obligations; estimates of the creation of reserves for restructuring; assessment of the creation of reserves for legal or constructive obligations arising from past events.

Accounting estimates by their nature are mostly approximate values. They need to be reviewed in cases where additional information appears. When changing the depreciation period, its methods, etc., such changes do not lead to retrospective adjustment

[7] Accounting policies and accounting estimates in accordance with IFRS. (20160. Visnyk Magazine. No. 22 (880). Retrieved from: https://visnuk.com.ua (accessed 25 July 2021) (in Ukrainian).

of reporting. Such objects are accounted for in the period in which the change occurred and subsequent reporting periods (if the change affects them).

According to IFRS 1 “First-time Adoption of International Standards in Financial Reporting”, when transitioning to IFRS reporting, it is necessary to consider that an entity shall:

– in the statement of financial position to apply IFRS when measuring all recognized assets and liabilities (paragraph 10);

– previous IFRS estimates at the date of transition to IFRSs should be consistent with previous estimates made at the same date under previous IFRSs (after adjustments to reflect any differences in accounting policies) (paragraph 14);

– it may be necessary to make a preliminary assessment in accordance with IFRS on the date of transition to IFRS, which were not required at that date under previous GAAP (paragraph 16). Then, preliminary estimates at the date of transition to IFRS of market prices, interest rates or exchange rates reflect market conditions at that date.

When preparing the first financial statements in accordance with IFRS:

– financial assets and financial liabilities – valuation is carried out at fair value with the result of revaluation as profit or loss;

– property, plant and equipment, investment property, intangible assets – an entity may use fair value as a reasonable cost and disclose in the statement of financial position:

a) the amount of those fair values;

b) the amount of balance sheet value adjustments reflected in the reporting under previous GAAP;

– investments in a subsidiary, jointly controlled or associate include:

a) the total reasonable cost of those investments for which the appropriate cost is the book value under previous GAAP;

b) the total reasonable cost of those investments for which the reasonable cost is their fair value;

c) the total adjustment of the carrying amount reflected in the reporting under previous GAAP.

If an entity applies interim financial statements, in accordance with IAS 34 Interim Financial Reporting, it is necessary to specify in the notes:

– the nature and amounts of changes in estimates of amounts reflected in previous interim reports of the current financial year, or changes in estimates of amounts in reports of previous financial years;

– estimation of profit or loss of the segment.

Of the general rules for the assessment of IFRS 1 provides for exceptions, which are divided into (Table 1.14).

Table 1.14

Types of exceptions to the general rules of evaluation

Types of exceptions	Appointment	IFRS, IAS
Voluntary exceptions	The company independently decides on the appropriateness of their use. They include: - business combination before the date of the initial statement of financial position - fixed assets, intangible assets and investment property are stated at cost; - actuarial gains and losses; - accumulated currency transfer reserve; - complex financial instruments; - assets and liabilities of subsidiaries, associates and joint ventures; - transactions for which payment is made based on shares. These assets at the beginning of the year may be measured at the first application of IFRS at fair value.	IFRS 3, IAS 19, IAS 21, IFRS 32
Mandatory exceptions	- definition of financial instruments; - hedge accounting; - retrospective accounting estimates; - assets classified as held for sale and discontinued	IAS 39, IAS 35, IAS 8

Thus, the assessment can be considered from both objective and subjective theories. The assessment within each enterprise is focused on the fact that the same object has a different value, and therefore is reflected in the balance of all in their own way.

Therefore, we can conclude that the assessment for the objects of accounting:

must be stable over a period of time to determine its accuracy and effectiveness;

analysis of the impact of methods of valuation of assets and liabilities on the financial result of the enterprise;

development of professional judgment on the terms of professional development of accounting staff and, accordingly, the creation of a staff of accountants-analysts;

control over changes in the valuation issue in the document on accounting policy (based on retrospective and prospective analysis of the valuation of objects);

carrying out of constant monitoring of reliability of an estimation of objects at their receipt and departure.

1.3. Formation of the management accounting system based on the principles of international standards

Enterprise management is a continuous process, which is constantly improving and developing. At the present stage, as is well known, the management of the enterprise is engaged in managers of higher levels of management – director, managers, owners and for them, a very important aspect is the certainty in that. The company is profitable, has a rational scheme of resource use, fulfills its obligations in a timely manner, and operates in accordance with the law without violating the statutory rules. To fulfill these expectations, managers are required to set specific goals, objectives, develop planning, control and supervise all activities of the economic entity.

Management accounting plays an important role in all of these processes, because it is intended to provide the internal stakeholders with the necessary information, which will help in the future to make good managerial decisions.

The information formed and accumulated by the management accounting in the internal environment of the company is subject to further processing and has an impact on the further development strategy of the company, and must meet certain requirements (Fig. 1.2).

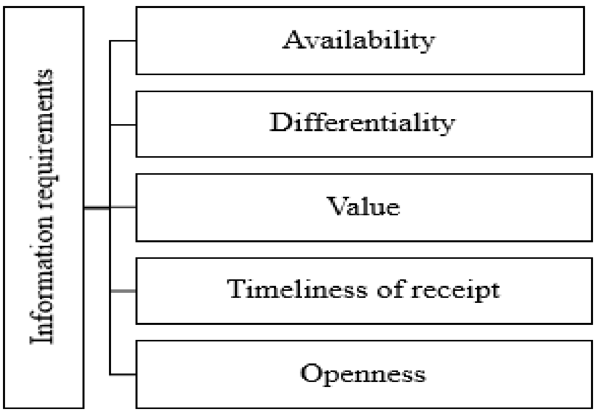

Fig. 1.2. Requirements for information used in making management decisions

The main motives for the necessity of using management accounting at enterprises were the emergence of different forms of ownership and fierce competition.

The problems of development and improvement of management accounting have been dealt with by many scientists, both domestic and foreign: F.F. Butinets, S.F. Golov, A. Welsh Glen, B. Ryan, M.S. Pushkar, R. Garrison, J.R. Hensen, M.M. Moeven, A.M. Kuzminskii, V.V. Sopko, M.G. Chumachenko, G.G. Kireitsev et al.[1] An examination of various sources leads to the definition of the concept of "management accounting", the main ones are presented in Table 1.15.

Table 1.15

Notion of managerial accounting from the point of view of various scientists

No.	Description	Description Author, source of information
1	Management accounting is a process within the organization that provides the management apparatus of the organization with information that is used to for planning, own management and control of the activities of the organization.	R. Antoni and J. Rice
2	Management accounting is an independent subsystem of accounting with its own subject, method and objectives, which is tightly linked to the management system and is aimed at reducing production costs and increasing the profits of the company.	Pushkar M.S.[2]
3	Under the management accounting we understand the process of detection, measurement, accumulation, analysis, preparation, interpretation and transfer of information that is used by the management team for planning, evaluation and control in the entire enterprise.	Butinets F.F.3

Source: developed by the authors

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[1] Yakovenchuk, O. O. (2010) Upravlinskyi oblik: sutnist, zmist ta pryntsypy vedennia [Management Accounting: essence, content and principles of maintenance]. Available at: http://www.rusnauka.com/31_PRNT_2010/Economics/73667.doc. htm. (accessed 11 November 2021). (in Ukrainian)

[2] Pushkar, M. S. (2016) Upravlinskyi oblik [Management Accounting]. Ternopil: "Poligrafist" LTD, 2016. P. 132. (in Ukrainian)

[3] Butinets, F. F., Chizhevska, L. V., Gerasimchuk, N. V. (2014) Bukhhalterskyi upravlinskyi oblik [Accounting Management Accounting]. Zhytomyr: ZhlTL, 448. (in Ukrainian)

Proceeding from the information given in Table 1.15, it should be noted that in all interpretations of the management accounting there is a dependence, which can be seen as the most important common figure – the main task of the management accounting is to provide uninterrupted information, necessary for making management decisions by the appropriate management levels of the company.

In general, the main content of the management accounting can be represented schematically (Fig. 1.3).

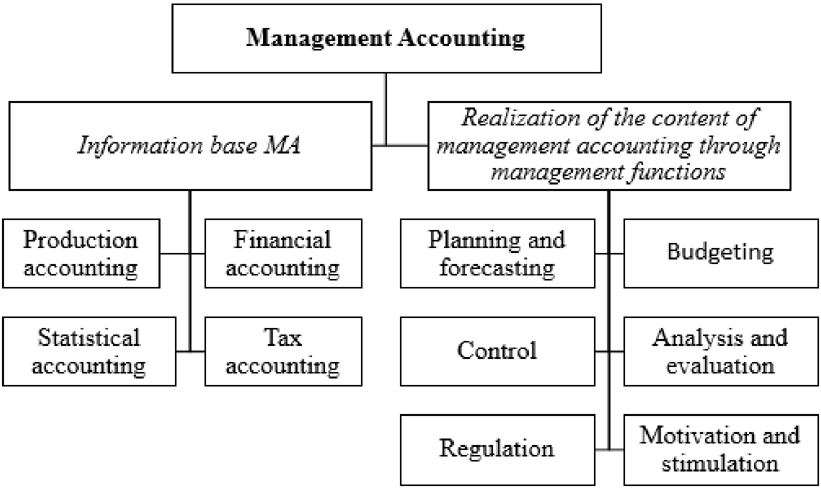

Fig. 1.3. Scheme of the content of the management accounting
Source: developed by the authors

It should be noted that the management accounting exists as a separate type of accounting, however, the main informational basis for it is the accounting, and therefore it must comply with its general principles.

But the management accounting is also characterized by specific principles that make it unique and important:

– the principle of methodological independence means that each company establishes its own rules of organization and methodology of management accounting;

– the principle of orientation towards achieving strategic goals of the company – means that when making decisions at any level and choosing the best one, the interests of the company as a whole should be a priority;

– principle of assessment of the results of activity of structural divisions of the enterprise, which involves identifying trends and prospects for each division in the formation of the profits of the company from production to sales of products;

– the principle of efficiency means that when performing any activities should consistently compare the costs incurred in the result of activity, with the result obtained; in this case, the result must exceed the costs;

– the principle of accountability means that for the value of costs and results is the responsibility of the person who controls them.[4]

Management accounting is an integral part of the entire accounting system of the company. It is an intrinsic internal accounting that requires its own standards, rules of maintenance, analysis, as well as the most important element – reporting.

We will consolidate the following functions of management accounting (Fig. 1.4).

The organization of effective activity of any business entity depends on the timely receipt by the manager of prompt and reliable information about the status of the object of management. Formation of such information is one of the main tasks of accounting representation of economic activities is ensured by appropriate forms of management reporting.

Instability, ambiguity and risks that occur under market conditions, require constant improvement dynamics by state actors to ensure the competitiveness of finished products and the search for ways to increase the efficiency of economic activities.

Efficient operation of enterprises in conditions of rapid development of digital economy is not possible without the current information support of the management process, which is ensured by

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[4] Yakovenchuk, O.O. (2010) Upravlinskyi oblik: sutnist, zmist ta pryntsypy vedennia [Management Accounting: essence, content and principles of maintenance]. Available at: http://www.rusnauka.com/31_PRNT_2010/Economics/73667.doc. (accessed 11 November 2021). (in Ukrainian)

the system of digitalization of production and formation of management reporting that would meet international standards.

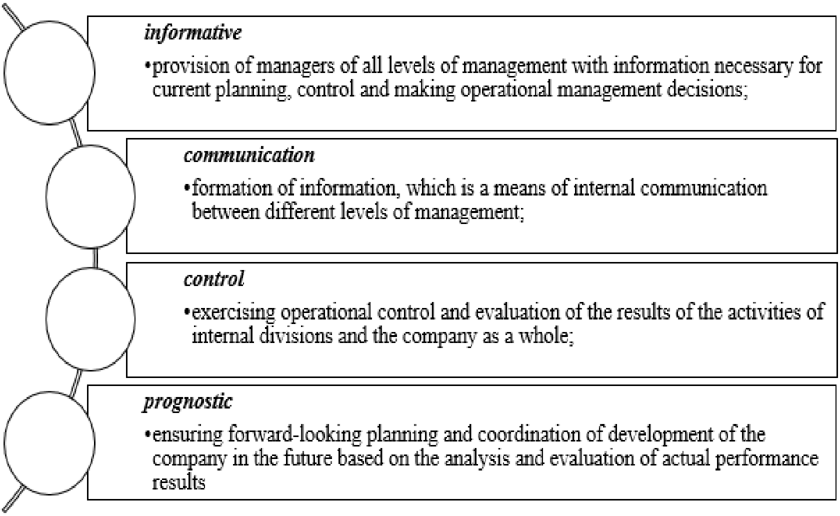

Fig. 1.4. Functions of management accounting

For effective management of the enterprise requires a wide range of information data. In the management accounts are formed not only accounting information, which is provided as the information basis for effective functioning of any enterprise, but also indicators that characterize business activities of the company and these data reduce the risk of negative consequences and results and alleviate the factor of uncertainty.

Management reporting is a system of accounting and analytical information in the form of interrelated indicators, formed on the basis of consolidation and systematization of financial and non-financial target information about the activities of the company and its structural divisions, is designed for internal managers for the planning, control and decision-making of current and strategic nature, in the form of reports in the form and in terms that meet the needs of users.[5]

[5] Chubenko, A. G., Loshitsky, M. M., Pavlov, D. M., Bichkova et al. (2018). Zvit pro upravlinnia [Management note] *Terminolohichnyi slovnyk z pytan zapobihannia ta protydii lehalizatsii (vidmyvanniu) dokhodiv, oderzhanykh zlochynnym shliakhom, finansuvanniu*

Management information is information about the results and plans of the company's activities. It includes financial, operational, production and other indicators. This information is primarily required for the company's managers and executives. On the basis of this information management can make decisions, set goals, determine key performance indicators (KPIs) and control the company's activities.

Each company develops management accounting statements taking into account the specifics of internal business activities using general theoretical approaches and thus selects the optimal structure of its internal structure.

M.O. Lyubimov notes that management reporting is an integrated system of information support for the management process, the purpose of which is to ensure the information needs of users, which consists in the formation of indicators based on information received in various accounting subsystems, and the preparation of reports in the form and in terms of respond to the requests of different groups of users[6].

A. Kh. Pozov considers that the importance and extraordinary significance of internal management reporting is that it is a tool for managing the economy (a means of providing information for the management process; a means for monitoring the economic state of the enterprise) and a tool for managing information provision (a means of adapting and monitoring of the accounting system to management needs)[7].

According to O. V. Karpenko, management reporting is considered as a system of reports on the enterprise as a whole and on individual aspects of its activity in order to provide internal users

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teroryzmu, finansuvanniu rozpovsiudzhennia zbroi masovoho znyshchennia ta koruptsii [Terminological dictionary on the issues of preventing and combating legalization (withdrawal) of proceeds obtained by malicious means, financing of terrorism, financing the spread of weapons of mass destruction and corruption] Kyiv: Vaite, 279. ISBN978-617-7627-10-3. (in Ukrainian)

[6] Liubymov, M. O. "Formuvannia upravlinskoi zvitnosti pidpryiemstv (na prykladi kharchovoi promyslovosti)" [Formation of management reporting (for example, the food industry)]. Avtoref. dys. ... kand. ekon. nauk : 08.00.09, 2012.

[7] Pozov, A. Kh. "Formuvannia vnutrishnyohospodarskoi (upravlinskoi) zvitnosti promyslovykh pidpryiemstv" [Formation farm (management) reporting industry]. Avtoref. dys. ... kand. ekon. nauk : 08.00.09, 2013.

with the necessary information to justify management decisions[8].

K.E. Nagirska reveals the system of management accounting as one aimed at satisfying informational needs of the management (both macro- and micro-, and micro level) by providing users with interrelated indicators that allow to evaluate and control, predict and plan the activities of the company[9].

Summarizing a significant number of studies on the definition of management reporting M.M. Shyhun formulated: on the one hand, management reporting is an element of accounting, a method of summarizing and presenting information about the results of the enterprise's activities (Methodical approach).

On the other hand, it acts as a system of generalized and interconnected economic indicators that characterize the production and financial and economic activity of the enterprise for a certain period (content approach). Since the accounting cycle ends with reporting, management reporting by its nature includes not only a system of economic indicators, but also acts as a set of methods and techniques for summarizing accounting data[10].

The main components of the conceptual framework of formation of managerial accounting are interrelated elements, namely: the goal, functions and main tasks, principles and requirements for information (Fig. 1.5).[11]

The concept of management accounting includes both the concepts of accounting and financial accounting and financial statements, and the concepts of management accounting and system concept of effective company management, i.e. scientific concepts of

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[8] Karpenko O. V. (2011) Klasyfikatsiia upravlinskoi zvitnosti yak osnova rozuminnia y ii sutnosti [Classification of management reporting as a basis for understanding its essence]. *Collection of scientific works of Ostrozka Academy. Economy Series*, 16, 145-151. (in Ukrainian)

[9] Nagirska, K. E. (2012) Naukova kontseptsiia upravlinskoi zvitnosti i systemnyi pidkhid do pobudovy ta rozvytku [Scientific concept of managerial accounting and systematic approach to the formation and development]. *Collection of scientific works of the All-Union Academy of Science,* 1, 78-85. (in Ukrainian)

[10] Shyhun M. M. (2008) Vydy zvitnosti pidpryiemstv: pidkhody do yikh klasyfikatsii [Types of enterprise reports: approaches to their classification]. *Problems of the theory and methodology of accounting, control and analysis,* 3 (12), 432–443. (in Ukrainian)

[11] Nagirska, K. E. (2012) Naukova kontseptsiia upravlinskoi zvitnosti i systemnyi pidkhid do pobudovy ta rozvytku [Scientific concept of managerial accounting and systematic approach to the formation and development]. *Collection of scientific works of the All-Union Academy of Science,* 1, 78-85. (in Ukrainian)

forming management accounting and financial statements of enterprises have interrelated elements: principles of composition and presentation, requirements for management information, purpose, functions and main tasks.

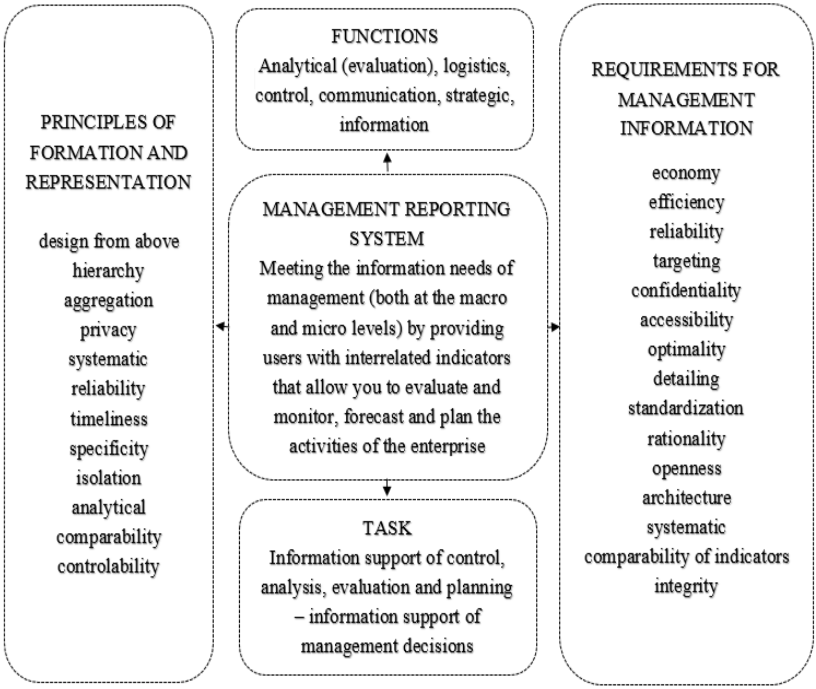

Fig. 1.5. Scientific concept of formation of management accounting

Therefore, we have systematized the principles of management reporting and distinguish three groups of principles of management reporting (Table 1.16).

The principles of formation of management accounting are the same as the principles of forming financial accounting reports specified by the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”, It is also advisable to take into account the above-mentioned principles when maintaining accounting records in accordance with accounting policy according to international standards (Article 4 in the wording of the Law of Ukraine of 05.

10.10.2017 No. 2164-VII).[12]

Table 1.16

Principles of management accounting

Principles that define the theoretical basis of management accounting	Systematicity
	Scientificity
	Existence of equidistance (equality)
	Quantitative assessment
	Consideration of time value of money
	Both values
	Quality assurance
Principles that determine the composition and structure of management reporting	Usefulness
	Adequacy
	Brevity
	Qualitative materiality
	Continuity and comparability of data
	Individuality
	Rationality
	Clarity, clarity and analyticalness
	Automation
	Manufacturability
	Flexibility, but homogeneity of structure
	Addressability
Principles that determine the procedure for preparing management reports	Certainty
	Independence
	Sequence
	Priority of content over form
	Documentary
	Integrated information base
	Operate
	Confidentiality
	Professional judgment

Source: formed and summarized by the authors

Comparison of basic principles of formation of managerial accounting of the company with principles of formation of financial accounting according to international standards (Table 1.17).

[12] Zakon Ukrainy "Pro bukhhalterskyi oblik ta finansovu zvitnist v Ukraini" [Law of Ukraine «On Accounting and Financial Accounting in Ukraine»] (1999). *Vidomosti Verkhovnaia Rada of Ukraine (VVR).* 40. 365) *with amendments and additions* No. 2545-VIII dated 18.09.2018, VVR. 2018. 44.354 № 465-IX. dated 16.01.2020. (in Ukrainian)

Table 1.17

Comparison of Basic Principles of Generation of Financial Statements of NP(s)BOs and IFRS

Principles of accounting in accordance with AR (s)	The content of accounting principles in accordance with NAR(s)	Principles of management reporting	Compliance with IFRS
1	2	3	4
Full coverage	The financial statements should contain all information about the actual and potential consequences of business transactions and events that may affect the decisions made on its basis	Principles that determine the composition and structure of management reporting	Comply with IFRS
Autonomy	Each enterprise is treated as a legal entity separate from its owners, and therefore the personal property and liabilities of the owners should not be reflected in the financial statements of the enterprise	Principles that determine the procedure for preparing management reports	Comply with IFRS
Sequence	Constant (from year to year) application of the chosen accounting policy by the enterprise. Changes in accounting policies are possible only in cases provided for by national accounting regulations (standards), international financial reporting standards and national accounting	Principles that determine the procedure for preparing management reports	Comply with IFRS

Continuation of table 1.17

1	2	3	4
	regulations (standards) in the public sector, and must be substantiated and disclosed in the financial statements		
Continuity	Valuation of assets and liabilities of the enterprise is based on the assumption that its activities will continue	Principles that determine the procedure for preparing management reports	Comply with IFRS
Accruals	Income and expenses are reflected in the accounting and financial statements at the time of their occurrence, regardless of the date of receipt or payment of cash	Principles that determine the composition and structure of management reporting	Comply with IFRS
The predominance of essence over form	Transactions are accounted for in accordance with their nature, and not only on the basis of legal form	Principles that determine the procedure for preparing management reports	Comply with IFRS
The only monetary measure	Measurements and generalizations of all business operations of the enterprise in its financial statements are carried out in a single currency	Principles that determine the theoretical basis of management reporting	Comply with IFRS

Source: developed by the authors

Principles defined by international standards or national accounting regulations (standards), or national accounting regulations (standards) depending on which of these standards is used by the company conceptually can differ from the NRS(c)BO and IFRS, namely:

– in contrast to the IFRS, which run on the principles of NP(c)BO is essentially shorter and run on the rules. In the absence of clear guidelines on any matter, there is no reference to “best practice” to be used by the company.

– if the use of certain positions of the IFRS is not appropriate, the IFRS allow the management of the company to deviate from the requirements of the IFRS, the NA(S)BO do not give such a possibility to enterprises.

– the strict adherence to the form of financial statements in NP(s)BO. INBO 1 does not define a strict order or format to be used for financial statements.

The basic principle of management reporting, which affects the speed of taking specific management decisions, is the principle of reliability.

The quality of managerial control is impaired if the reporting contains information that is not trustworthy or needed by managers.

The principle of promptness of formation and presentation of management reporting is important when the decision is limited to the terms of its adoption.

When preparing managerial accounting, it is necessary to establish control over the compliance between the speed of information delivery and its accuracy and to ensure an immediate link between the financial and managerial accounting data.

In practical activity, the managing subjects are recommended to take into account the global management accounting principles developed by CIMA and AICPA, the efficiency of which was tested in 20 countries on five continents.

The aim of the global principles is to focus on achieving successful results. Management accounting is not able to solve all the problems facing the enterprises, but it contributes through the development and implementation of the strategy of the enterprise, which is achieved by the successful formation of managers at all levels and orients the leaders to approaches in the organization of management. enterprises.

Optimization of decision-making process at the enterprises depends on efficient management accounting, which is based on four principles, which reflect fundamental values, values, standards and characteristics. Formation of factual and analytical information for making decisions is carried out taking into account social and environmental obligations.

Accounting practitioners must have knowledge of the operational impact of global principles on the results of economic activity and ensure the strategic decisions of management personnel to ensure the principle of continuous activity of economic entities.

Therefore, experienced and competent professionals in management accounting have to adhere to and apply in practice the basic principles:

– communication generates information (influences the development and implementation of the strategy and contributes to making effective decisions);

– the information is relevant (the best available, reliable and accessible, contextualized);

– the impact on cost is analyzed (it models the maintenance of understanding of the options and the choice of actions, which are determined by their impact on the result);

– intelligent management inspires trust (diligence and reliability, steel development, professional integrity and ethics).[13]

Under the conditions of globalization of the development of enterprises in Ukraine, the actual problem is the organization of management accounting at the enterprise and accordingly the system of formation of management reporting, would not only comply with modern conceptual approaches, take into account the principles of accounting statements according to international standards and global principles of management accounting, but would contribute to the efficiency and effectiveness of the activities of enterprises of different forms of ownership in terms of technological transformation, increased information processes, the formation of new notes of consumption of the development of processes related to the process of digitalization of integration in the current market conditions.[14]

Digitalization has made its own adjustments to the concept and

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[13] Hlobalni pryntsypy upravlinskoho obliku, rozrobleni CIMA ta AICPA [Global Management Accounting Principles, developed by CIMA and AICPA]. Available at: http://surl.li/amdma. (accessed 11 November 2021). (in Ukrainian).

[14] Zakon Ukrainy “Pro Kontseptsiiu Natsionalnoi prohramy informatyzatsii” [Law of Ukraine “On the Concept of the National Informatization Program”] No. 75/98 of 11.08.2013. Available at: http://zakon.rada.gov.ua/laws/show/75/98-%D0%B2%D1%80. 192. (accessed 11 November 2021). (in Ukrainian).

principles of management reporting. Finding the optimal balance between modern information technology and business processes of business entities is an important task for the company's management.

To complement or integrate the modern IMSMS (information systems of management accounting) and ensure informational compliance with the new requirements of modern tools of the IMS of any business entity, will allow the presence of a wide range of new technologies and digitalization system of reporting entities.[15]

Formation of management accounting entities based on the above principles in the system of digitalization will allow to implement an information strategy for interaction between the heads of departments and processes, which ensures instant managerial decision-making on the efficient use of the company's economic resources (Fig. 1.6).

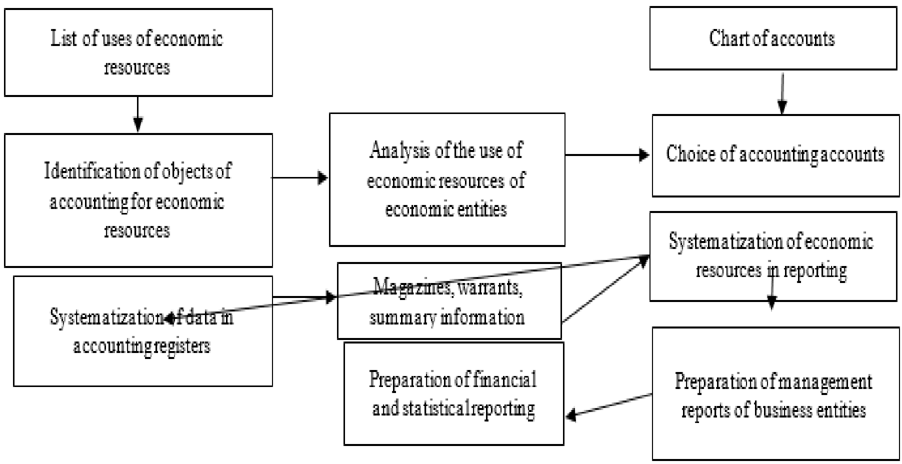

Fig. 1.6. Model of automation of management accounting of economic resources of state management entities

Source: made by the authors independently

[15] Osmyatchenko,V., Tokar, V. (2018) Prohramne zabezpechennia bukhhalterskoho obliku na zasadakh autsorsynhu [Program support for accounting on the basis of outsourcing]. *Economy and State*, 5, 17-21. (in Ukrainian)

Management accounting has its own features in terms of frequency of formation, the number of users on the content and level of detailing of information and methodological methods of arrangement, in contrast to other types of statements of the company does not have a template, standard forms, bearing this in mind, the information is a commercial mystery enterprise and is fully flexible system, which takes into account the specificity of activity and consumer management personnel.

Forms of management accounting and the sum of the presented indicators depend on the level of the manager and the administration of the state enterprise and is composed of centers of responsibility (costs, income, investments, profit) taking into account the concept and principles of its creation, which complies with the Law of Ukraine "On Accounting and Financial Statements in Ukraine" and international standards.

Summarizing the above, we can conclude that the management accounting and reporting are important components of the information system of the company, in which the managers, assume responsibility and make management decisions every day for the future prosperous functioning of the economic entity. Thanks to the management accounting, managers are able to consistently identify weaknesses, plan their activities, select strategies and improve their performance. Management reporting, in turn, summarizes a wide field of information of financial accounting, which greatly facilitates the work of managers when making decisions of current and strategic nature.

SECTION 2
PRACTICAL ASPECTS ASSET ACCOUNTING ACCORDING TO THE IFRS

2.1. Recognition of fixed assets and their evaluation according to IAS 16 “Fixed assets”

In the context of the military situation, an important component that influences the construction of a system of efficient and effective use of property by commercial enterprises is the formation of reliable accounting information on the availability, movement and disposal of fixed assets. According to UAS “fixed assets” are the material assets that the enterprise holds for the purpose of their use in the process of production or delivery of goods, rendering of services, leasing to other persons or for the realization of administrative and socio-cultural functions, useful term of use (exploitation) of which is more than one year or operating cycle, if it is longer than a year.

For several enterprises, the application of international accounting standards has become a significant reality. According to the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” public joint stock companies, banks, insurance companies, as well as enterprises that carry out financial and economic activity according to the types, the list of which is approved by the Cabinet of Ministers of Ukraine, make financial and consolidated financial statements according to international standards of financial reporting and accounting. Therefore, some issues concerning the recognition of fixed assets and their assessment under IAS 16 “Fixed assets” are relevant in our view and need to be studied.

The comparative characteristic of Ukrainian accounting standard (UAS) with International Accounting Standard (IAS) concerning the separate issues of accounting of the availability and disposal of fixed assets, their classification has been repeatedly considered by a number of domestic scientists-economomists, including: Borodkin O. S., Butynets F. F., Butynets T. A., Holov S. F., Kuter M. I., Malyuha N. M., Paliy V. F., Sopko V. V., Sokolov Ya. V., Teslya K., Svitselska V., Chalyy I. and others.

The purpose of the article is to conduct a comparative analysis of international and national standards for the disclosure of the economic essence of “fixed assets”, the study of the conditions of recognition and evaluation of fixed assets.

Fixed assets are an integral part of economic assets, which are reflected in the assets of the balance sheet and occupy a significant share in its currency, without them, it is impossible to conduct business by any enterprise. In practice, there are often problems with the recognition of a particular asset to an item of property, plant and equipment. That is why, from our point of view, it is necessary to analyze the economic essence of “fixed assets”.

According to IAS 16 “Property, plant and equipment”[1], “Fixed assets” are material objects that are kept for use in production or delivery of goods or services for rent or administrative purposes, in particular, which will be used for more than one period expected.

Analyzing the work of scientists, it is necessary to note that their opinions on the interpretation of economic concept are ambiguous.

Yes, Zavadsky I. S. considers, “…that the basic means are means of labor, which take part in the process of production for many cycles, keeping at the same time its natural form, and gradually, as wear, carry its cost to the products produced”[2].

Kovalenko A. M. follows a somewhat different opinion, “…the basic means are material assets with the expected term of useful use for more than one year (or during the operating cycle, if it is more than a year), which the enterprise holds for purposes use during production or delivery of goods, rendering of services, rendering of rent to other persons; execution of administrative and social functions…”[3].

Professor Suk L. K. believes, “…the basic means are a combination of material and speech values, which have been in effect in natural form for a long time in both the sphere of material production and in non-production sphere …”[4].

The mentioned interpretations by a number of scientists allow to

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[1] International Accounting Standard Board. Retrieved from https://zakon.rada.gov.ua/laws/show/929_014#Text] [in Ukrainian].

[2] Zavadskyy Y. S., Osovska T.V., Yushkevych O.O. (2006). Economic dictionary. Kyiv: Kondor [in Ukrainian].

[3] Kovalenko A. M. (Eds.). (2006). Accounting in Ukraine. *From theory to practice*. Dnipropetrovsk: Balance-Club [in Ukrainian].

[4] Suk L. K., Suk P.L. (2011). Fixed assets accounting: Agricultural accounting. (8). pp. 34 – 44 [in Ukrainian].

assert that none of the above-mentioned concepts of "fixed assets" in full do not reveal all the characteristic features of the transfer of certain objects to fixed assets.

Therefore, in our opinion, the most successful is the following interpretation of the term "basic means" in the dissertation research by Agres O. G., which notes that "…the basic means are means of labor in the form of material assets, which keeps the enterprise for use in the production process or to carry out administrative or social-cultural functions, the expected term of useful use of which is more than one year, without changing its forms and sizes, the cost of which is not less than the legally established size and gradually transferred to the extent of physical development and (or) moral aging on the cost of finished products by carrying out depreciation charges…" [5].

Having opened the economic content of fixed assets by scientists-economists, it is impossible to leave without attention the criteria of the removal and recognition of certain assets according to the Tax Code of Ukraine subpar. 14.1.138, where the fixed assets include: material assets, including reserves of minerals given for use of the plots of excess (except for the value of land, incomplete capital investments, automobile roads of general use, library and archive funds, material assets, value of which does not exceed 20000 UAH, non-productive fixed assets and intangible assets), which are prescribed by the taxpayer for use in the economic activities of the taxpayer, the cost of which exceeds 20000 hryvnia and gradually decreases due to physical or moral wear and the expected term of useful use (exploitation) which from the date of commissioning is more than one year (or the operating cycle, if it is longer than one year).

In international practice, one of the main goals of IAS 16 "Fixed assets" is to recognize assets, determine their balance sheet value and depreciation charges, as well as losses from the reduction of utility that should be recognized in connection with them.

The international standard contains criteria for recognition of certain assets to fixed assets, namely:

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[5] Agres O.G. (2010). Evaluation of the effectiveness of the company's fixed assets: Scientific notes [National University "Ostrozka Academy"]. Edition: Economy. (13). pp. 86-90. Retrieved from http://nbuv.gov.ua/UJRN/Nznuoa_2010_13_12

– use of the asset in the process of production and/or supply of goods, rendering of services, administrative purposes, rent;

– term of useful use – makes more than one reporting period;

– the probability of the enterprise in the future economic benefit from this asset;

– if it is possible to estimate the asset value in a reliable way.

It is also necessary to note that several scientists, in our opinion, provide a reasonable opinion on the absence of a clear classification of fixed assets groups in IAS 16, because UAS 7 lists the basic means for accounting purposes, which are classified by groups:

– *fixed assets*: land plots; capital expenditures for improvement of land, not related to construction; buildings, buildings (dams, tunnels, flyovers, bridges, railways, roads, streets, highways, roads for technological motor transport of industrial enterprises, grounds, sidewalks and pedestrian areas, asphalt covering around buildings, which performs separate functions, for example: parking for service cars; parking areas, fences); transmission devices; machines and equipment (tractors, combines, mini-power plants, fuel-dispenser columns, vacuum cleaners, air-conditioners, split-systems and similar devices, solar batteries, etc.); vehicles (automobile transport, other types of vehicles (railway, water, air), electric transport, motorcycles, buses and trolleybuses, locomotives and diesel locomotives, aircraft, ships, construction wagon); tools, devices, equipment (furniture); animals (service dogs, horses, dolphins in dolphinariums, living ornamental animals, etc.); many-year planting and fruit-bearing plants (green and ornamental plants, fruit-bearing plants connected with agricultural activity); other basic means (extracts on buildings named enterprise, advertising brushes of enterprises, expensive elements of decor);

− *other non-negotiable material assets (*library funds, temporary buildings, natural resources, inventory, rental items, etc.*)*.

Therefore, Belozertsev V. S. notes, "…in §37 of International Accounting Standards 16 reference groups of fixed assets are listed…". We agree with the author's judgment, since §37 defines examples of separate asset classes, namely: a) land; b) land and buildings; c) machinery and equipment; d) ships; g) aircraft; d) cars; e) furniture and accessories; f) an office equipment. However, §37 of

IAS 16 does not define a clear division of fixed assets by groups, which in our opinion is a somewhat negative factor in the display of information.

Assets are combined into a separate class (group) to choose different models of their valuation. Therefore, according to §38, IAS is overestimated objects that belong to the same class of fixed assets simultaneously to prevent selective revaluation of assets and inclusion in financial statements of sums, which have mixed costs and value for different dates. However, an asset class can be re-evaluated on a continuous basis only if the assessment is completed within a short period of time and the revaluation is done on time.

In international and domestic practice, the application of accounting regulations (standards) requires different approaches to asset valuation types. Thus, Table 2.1 provides a comparative characteristic of types of fixed assets valuation for UAS 7 "Fixed assets" and IAS 16 "Fixed assets".

Table 2.1

Comparative characteristic of used types of estimates of fixed assets according to UAS 7 AND IAS 16

No.	Types of assessments	Definition	Ways of obtaining fixed assets
1	2	3	4
UAS 7 "Fixed assets"			
1	**Initial cost**	historical (actual) cost non-current assets in the amount of money or fair the cost of other assets paid (transferred) spent for acquisition (creation) of non-current assets	A) acquired and created fixed assets; B) free of charge received fixed assets; C) fixed assets taken to the authorized capital; D) objects transferred to fixed assets from working assets (stocks); E) the fixed assets received in exchange for such object; F) fixed assets purchased in exchange (or partial exchange) for an unsimilar asset.

Continuation of table 2.1

1	2	3	4
2	**Liquidation cost**	the amount of funds or the value of other assets that the enterprise/institution expects to receive from the sale (liquidation) of non-current assets after the end of the term of their useful use (operation), based on the calculation of the costs associated with the sale (liquidation).	Evaluation of fully depreciated fixed assets
3	**The remaining cost**	difference between the original cost and the amount of accumulated depreciation. Determined to include the value of fixed assets in the balance sheet	A) obtaining fixed assets for such an asset B) valuation on the balance sheet date
4	**Fair value (market value)**	the amount at which the asset can be sold or pay the obligations under normal conditions on a certain date	A) obtaining fixed assets for a non-similar asset B) free receipt of fixed assets B) adding fixed assets to the authorized capital D) Evaluation of fully depreciated fixed assets
5	**Overestimated cost**	the cost of non-current assets after their reevaluation.	Revaluation or underestimation of the primary value of the fixed assets object

Continuation of table 2.1

1	2	3	4
		IAS 16	
6	**Initial preliminary estimate of costs**	the initial preliminary estimate of costs for dismantling, moving the object and restoring the territory where it is located, the obligations under which the business entity takes or when it buys the object, or when it uses it within a certain period for the purpose different from the production of the stocks during that period.	Acquisition and use of fixed assets
7	**Liquidation cost of the asset**	this is a preliminary estimate of the amount that its business entity would receive at the current time from asset disposal after the calculation of all pre-estimated costs of disposal, if the asset is obsolete and is in a state expected after the end of its useful life.	
8	**Balance value**	this is the amount at which the asset is recognized after deducting any amount of accumulated depreciation and accumulated losses from decrease of its utility	Obtaining fixed assets for such asset

Continuation of table 2.1

1	2	3	4
9	**Fair value**	this is the amount at which an asset can be exchanged or the debt of transactions between the parties, stakeholders and independent parties can be extinguished.	Obtaining fixed assets for such asset
10	**Cost model**	After recognition of the asset, the object of fixed assets should be accounted for at its cost minus any accumulated depreciation and any accumulated losses from decrease of utility	
11	**Revaluation model**	After recognition of the asset, the object of fixed assets (the fair value of which can be properly estimated) should be accounted for by the revaluation amount, which is its fair value at the date of revaluation of the minus any further accumulated depreciation and further accumulated losses from the decrease of utility.	

Source: compiled by the author based on UAS 7 and IAS 16

According to UAS 7 valuation of fixed assets of any economic entity at receipt is accounted for at the initial value to which belongs:

– amounts paid to fixed assets suppliers (without VAT, if the buyer is a VAT payer);

– state duty, registration fees and other payments made in connection with acquisition or receipt of rights for the object of fixed assets;

– the amount of import duty;

– amounts of indirect taxes (VAT, if the buyer is not a VAT payer) in connection with acquisition or receipt of fixed assets, if they are not reimbursed to the enterprise;

– expenses on insurance of risks of delivery of fixed assets;

– expenses for transportation, installation, installation, repair of fixed assets;

– other expenses related to bringing the basic facility to the state in which it is suitable for use with the planned purpose (UAS 7, p. 8).

It is necessary to note, as to the initial assessment of the object of fixed assets, § 16 of IAS 16 determines, the cost of the object of fixed assets may include the amount of preliminary estimation of expenses for dismantling, moving of the object and restoration of the territory on which it is located, obligations under which the enterprise undertakes or when it acquires this object, or when it is used for a certain period of time for a purpose that differs from the production of stocks during that period. IAS 16 does not consider such methods of receipt of fixed assets as free-of-charge receipt of the principal and contribution to the authorized capital on a free-of-charge basis.

If at the enterprise the full or partial purchase or creation of fixed assets at the expense of borrowed funds, their initial value is formed according to the norms of IAS 23 "Expenses on loans": if the asset is recognized as qualified, the borrowing costs are allowed to be included in the original value (capitalized), otherwise such expenses relate to the expenses of the current period[6].

After the initial recognition for IFRS, economic entities in the accounting policy choose one of the models of accounting of fixed assets:

– cost model;

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[6] International Accounting Standards (IAS and IFRS). Retrieved from https://www.minfin.gov.ua /news/view/ mizhnarodni standarty finansovoi zvitnosti [in Ukrainian].

– revaluation model [7].

In foreign countries, a re-evaluation model is increasingly being developed. The essence of this model is that after the initial recognition the object of fixed assets should be accounted for at the overvalued value (fair value) on the revaluation date after deducting depreciation, the cost to reduce utility on the revaluation date.

In the domestic practice, the revaluation of fixed assets has some other statement. Yes, paragraph 16 of UAS 7 determines that the enterprise can overestimate the object of fixed assets, if the residual value of this object is significantly different from its fair value at the balance sheet date. In case of revaluation of the object of fixed assets on the same date, all objects of the group of fixed assets to which this object belongs are overestimated.

In addition, it should be noted that the transition of accounting and financial reporting to international standards of financial reporting by domestic enterprises, each of these fixed assets should be transferred in such a way that from the date of its profit it was recorded according to the requirements of IAS 16 and IFRS, that is, to carry out a retrospective recalculation according to IAS 8, which will have a different impact on accounting accounts to some extent. Retrospective re-calculation of the value of the fixed assets object is carried out at the expense of undistributed profits (account 441 "non-distributed profits"), but if the principal means of accounting for the revaluation of the value, in this case adjustments are made at the expense of the accumulated reserve of revaluation.

In particular, the international and domestic accounting standards define the "liquidation cost", namely:

– paragraph 4 of UAS 7 – liquidation value is the sum of funds or the value of other assets that the business entity expects to receive as a result of the sale (liquidation) of the main instrument after its operation, based on the calculation of the costs associated with the sale (liquidation));

– §6 of IAS 16 – liquidation cost is a preliminary estimate of the amount that its business entity would receive from the asset's disposal at the current time after the calculation of all the estimated

[7] Volotkovska Yu. Accounting of fixed assets for IFRS in inquiries and answers. Retrieved from https://uteka.ua/ua/publication /Uchet– osnovnyx–sredstv–po–MSFO–v–voprosax–i–otveta [in Ukrainian].

costs of disposal, if the asset is obsolete and is in a state expected at the end of its useful life. This definition considers the accounting assessment, which §51 proposes to consider at the end of each financial year.

It is worth noting that while performing a comparative analysis of both accounting standards in international position there is no definition of "residual value", but there is another definition of "balance value" – this is the amount at which the asset is recognized after the deduction of any amount of accumulated depreciation and accumulated losses from the reduction of its utility, in fact the content of the residual value is revealed. In turn, it is the residual value taken to the balance sheet asset calculation.

Thus, in our opinion, the increase of reliability of determination of assets valuation and their transfer to objects of fixed assets is an important component for exact calculation of depreciation amount, display of reliable information on fixed assets in financial statements, calculation of technical and economic indicators, which allow to get data on the use of fixed assets (receipts, movement, consumption rates, (tax), accounting.

2.2. Recognition of investment properties, its assessment and impact on financial reporting

A favorable investment climate is particularly important in an environment of uncertainty and scarcity of funds. In particular, the implementation of the activities of economic entities is determined by the investment of funds in real estate. Property, plant and equipment occupy a special place and a significant part of the inventory.

The research of theoretical and methodological foundations of accounting and control of real estate in enterprises of various branches is devoted to the work of such scientists: M.I. Bondar, L.T. Bohutska, S.F. Holova, L.V. Gutsalenko, M.Y. Demyanenko, V.M. Zhuk, H.H. Kireytsev, M.M. Kotsupatryy, L.H. Lovinska, O.I. Mironova, M.O. Ohiychuk, L.K. Suk, N.M. Tkachenko and others. However, without diminishing the value of the research, a number of research issues remain.

Although the investment property is part of property, plant and equipment and is reflected in account 10 “Property, Plant and Equipment”, it is a separate entity that differs from other assets in terms of valuation, accounting and classification[1].

Ukrainian National Accounting Standards 32 “Investment property” determines the methodological basis for the formation of information in accounting and its disclosure in the financial statements on property, plant and equipment. These standards have common and distinguishing features from IAS 16 “Property, Plant and Equipment” and IAS 40 “Investment Property”, IFRS 13 “Fair Value Measurement”.

The legal basis of investment real estate, apart from Ukrainian National Accounting Standards 32, “Investment property”, is determined by other normative documents (Table 2.2).

[1] Lisna, I. (2008). Investment real estate: the same fixed assets, but in a different way. *All about accounting*. 2, (139). pp. 4–8. [in Ukrainian]

Table 2.2

Regulatory framework of investment properties

Regulatory document	Definition
1	2
Ukrainian Land Code No. 2768-III dated 25.10.2001[2]	Land is the main national wealth. Land is the main national wealth under the special protection of the State.
Ukrainian Civil Code No. 435-IV dated 16.01.2003[3]	Immovable property (real property, real estate) includes land, as well as objects located on land, which cannot be moved without devaluation and change in their purpose. The regime of immovable property may be extended by law to aircraft, ships, inland navigation vessels, space objects and other objects to which the rights are subject to State registration. Moving things are things that you can move freely in space.
Tax Code of Ukraine No. 2755-VI dated 02.12.2010[4]	Classification of groups of property, plant and equipment and other non-negotiable assets and their minimum allowable amortization periods: Group 1 – land Group 2 – capital expenditure for land improvement not related to construction (15 years); Group 3 – buildings (20 years), structures (15 years), transmission devices (10 years); Group 8 – perennial (10 years).
Ukrainian law on Valuation No. 1378-IV dated 11.12.2003[5]	A land parcel is a part of the Earth's surface with defined boundaries, defined location, and defined rights.
On Mortgage: Law of Ukraine No. 898-IV dated 05.06.2003[6]	Immovable property (real estate) – is land parcels as well as objects located on and associated with land, which cannot be moved without devaluation and change of purpose.

[2] Land Code of Ukraine (2001, October 25) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Kyiv: Parlam. vyd-vo. Retrieved from: https://zakon.rada.gov.ua/laws/show/2768-14#Text [in Ukrainian]

[3] The Civil Code of Ukraine (2003, January 16) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Kyiv: Parlam. vyd-vo. Retrieved from: https://zakon.rada.gov.ua/laws/show/435-15 [in Ukrainian]

[4] Tax Code of Ukraine. (2010, December 02) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Kyiv: Parlam. vyd-vo. Retrieved from: https://zakon.rada.gov.ua/laws/show/2755-17#Text [in Ukrainian]

[5] Law of Ukraine About land valuation No. 1378-IV. (2003, December 11) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Retrieved from: https://zakon.rada.gov.ua/laws/show/898-15#Text [in Ukrainian]

[6] Law of Ukraine About the mortgage №898-IV. (2003, June 05) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Retrieved from: https://zakon.rada.gov.ua/laws/show/898-15#Text [in Ukrainian]

Continuation of table 2.2

1	2
On approval of National Standard 1 "General Bases of Valuation of Property and Property Rights": Cabinet of Ministers of Ukraine Resolution No. 1440 dated 10.09.2003[7]	Immovable property (real estate) is a land parcel without improvement or a land parcel with improvements that are inextricably linked to it, buildings, constructions, parts thereof, and other property, according to the law, are immovable property.
On approval of the classifier of State property: State Property Fund of Ukraine Resolution No. 461 dated 15.03.2006[8]	Immovable property – is land parcels as well as objects located on a land plot, which cannot be moved without devaluation and change in their purpose (buildings, structures). (The regime of immovable property may be extended to aircraft, ships, inland navigation vessels, space objects, as well as other things, rights to which are subject to State registration).
Provision on mandatory criteria and standards for sufficiency, diversification and quality of assets to which insurance reserves are provided by type of insurance other than life insurance: State Committee on Regulation of the Financial Services Market Ordinance No. 741 dated 08.10.2009[9]	Immovable property – is land parcels, buildings and structures, which are located on a land parcel and for which the State registration of ownership rights to such immovable property has been carried out by the insurer.
Ukrainian National Accounting Standards 7 "Property, plant and equipment" Order of the Ministry of Finance of Ukraine No. 92 dated 27.04.2000[10]	If the investment property is valued at cost, the object of depreciation is the value that is depreciated (except for land and uncompleted capital investments).

[7] *National standard 1 "General principles of property valuation and property rights"*. (2003, September 10) Kyiv: Cabinet of Ministers of Ukraine. Retrieved from: https://zakon.rada.gov.ua/laws/show/1440-2003-%D0%BF#Text [in Ukrainian]

[8] Classifier of state property (2006, March 15) *Order of the State Property Fund of Ukraine No. 461*. Retrieved from: https://zakon.rada.gov.ua/rada/show/v0461224-06#Text [in Ukrainian]

[9] Provisions on mandatory criteria and standards for sufficiency, diversification and quality of assets, which represent insurance reserves for types of insurance other than life insurance (2009, October 08) *Order of the State Commission for Regulation of Financial Services Markets No. 741*. Retrieved from: https://zakon.rada.gov.ua/laws/show/z0417-16#Text [in Ukrainian]

[10] *Ukrainian National Accounting Standard*. Retrieved from: https://ips.ligazakon.net/document/SH000099 / [in Ukrainian]

Continuation of table 2.2

1	2
Ukrainian National Accounting Standards 14 "Rent": Order of the Ministry of Finance of Ukraine No. 181 dated 28.07.2000[10]	Investment real estate received for financial lease is valued at cost.
Ukrainian National Accounting Standards 28 "Impairment of the utility of assets": Order of the Ministry of Finance of Ukraine No. 817 dated 24.12.2004[11]	A methodological framework has been established for generating information in the accounting system on the diminution and disclosure of assets.
On the approval of the Plan of Accounts for the Assets, Capital, Liabilities and Business Transactions of Enterprises and Organizations: Order of the Ministry of Finance of Ukraine No. 291 dated 30.11.1999[12]	Sub-account 100 "Investment Real Estate" is intended for accounting of investment real estate in account 10 "Property, Plant and Equipment".

Source: [13].

According to Ukrainian National Accounting Standards 32, investment property is defined as land, buildings, buildings located on land held for the purpose of obtaining rent and / or increasing equity, not for the production and supply of goods, services, administration or sale in the ordinary course of business[11].

International regulation of the treatment of investment properties has been studied in their works: Bondar M.I., Bohutska L.T., Holov S.F., Hutsalenko L.V., Dubinina M.V., Mironova O.I., Slomchynska, Yaremchuk N.F., and other scientists.

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[11] *Ukrainian National Accounting Standard*. Retrieved from: https://ips.ligazakon.net/document/SH000099 / [in Ukrainian]

[12] Chart of accounts for accounting of assets, capital, liabilities and business operations of enterprises and organizations (1999, November 30) *Order of the Ministry of Finance of Ukraine No. 291*. Retrieved from: https://zakon.rada.gov.ua/laws/show/z0892-99#Text [in Ukrainian]

[13] Yaremchuk, N. (2011). The essence of investment real estate and its legal content. *Accounting and finance of agro-industrial complex: scientific-product. magazine*. 2. pp. 40-42 [in Ukrainian]

Scientists have different views on these situations, so let us give the views of individual scientists who have devoted their research to this issue.

According to IAS 40, the concept of “investment real estate” is defined in the following objects:

– land intended to benefit from the increase in its value in the long term rather than from its sale in the short term;

– land for which further use has not been determined yet at the reporting date;

– the facility owned by the organization (or under a finance lease) and leased under one or more operating leases;

– the construction is not currently occupied but is intended to be leased under one or more operating leases.

Bohutska L.T. notes in her studies “investment real property means land, buildings and structures, owned or leased under financial lease or management, for the purpose of obtaining rent and / or increasing equity, not for the production and supply of goods, services, administration or sale in the ordinary course of business. Operating real estate is own or leased land, buildings, structures intended for use in the production or supply of goods or services or for administrative purposes”[14].

Bondar M.I. notes that “... if an item of property, plant and equipment consists of two parts, one of which is used to obtain rent and / or to increase equity, and the other is used as an operating property, and these parts can be separately sold or separately leased, while they are recorded as two separate inventory items. If two parts cannot be sold separately, an item of property, plant and equipment is recognized as an investment property, provided that it is used primarily for rent and / or capital gains. At the same time, the enterprise has the right to independently develop the attributes of the criteria by which the object of fixed assets can be classified as operating or investment real estate (para 6 of Ukrainian National Accounting Standards 32) (for example, a specified percentage of the

[14] Bogutska, L. (2013). Accounting and analysis of investment property in construction organizations [Accounting and analysis of investment property in construction organizations] *Candidate’s thesis.* Ternopil [in Ukrainian]

use of the real estate for leasing)”[15].

IAS 40 “Investment Property” defines the category “property occupied by the owner” as property held (by the owner or lessee of a financial lease) for use in the production or supply of goods or services rendered or for administrative purposes[16]. According to Ukrainian National Accounting Standards 32 is an operating real estate of an enterprise.

Mironova A. I. researching the peculiarities of the framework defining the conceptual framework for the treatment of investment real estate in international practice notes that “there is emphasized the difference between investment real estate and owner-occupied real estate in regulation 7 of IAS 40. One of the main differences distinguishes investment real estate in the following terms: “investment real estate is held for the purpose of renting or increasing capital, or in combination. Thus, investment properties generate cash flows largely independently of other assets held by the enterprise. This distinguishes investment real estate from owner-occupied real estate. The production or supply of goods and services (or the use of property for administrative purposes) generates cash flows that relate not only to real estate but also to other assets used in the production or delivery process”. It is for these reasons it is necessary to apply IAS 16 “Property, Plant and Equipment” rather than IAS 40[17].

Using Table 2.2 a comparative evaluation of the treatment of investment and operating real estate categories of the specified Ukrainian National Accounting Standards 32 “Investment Property” and IAS 40 “Investment Property” is possible.

A comparison and characterization of the given definitions of Ukrainian National Accounting Standards 32 and IAS 40 (Table 2.3) leads to the conclusion that Ukrainian National Accounting Standards 32 in most cases is similar to IAS 40. However, IAS 40, as opposed to Ukrainian National Accounting Standards 32, details

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[15] Bondar, M., Bondar, T. (2009). Recognition and valuation of investment property. Investments: practice and experience. 20. pp. 12-15. [in Ukrainian]

[16] *International Financial Reporting Standards.* Retrieved from: https://zakon.rada.gov.ua/laws/show/929_010#Text [in Ukrainian]

[17] Mironova, O. (2013). Analysis of certain provisions of IAS 40 “Investment Property”. Bulletin of Zhytomyr State Technological University. Series: Economic Sciences. 1, pp. 152-154. Retrieved from: http://nbuv.gov.ua/UJRN/Vzhdtu_econ_2013_1_34 [in Ukrainian]

accounting aspects in the recognition and valuation of investment properties.

Table 2.3

Comparative characteristics of the conceptual apparatus of real property objects according to national and international accounting standards

UNAS 32	IAS 40
1. An investment property is a land, building or structure owned or leased under a financial lease that is located on land for the purpose of obtaining rent or increasing equity, not for the production and supply of goods, services, administration or sale in the ordinary course of business	1. An investment property is a property (land or a building or part of a building or a combination thereof) held (by the owner or financial lessee under a financial lease) for the purpose of receiving rent payments or increasing the value of capital or for both purposes, and not for: a) use in production or delivery of goods, services or for administrative purposes; b) sales in progress of activities
2. Operating real estate – is owned or leased land, buildings, structures located on land held for use in the production or supply of goods or services or for administrative purposes	2. An owner-occupied property is a property held (by the owner or financial lessee under a financial lease) for use in the manufacture or supply of goods or services or for administrative purposes.

Source: [18], [19].

The Concept of preparation and presentation of financial statements under IFRS states: "Valuation (assessment) is the process of determining the monetary amounts for which elements of financial statements should be recognized and reported in the balance sheet and income statement. This implies the choice of a certain base (basis) of assessment"[20].

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[18] *International Financial Reporting Standards.* Retrieved from: https://zakon.rada.gov.ua/laws/show/929_010#Text [in Ukrainian]

[19] *Ukrainian National Accounting Standard*. Retrieved from: https://ips.ligazakon.net/document/SH000099 / [in Ukrainian]

[20] *International Financial Reporting Standards.* Retrieved from: https://zakon.rada.gov.ua/laws/show/929_010#Text [in Ukrainian]

As noted by Lovinska L.G. “researchers in the history of accounting have noted that historic cost estimation was the only and unconditional method of valuation for quite some time. Since the sixteenth century, criticism of it has appeared in literature (Angelo de Pietro, 1586). In the twentieth century, alternative current value accounting techniques were developed and reflected in IAS and IFRS”[21].

IFA 40 defines two models of investment property accounting:

1) Fair value accounting

2) Cost accounting.

Using the Table 2.4, we will present features of the investment property valuation models defined by IAS.

Table 2.4

Regulation of valuation of investment properties under IAS

fair value accounting model	cost accounting model
Paragraph 36 of IAS 40. Fair value is the price at which a real estate exchange can take place between knowledgeable independent parties willing to make such an exchange. However, the fair value of investment properties should reflect market conditions at the end of the period (IAS 40, para. 38). This means that an enterprise must periodically (depending on the location of the real estate market in the same territory) review the fair value of its real estate	Para. 56 of IAS 40. All investment properties are stated at historical cost less accumulated depreciation and accumulated impairment losses.
Other income or loss from a change in the fair value of investment property should be recognized as a gain or loss in the period in which it arises (para. 35 of IAS 40).	The historical cost accounting model is defined in IAS 16 under “Property, Plant and Equipment”.

Source: [22]

An examination of UNAS suggests that, in national practice, different types of estimates are used in financial reporting - historical (actual) cost, revalued, residual, scrap, fair cost, etc. (Table 2.5).

[21] Lovinska, L. (2006). Estimation in accounting [Estimation in accounting]: monograph. *Kyiv KNEU* [in Ukrainian]

[22] *Ukrainian National Accounting Standard*. Retrieved from: https://ips.ligazakon.net/document/SH000099 / [in Ukrainian]

Table 2.5

Types of real estate valuations

Type of assessment	Definition	Operating real estate	Investment Property	UNAS
Original cost	Historical (actual) cost of non-negotiable assets in the amount of money or the fair value of other assets paid (transferred) to acquire (created) non-negotiable assets	+	+	7; 32
Revalued amount	Value of non-negotiable assets after revaluation	+		7
Residual value	Difference between original (revalued) cost and depreciation of property, plant and equipment	+	+	2
Fair value	Amount at which an asset can be exchanged or liabilities paid as a result of a transaction between knowledgeable, interested and independent people	+	+	19; 32
Depreciable cost	Original or revalued value of non-negotiable assets less their liquidation value	+		7
Break-up value	Amount of funds or value of other assets that an enterprise expects to receive from the disposition (liquidation) of non-negotiable assets after the end of their useful life (operation), less costs associated with the sale (liquidation)	+		7
Net realizable value	Fair value of irreversible asset less expected cost of disposal	+		7
Book value	Value of asset included in balance sheet	+		7; 32

Source: [23].

[23] Chart of accounts for accounting of assets, capital, liabilities and business operations of enterprises and organizations (1999, November 30) *Order of the Ministry of Finance of*

According to Lovinska L.G, the estimation of accounting objects depends on the type of estimation and the data sources for which the estimation is made there is a relationship between subjective and objective factors. The scientist believes that the original value of the assets as measured by the primary documents is more objective than their fair value as measured by the market price survey[24].

The formation of the initial value of the investment property, as well as of the fixed assets, depends on its type and the way in which it enters the enterprise. According to UNAS 32 "Investment Property" are listed in Fig. 2.1.

Fair value is the basic principle in the process of valuing assets for the purpose of reporting their value under IFRS.

IFRS defines fair value as the price that would have been received on the sale of an asset or paid for the transfer of an obligation in a normal transaction between market participants on the valuation date.

The determination of fair value in domestic valuation standards, international and European valuation standards has certain differences and features[25].

IAS 32 Financial Instruments Presentation notes "Fair value provides a neutral basis for assessing the actions of management personnel, indicating the result of their decisions to acquire financial assets and to incur, maintain or pay off financial obligations. If the entity fails to value the asset or financial obligation on the balance sheet at fair value, it provides fair value information by disclosing additional information"[26].

Studies have concluded that there is no consensus among scientists on the application of fair value to real property.

Ukraine No. 291. Retrieved from: https://zakon.rada.gov.ua/laws/show/z0892-99#Text [in Ukrainian]

[24] Lovinska, L. (2006). Estimation in accounting [Estimation in accounting]: monograph. *Kyiv KNEU* [in Ukrainian]

[25] Site Sait Hrupy kompanii "Expert IN" [Site of the Group of Companies "Expert IN"] Retrieved from: https://www.expert-in.com.ua/otsinka-msfz-mizhnarodnykh-standartiv-finansovoyi-zvitnosti/ [in Ukrainian]

[26] *International Financial Reporting Standards.* Retrieved from: https://zakon.rada.gov.ua/laws/show/929_010#Text [in Ukrainian]

Initial cost formation of Investment Property (IP)

Purchase of IP

Historical cost consists of:

- amounts paid to suppliers (vendors) and contractors for construction and installation work (no indirect taxes);
- registration fees, State duty and similar payments made in connection with the acquisition (acquiring) of IP rights;
- the amounts of indirect taxes in connection with the acquisition (establishment) of an IP, if they are not reimbursed to the enterprise;
- legal services, fees related to the acquisition of IP;
- other costs directly related to the acquisition and upgrading of IP facilities to the point where they are suitable for planned use

Establishment of IP

The total amount of costs for the creation of IP on the date of use of IP. According to the wording of paragraph 10 of UNAS 32 the amount of indirect taxes that are not reimbursed to the company will also be included in the initial cost of the object

Obtaining IP on financial lease

The initial estimate is based on UNAS 14 at the lowest of the fair value of the asset at the start of the lease term or the present value of the minimum lease payments

Purchase of IP on deferred payment terms

The original value is determined according to the contract. Remuneration of a supplier for the difference between the contract price and the total amount of payments in its favor is recognized as a financial expense

Fig. 2.1. Formation of the Original Value of Investment Properties in accordance with the UNAS 32 “Investment Property”

Using Table 2.6, we will summarize the fair value approaches of academic proponents and explain the reasons for the imperfections and unreasonableness of fair value as identified by a group of other scholars.

Table 2.6

Justification of advantages and disadvantages in applying fair value

justification for applying fair value		reasons for imperfections and unreasonable application of fair value	
Scientists – proponents	argumentation and factors	Scientists who opposed	argumentation and factors
1	2	3	4
Golov S.F.	fair value is a factor in investment capacity	Kireytsev H.H.	fair value cannot be a basis for an accounting estimate as an admission of quantification of economic reproduction
Burdenko I.M.	provides comparability of value of assets	Khendriksen E.S. and Van Breda M.F.	Fair value is not a self-assessment that can be used in financial reporting, but rather a combination of different valuation techniques
Lyashenko V.O.	provides objective and reliable information	Suk L.K.	uncertainty of the source of fair value contributes to falsification of accounting information
Koryahin M.V.	is effective in estimating future cash flows	Moskalenko O.V.	fair value leads to market collapse and higher inflation in times of crisis

Continuation of table 2.6

1	2	3	4
Manilych M.I.	adequately reflects the interests of market participants in a situation of unpredictability of the enterprise's external business environment	Brazyliy N.M.	Fair value is estimated value, which can only be found in certain conditions and is the result of subjective provisions

Source: formed on the basis[27]

It should be noted that experts, in addition to domestic qualification documents, have obtained international / European Property Valuation Certificates, have clearly implemented International Valuation Standards (ISOs / IVS) and European Valuation Standards (ECO / EVS) enabling them to conduct a professional process of asset revaluation for the purposes of IFRS and to address certain inconsistencies between domestic and international standards[28].

Property valuation is directly related to their valuation in the financial statements.

The Law of Ukraine "On Accounting and Financial Reporting"[30], defines "Financial Reporting and Consolidated Financial Reporting according to International Standards are compiled on the basis of taxonomy of financial reporting according to international standards". Sect 12, para. 6 of the application of international standards marked "Enterprises which, in accordance with the law, prepare financial statements and consolidated financial statements in accordance with international standards, are obliged to ensure that accounting is maintained in accordance with accounting policies of international standards, following the first financial statements or consolidated financial statements of international standards, as is

[27] Slomchynska, S. (2019) Accounting and analysis of investment real estate of trade enterprise [Accounting and analysis of investment real estate of trade enterprise]. *Candidate's thesis*. Kyiv: KNTEU [in Ukrainian]
[28] Site Sait Hrupy kompanii "Expert IN" [Site of the Group of Companies "Expert IN"] Retrieved from: https://www.expert-in.com.ua/otsinka-msfz-mizhnarodnykh-standartiv-finansovoyi-zvitnosti/ [in Ukrainian]

recognized as defined by international standards".

IFRS emphasize that accounting policies must meet certain qualitative criteria that ensure the usefulness of financial reporting information, such as relevance, reliability, compatibility and clarity.

Investment properties are displayed on the balance sheets of "Investment Property" at their fair value or at their original value according to both national and international standards. However, UNAS 32 "Investment Property"[30] notes that an enterprise only reflects investment property at fair value when it can be reliably determined and, in other cases, at historic cost, reduced by the amount of depreciation accrued (taking into account loss of utility and benefits of reinstatement) (Table 2.7).

Table 2.7

Cost information of investment property in Balance Sheet

Regulation of the valuation of investment properties	Type of assessment
1	2
Methodological recommendations on completing financial reporting forms [29]	The fair value of the investment property determined on the date represents in this article. If, in accordance with this provision(s) of the accounting treatment of investment property, it is recorded at historical cost, the residual value is included in the balance sheet. In addition, the original value of the investment property and the amount of depreciation (in parentheses) are shown separately.
UNAS 32 "Investment Property"[30]	An enterprise, as at the balance sheet date, records the investment property at fair value, if it can be reliably determined, or at historical cost,

[29] Methodical recommendations for filling out financial reporting forms (2013, March 28) Retrieved from: https://zakon.rada.gov.ua/rada/show/v0433201-13#Text [in Ukrainian]

[30] Site Sait Hrupy kompanii "Expert IN" [Site of the Group of Companies "Expert IN"] Retrieved from: https://www.expert-in.com.ua/otsinka-msfz-mizhnarodnykh-standartiv-finansovoyi-zvitnosti/ [in Ukrainian]

Continuation of table 2.7

1	2
	reduced by the amount of depreciation accrued, and the benefits of its recovery.
IAS 40 "Investment Property"[31]	Investment property should be valued initially at cost, and thereafter the enterprise should select one of two valuations, namely *fair value or cost.*

The information in Table 2.7 certifies the conformity of the definitions of national accounting standards with international standards, but does not allow for their identification.

In determining market and fair value according to the requirements of IFRS, the following main valuation approaches are followed: market approach, or comparative approach, income approach, cost approach.

Each of these approaches, in turn, can be implemented as a method within the approach. In valuing a particular asset, the evaluator selects one or more methods and approaches that reflect as adequately as possible the value of the asset(s). The choice of a method / approach is the competence and expertise of the assessor, who must base his choice on the nature and nature of the asset being evaluated, the amount and availability of market (input) information relating to that asset.

The final total value (if the value of the asset being valued has been determined by several approaches / methods) is selected by the expert on the basis of that the value is derived from the most reliable information and reflects the most typical motivation and behavior of the investor in a situation where the investor would decide to purchase the asset in the market[31].

However, Suprunova I.V. offers an independent definition of the economic entity's market value of the investment property, possible sources of information at the same time submits specialized and general directories, prices, brochures, price releases, newsletters, information from the websites of real estate agencies, consulting

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[31] Methodical recommendations for filling out financial reporting forms (2013, March 28) Retrieved from: https://zakon.rada.gov.ua/rada/show/v0433201-13#Text_ [in Ukrainian]

companies, real estate portals and other Internet resources, periodical printed publications, State monitoring information, information in the mass media[32].

In the National Standard No. 1 "Common Framework for Valuation of Property and Property Rights" market value is interpreted as the value at which it is possible to dispose of the object of valuation at the market of such property on the valuation date of the agreement between buyer and seller, after appropriate marketing, provided that each party acted with knowledge, discretion and without coercion[33].

IAS 40 "Investment Property" recommends (but does not require) valuation at fair value.

Two options are defined at balance sheet date of UNAS 32 for showing investment real estate in financial statements: at fair value, if it can be reliably determined, at historical cost, reduced by the amount of depreciation accrued, taking into account the loss of utility and the benefits of reinstatement. A comparison of valuation methods for investment properties is shown in the Table 2.8.

Table 2.8

Comparative analysis of valuation of initial and fair values of investment properties

Aspect of the application	Fair value measurement	Historical valuation
1	2	3
Cases of the use	provided that it can be reliably determined	in case fair value cannot be determined
Reassessment	is not held	is not held
Depreciation	is not granted	accrued according to UAS 7 "Property, Plant and Equipment"

[32] Suprunova, I. (2010) Recognition and valuation of investment property in accounting. *International collection of scientific works*. 1(16), pp. 273-283. Retrieved from: http://eztuir.ztu.edu.ua/handle/123456789/5133 [in Ukrainian]

[33] *National standard 1 "General principles of property valuation and property rights"*. (2003, September 10) Kyiv: Cabinet of Ministers of Ukraine. Retrieved from: https://zakon.rada.gov.ua/laws/show/1440-2003-%D0%BF#Text [in Ukrainian]

Continuation of table 2.8

1	2	3
impairment (reinstatement) of utility	doesn't apply	if impaired, the residual value is reduced by recognizing other costs and increasing depreciation
incorporation of integral parts in investment real estate	included in the investment real estate, but recorded at cost in the off-balance sheet account	is recorded as separate inventory
procedure for incorporation of other assets used with investment real estate	is reflected as separate inventory items and valued at original (revalued) cost	is reflected as separate inventory items and valued at original (revalued) cost
possibility of changing the evaluation method	only after confirmation that fair value cannot be measured	The envisaged transition to fair value measurement

Source: [34]

According to our belief, the market value of an object of real estate is an expression of its utility precisely from the point of view of the market, and not of its abstract physical status. For a particular enterprise, the usefulness of its assets may differ from their market or industry-specific utility. Consequently, it is necessary that property valuation and accounting reports, that reflect the effects of price changes, take into account the difference between value in the market sense, which should be reflected in the financial statements, and non-market types of value, should not be used as a basis for financial records[35].

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[34] Slomchynska, S. (2019) Accounting and analysis of investment real estate of trade enterprise [Accounting and analysis of investment real estate of trade enterprise]. *Candidate's thesis.* Kyiv: KNTEU [in Ukrainian]

[35] Gutsalenko, L., Dubinina, M., Yaremchuk, N. (2016) Accounting and control support of operating and investment real estate of agricultural enterprises. Mykolaiv: FOP Shvets VM, 2016 [in Ukrainian]

2.3. Recognition, accounting and reporting on intangible assets in accordance with IFRS

In the current climate, globalization and internationalization of the economy still carries on, being subject to specificity influenced by the world-wide distribution of COVID-19, which, in turn, has led to irreversible negative changes in economic processes. Over the past two or three years, more than ever before, it has become obvious that a growth in production and sales of competitive products on both national and world markets is impossible without the use of IT systems, innovative technologies and systems, software products, various intellectual property items (patents, trademarks, brands, copyrights, industrial standards, plant varieties, animal breeds, technical expertise resulting from research and design work), licenses to operate, common as well as goodwill. They are extremely valuable, therefore, the business owner, who has experienced first-hand, needs to make decisions on managing them, recording and controlling them, and reflecting reliable information in financial statements.

Accounting and audit issues, recognition of intangible assets are currently quite relevant. A number of debatable issues regarding economic substance and features of the intangible assets' economic management, their accounting and control are reflected in the studies of many scientists, in particular: I. O. Blanco, O. V. Melnyk, O. H. Mendrul, E. Brooking, D. M. Stechenko, S. V. Onyshko. Issues of accounting and reporting on intangible assets were studied by scientists of Ukraine, in particular, S. F. Holov, T. V. Davydyuk, V. M. Dyba, V. M. Zhuk, Ya. D. Krupka, S. O. Levytska, S. F. Lehenchuk, L. V. Chyzhevska, M. M. Shyhun and others.

Without detracting from the scientific achievements in the area of research of theoretical, methodological, organizational and practical approaches to accounting, control and analysis of intangible assets, nevertheless, interest in the recognition of intangible assets, their place in the enterprise resources, does not decrease. Moreover, the need to develop research in this area has only intensified by the needs of accounting and reporting in accordance with the requirements of the International Financial Reporting Standards (hereinafter as IFRS).

The main guideline within the substance meaning and criteria for recognition of intangible assets is IFRS (IAS 38 "Intangible Assets")[1]. It should be noted that the definition of economic substance and the intangible assets content given in paragraph 4 of the national P(S)BU 8 "Intangible Assets"[2] as well as in § 8 of IAS 38 (so named) practically do not differ. However, based on the very recognition of intangible assets as non-monetary assets without tangible form and can be identified, in practice mistakes are often made when, for example, deferred charges are included in the accounting items of intangible assets. It is possible to avoid such inconsistences by evaluating items for compliance with the so-called qualifying criteria for the recognition of intangible assets. If the item meets all required specifics, there is no doubt that it will be recognized as an intangible asset. Therefore, it is necessary to specify the list and content of the criteria for recognition (identification) of intangible assets for the purpose of reliable reflection in accounting and financial statements.

The identification procedure is set out in paragraph 12 of IAS 38[1]. In particular, the point is that "an asset is identified if it:

a) is separable, that is, it can be separated from the business entity and sold, transferred, licensed, leased or exchanged individually or together with an associated contract, identified asset or liability, whatever the business entity intentions are, or

b) arises from contractual or other legal rights, regardless of whether they can be transferred or separated from the business entity or from other rights and obligations."

Such identification criteria are important in order to separate intangible assets from goodwill, as stated in paragraph 11 of IAS 38[3].

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[1] Mizhnarodnyi standart bukhhalterskoho obliku 38 "Nematerialni aktyvy": Mizhnarodnyi dokument vid 01.01.2012 [International Accounting Standard 38 "Intangible Assets": International document dated 01.01.2012]. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_050. (in Ukrainian).

[2] Natsionalne Polozhennia (standart) bukhhalterskoho obliku 8 "Nematerialni aktyvy": Nakaz Ministerstva finansiv Ukrainy No. 242 vid 18.10.1999 [Regulation (standard) of accounting 8 "Intangible assets": Order of the Ministry of Finance of Ukraine 2242 from 18.10.1999]. Retrieved from: http://zakon0.rada.gov.ua/laws/show/z0750-99. (in Ukrainian).

[3] Mizhnarodnyi standart bukhhalterskoho obliku 38 "Nematerialni aktyvy": Mizhnarodnyi dokument vid 01.01.2012 [International Accounting Standard 38 "Intangible Assets": International document dated 01.01.2012]. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_050. (in Ukrainian).

Taking into account the requirements of IAS 38[3] § 48 – 49, goodwill is not an intangible asset because it is generally recognized in a business combination and, therefore, is an asset that reflects future economic benefits arising, in substance, from the result of synergies between assets acquired in a business combination. That is why, they cannot be identified individually or recognized separately. This is also confirmed by the content of the Scope of IAS 38[3], which states that the standard does not apply to:

– intangible assets that are subject to another standard (that is, goodwill, which, as noted earlier, arises in a business combination. IFRS 3 "Business Combinations"[4] is appropriate for goodwill transactions and events;

– recognition and valuation of exploration and evaluation assets in accordance with IFRS 6 "Exploration and Evaluation of Mineral Reserves"[5];

– expenses to explore or develop and extract minerals, oil, natural gas and similar non-renewable resources.

In our previous studies[6], based upon the scientific achievements of other scientists, we gave arguments about the inexpediency of considering subsoil license as a part of intangible assets. We continue to insist that resources themselves are, by their very nature, material items. The right to use them for enterprises, institutions, organizations and even citizens of Ukraine, as well as foreigners and stateless persons, foreign legal entities is granted as a permit by a special institution, in particular, GosGeoNadra, which cannot be used to gain economic benefits. Therefore, it is illogical to use the concept of "right" when it comes to intellectual property items as intangible assets. On the one hand, the ability of business entities to control

[4] Mizhnarodnyi standart finansovoi zvitnosti 3 (MSFZ 3) "Obiednannia biznesu": Mizhnarodnyi dokument vid 01.01.2012 [International Financial Reporting Standard 3 (IFRS 3) "Business Combinations": International document dated 01.01.2012].]. Retrieved from: http://zakon. rada.gov.ua/laws/show/929_006. (in Ukrainian).

[5] Mizhnarodnyi standart finansovoi zvitnosti 6 (MSFZ 6) "Rozvidka ta otsinka zapasiv korysnykh kopalyn": Mizhnarodnyi dokument vid 01.01.2012 [International Financial Reporting Standard 6 (IFRS 6) "Exploration and Evaluation of Mineral Reserves": International document dated 01.01.2012]. Retrieved from https://zakon.rada.gov.ua/laws/show/995_k52#Text. (in Ukrainian).

[6] Kuzyk, N. P., Boyarova, A. O. (2010). Aktualni problemy obliku ta otsinky nematerialnykh aktyviv. [Actual problemsaccounting and valuation of intangible assets]. *Oblik i finansi APK*, 3, 40-44. (in Ukrainian).

future economic benefits of intangible assets is determined by their legal rights, in the absence of which control, in fact, will not exist. However, the legal support of the right in capacity as such is not a prerequisite for the existence of control, since the business entity may control its future economic benefits in other ways. Thus, it is noted in § 14 of IAS 38[2] that "Future economic benefits can be gained from the market knowledge and technical expertise as well. The business entity controls these benefits if, for example, the knowledge is protected by legal rights such as copyright, restrictions on trade agreements (where permitted), or legal obligations of employees to maintain confidentiality"[7]. Therefore, control aimed at recognizing an item as an intangible asset is the right to gain future economic benefits from such intangible assets (specific resources) allowing for prohibiting or restricting other persons' access to these benefits. Therefore, for the recognition of items as intangible assets in accounting with the subsequent reflecting information about them in financial statements, in our opinion, there are six determinative criteria: the availability of future economic benefits from the use of an intangible asset, the reliability of its valuation, non-monetary nature, lack of physical substance, identifiability and control (controllability). Moreover, the first two criteria – gaining future economic benefits and a reliable valuation – are the criteria for recognizing any asset. The remaining four criteria (non-monetary nature, lack of physical substance, identifiability and control (controllability)) can be interpreted as specific for the recognition of intangible assets.

Identifiability, control and future economic benefits are the criteria necessary for the intangible asset presentation in the financial statements. In this regard, turning back to the question of whether goodwill is an intangible asset (which theoretically can exist in any entity) and evaluating it for compliance with all above-mentioned criteria, the impossibility of such recognition is obviously confirmed. Thus, it cannot be identified as an inseparable resource controlled by the entity, after all, it does not arise from contractual or other legal

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[7] Mizhnarodnyi standart bukhhalterskoho obliku 38 "Nematerialni aktyvy": Mizhnarodnyi dokument vid 01.01.2012 [International Accounting Standard 38 "Intangible Assets": International document dated 01.01.2012]. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_050. (in Ukrainian).

right. In addition, its cost cannot be reliably evaluated. In turn, IAS 38 states that internally generated goodwill should not be recognized. As practical studies show, it is quite difficult for any internally generated intangible asset to evaluate the subject of its compliance with all recognition criteria. As a rule, there are some difficulties in division of value of internally generated intangible asset from expenses to support or increase the company's internally generated goodwill, as well as from current operating expenses of financial and business operations. So, for example, expenses for creating a particular brand or brands, as well as trademarks, published titles, cannot be separated from general expenses incurred to develop an entity. Therefore, it is logical to conclude that such items will not be recognized as intangible assets. In addition, any entity should apply an individual approach to create an intangible asset and consider it as a phased expenditure budgeting. There are at least two phases: the research phase and the design and development phase (Table 2.9).

Table 2.9

Phases of creating an intangible asset

Phases	Characteristics	Specifics
Research phase	Research expenses are only recognized as an expense when incurred	It's impossible to confirm the intangible asset existence; Probability of future economic benefits.
Design and development phase	Incurrence of an intangible asset	Conditions for recognizing an intangible asset: - availability of technical confirmation for the development of an intangible asset; - an intention to complete the creation of an intangible asset with a view to use or sale; - confirmation of the method to gain probable future economic benefits from an intangible asset; - the possibility to valuate reliably expenses for developing an intangible asset

Therefore, according to the data received in Table 2.9, an intangible value created by an entity is formed by capitalizing all direct expenses incurred to create this asset, starting from the moment when the asset can be recognized for the first time as meeting all necessary criteria. All expenses incurred up to this date, respectively, must be charged off to period expenses and will not be recoverable in the future.

In practice, it is characterized by the ambiguity of recognizing software products as an intangible asset. Thus, if a business entity has acquired a computer program for own purposes and does not plan to sell it in the future, and if there is no evidence of gaining economic benefits from the use, then it is obvious that such a program (as an accounting item) cannot be recognized as an intangible asset. However, if it was nevertheless noted in the purchase and sale agreement that the Target is the lease rights, then this, accordingly, may be a confirmation of the need to recognize such a right to use an intangible asset, but not a computer program.

Trademarks can also be treated differently, taking into account the method of their entry into businesses. Thus, § 63 of IAS 38[8] "Intangible Assets" does not recommend recognition of internally generated brands and other similar entities as an intangible asset. In accordance with the provisions contained in § 10 of IAS 38[8], such costs are recommended to be charged to expenditure in the period in which they are incurred. And we fully support the need to comply with such requirements, as far as the costs of these requirements cannot be clearly separated from the total business development costs. Thus, this indicates that the item does not meet the recognition of the asset per se criterion – it is impossible to measure reliably, as noted not only by international standard IAS 38[8] (§ 21), but also by replicating the same approach in the National Regulation (Standard) of Accounting P (S) BU 8 (paragraph 7)[9].

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[8] Mizhnarodnyi standart bukhhalterskoho obliku 38 "Nematerialni aktyvy": Mizhnarodnyi dokument vid 01.01.2012 [International Accounting Standard 38 "Intangible Assets": International document dated 01.01.2012]. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_050. (in Ukrainian).

[9] Natsionalne Polozhennia (standart) bukhhalterskoho obliku 8 "Nematerialni aktyvy": Nakaz Ministerstva finansiv Ukrainy № 242 vid 18.10.1999 [Regulation (standard) of accounting 8 "Intangible assets": Order of the Ministry of Finance of Ukraine 2242 from 18.10.1999]. Retrieved from: http://zakon0.rada.gov.ua/laws/show/z0750-99. (in Ukrainian).

In general, sources of intangible assets are generally recognized as a result of their acquisition, donation or business combination. Regarding the latter, in practice, again, there is a problem of identifying intangible assets and possible goodwill received in a business combination. During a business combination, the acquirer must identify and measure acquired assets at fair value as part of a business combination (including acquired intangible assets) for their further accounting and reporting in the consolidated financial statements. However, if there is the paid-in surplus in gaining control over the acquired entity's net asset value in a business combination, then goodwill must also be recognized. According to the criterion of the future economic benefits likelihood, this is always the case for intangible assets acquired in a business combination, since the fair value of such assets reflects expectations of future benefits. However, the ability to identify an intangible asset acquired in a business combination indicates the availability of sufficient information to determine the fair value, in compliance with the criterion to valuate an intangible asset reliably.

In some cases, an intangible asset can be acquired free of charge, either for smallest refund, or through grant schemes or government special-purpose funding programs. Under such conditions, the issue of the intangible assets measurement becomes relevant. Analysis of paragraph 11 of P(S)BU 8[10] and § 27 IAS 38[11] confirms the identity of approaches to determining the undepreciated value of intangible assets. The undepreciated value of the acquired intangible asset as a separate unit includes: the purchase value after deducting discounts; import duties; non-recoverable taxes included in the acquisition cost; legal fees professional fees; expenses that are directly attributable to preparing an asset for use as intended. It is noteworthy that examples of expenses directly related to the acquisition of intangible assets are given in § 28 of IAS 38, which include: expenses for employee

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[10] Natsionalne Polozhennia (standart) bukhhalterskoho obliku 8 "Nematerialni aktyvy": Nakaz Ministerstva finansiv Ukrainy № 242 vid 18.10.1999 [Regulation (standard) of accounting 8 "Intangible assets": Order of the Ministry of Finance of Ukraine 2242 from 18.10.1999]. Retrieved from: http://zakon0.rada.gov.ua/laws/show/z0750-99. (in Ukrainian).

[11] Mizhnarodnyi standart bukhhalterskoho obliku 38 "Nematerialni aktyvy": Mizhnarodnyi dokument vid 01.01.2012 [International Accounting Standard 38 "Intangible Assets": International document dated 01.01.2012]. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_050. (in Ukrainian).

benefits that are directly related to asset leveling to operating conditions; professional fees paid as a direct result of asset leveling to its proper operating conditions; expenses for performance test of such an asset.

IAS 38 § 29 also provides a list of expenses that are not part of intangible costs (in particular, expenses for launching a new product or service (including expenses for advertising and promotion activities)), expenses for doing business in a new location or with a new category of clients (including staff training expenses); total general services and administration expenses). Consequently, there are no essentially problematic issues in determining the undepreciated value of separately acquired intangible asset. Regarding the undepreciated value of an intangible asset acquired in a business combination, that value should be based on its fair value, whether or not the intangible asset was previously recognized as acquired by the company prior to the combination (as set out in IFRS 3 "Business Combinations"[12]). Since fair value is usually measured reliably, therefore, an intangible asset must be recognized separately from goodwill. The fair value at the purchase date can be measured by the physical price at an active market (if such a market exists) for an identical asset or, if there is no such price, based on other data (for example, the quoted market price for an identical asset), so, the point at issue is about applying a market-based approach. The question arises: what to do if there are still no open market prices? In accordance with paragraph 38 of IFRS 13 "Fair Value Measurement"[13], an income approach is provided, that can be evaluated by discounting the net future flow of monies expected to use the related intangible asset. The logic goes that there is an answer and it is simple, however, the discounting process itself is a rather complex technical process in the calculations and there are multiple-valued debates among experts regarding its expediency.

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[12] Mizhnarodnyi standart finansovoi zvitnosti 3 (MSFZ 3) "Obiednannia biznesu": Mizhnarodnyi dokument vid 01.01.2012 [International Financial Reporting Standard 3 (IFRS 3) "Business Combinations" : International document dated 01.01.2012].]. Retrieved from: http://zakon. rada.gov.ua/laws/show/929_006. (in Ukrainian).

[13] Mizhnarodnyi standart finansovoi zvitnosti 13 (MSFZ 13) "Otsinka spravedlyvoi vartosti": Mizhnarodnyi dokument vid 01.01.2013 [International Financial Reporting Standard 13 (IFRS 3) "Fair Value Measurement": International document dated 01.01.2013]. Retrieved from: https://zakon.rada.gov.ua/laws/show/929_068#Text. (in Ukrainian).

Indeed, employing this approach, only positive trends are predicted that may occur in business's activities (for example, a cost increase of products, a growth in marketing of products, an increase of entity's income, a decrease of overhead expenses in the production costs structure[14]. However, another question arises: is it possible, currently, under rough conditions and deepening crisis at a micro-level as well as macro-level, to confidently build forecasts of positive trends, having determined at the same time the future economic benefits expected from the intangible asset use and the income period? Obviously, this will be very difficult to do or, under certain conditions, completely impossible. But, turning back to the ability of employing the market-based approach, there are also difficulties in applying it. The market-based approach, as mentioned previously, involves the project cost determining at active market prices. But, in the context of intangible assets, in particular, such as intellectual property rights, then comparison between comparables (which, per se, may not exist) is impossible. The vast majority of intangible assets is characterized by uniqueness, and, therefore, it will be difficult or even of no effect to search for existing comparables with the same or at least similar characteristics or functional purpose. Therefore, we can conclude that it is necessary to give preference to the evaluation of historical (actual) cost. Scientists[15] call it the cost-based method, which is based on a set of methods for valuation of intangible assets and intellectual property, based on expenses essential in their complete reproduction or complete substitution of an intangible asset by deducting a reasonable allowance for accrued depreciation. In general, the valuation of intangible assets in practice is a rather complicated procedure. Taking into account the specifics and types of intangible assets, the sources where they come from, making a balanced solution on the valuation of intangible value is required, taking into

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[14] Stoliarchuk, N.M. (2018). Ob'iekty obliku i vnutrishn'oho audytu innovatsijnoi diial'nosti. [Objects of accounting and internal audit of innovation]. *Ekonomika APK*, 7, 55-63 (in Ukrainian).

[15] Klymenko, I., Taranukha, O. and Zhuravel, O. (2021). Intelektualnyi kapital i rynok intelektualnoi vlasnosti v umovakh informatsiinoi ekonomiky: problemy identyfikatsii ta otsinka. [Intellectual capital and the intellectual property market in the information economy: problems of identification and evaluation]. *Ekonomika ta derzhava*, 5, 38–43. (in Ukrainian).

account their uniqueness and individuality, as well as specific cases and methods of application. And in each particular case, it will be necessary for the person in charge to make a unique (not special or individual) decision on the application of methods to evaluate intangible assets for the purpose of coordinating their balanced and actual costs. The same opinion is shared by Professor Natalya Malyuha. She emphasizes that the universal methodology development for the valuation of intangible assets due to their diversity, specifics and terms of use is impossible[16]. We believe that asset valuation is the dominant element of the accounting method, on the basis of which entities can provide users with reliable and objective information in financial statements. It is worth noting that for Ukraine's economy, as well as for the economies of other countries, a growth of the inflation rate is typical (and, unfortunately, will remain for a long time). In the current rough conditions, it is obvious that the inflation rate will grow. Under such circumstances, the historical (actual) cost of the company's intangible assets, reflected in the financial statements, will significantly deviate from their fair value. Moreover, under modern conditions there is an extremely rapid development of market technologies, innovation activity, which leads to both the total amortization of intangible assets and a significant increase in their fair value[17]. And, subsequently, the value of intangible assets recognized in accounting and reported in financial statements will be displayed incorrectly. Therefore, the application of the revalued cost accounting model is not only an important issue, but also a real time requirement. The application of fair value was intensified in the practice of Ukrainian entities just when there was a legal requirement to prepare financial statements according to international standards (IFRS). According to IAS 13 "Fair Value Measurement"[18], fair value is the price that

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[16] Maliuha, N.M. (1998), Shliakhy udoskonalennia otsinky v bukhhalters'komu obliku: teoriia, praktyka, perspektyvy [Ways to improve the assessment in accounting: theory, practice, prospects], ZhITI, Zhytomyr. (in Ukrainian).

[17] Kutsyk, P. O. et al. Oblikova kontseptsiia upravlinnia vartistiu nematerialnykh aktyviv pidpryiemstva [Accounting Concept for Managing the Value of Intangible Assets of the Enterprise]. Lviv: Rastr-7, 2016. (in Ukrainian).

[18] Mizhnarodnyi standart finansovoi zvitnosti 13 (MSFZ 13) "Otsinka spravedlyvoi vartosti": Mizhnarodnyi dokument vid 01.01.2013 [International Financial Reporting Standard 13 (IFRS 3) "Fair Value Measurement": International document dated 01.01.2013]. Retrieved from: https://zakon.rada.gov.ua/laws/show/929_068#Text. (in Ukrainian).

would be received to sell an asset or paid to transfer a liability in a normal transaction between market participants at the measurement date. According to IAS 38 "Intangible Assets"[19] revaluation is carried out only after the asset was initially recognized and evaluated at cost using one of two methods: cost model and revaluation model (Table 2.10).

Table 2.10

Methods of further valuation of intangible assets

Methods of further valuation	IAS 38	Characteristics
Cost model	74	After initial recognition, an intangible asset should be recorded at its cost less any accumulated depreciation and any accumulated damage of reduced utility.
Revaluation model	75	After initial recognition, the asset is reported at a revalued amount, which is its fair value at the revaluation date, less depreciation of damage of reduced utility. For revaluation, fair value is measured by reference to an active market. Revalued with sufficient regularity to ensure that the book value of the asset at the end of the reporting period does not differ from its fair value in its reliability.

As the data in Table 2.10 confirm, again, there are difficulties in applying the revaluation model due to the lack of an active market for some unique intangible assets (for example, plant varieties, animal breeds, patents, trademarks, etc.). In such a case, it is necessary to apply the requirements of paragraph 81 of IAS 38, according to which if an intangible asset in the revalued intangible asset class cannot be revalued for lack of active market, then this asset should be recorded at its cost less any accumulated amortization and any accumulated impairment loss. Such an

[19] Mizhnarodnyi standart bukhhalterskoho obliku 38 "Nematerialni aktyvy": Mizhnarodnyi dokument vid 01.01.2012 [International Accounting Standard 38 "Intangible Assets": International document dated 01.01.2012]. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_050. (in Ukrainian).

approach will be used by an accountant if fair value of a revalued intangible asset cannot be determined from active market data. In such a case, the carrying amount of the asset should be its revalued value at the last revaluation date, less any further accumulated amortization and any further accumulated impairment loss.

In accordance with paragraph 73 of IAS 38[20] "The items within a class of intangible assets are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements representing a mixture of costs and values as at different dates". However, in this context, we consider such an interpretation unfounded, once again recalling the existence of uniqueness, specificity and originality of individual intangible assets. If the fair value may change for an item in an intangible asset group, there may be no such change for another item. In general, however time-consuming the process of revaluation and complexity may be to record the revaluation results in accounting, nevertheless its implementation is, in our opinion, important: reflection of the real value of intangible assets, objective and reliable reporting on the results of the entity's activity in the financial statements, which, of course, has a positive impact on increasing its investment attractiveness and making better management decisions by internal users of different levels.

General requirements for disclosure of intangible assets are given in paragraphs 118 – 123 of IAS 38[22]. The preparation of financial statements in accordance with the requirements of IFRS requires business entities to disclose information not only in the balance sheet as a single line on the total value of all recognized intangible assets. The information available to the user is amplified by the notes to the financial statements. Complying with the requirements of IFRS, the entity discloses information in them for each class of intangible assets, distinguishing internally generated intangible assets from other intangible assets (useful life; amortization methods; gross carrying amount and accumulated amortization); items of the Total Income Statement that include amortization of intangible assets;

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[20] Mizhnarodnyi standart bukhhalterskoho obliku 38 "Nematerialni aktyvy": Mizhnarodnyi dokument vid 01.01.2012 [International Accounting Standard 38 "Intangible Assets": International document dated 01.01.2012]. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_050. (in Ukrainian).

description of main aspects of intangible assets acquisition through state grant (if such events have taken place). Of particular note is the disclosure of a reconciliation of the opening and closing carrying amounts of the relevant revenue period, noting separately those that have been gained as a result of internal developments, those that have been acquired as separate assets and those that have been acquired as part of business consolidation transactions; assets classified as held for sale or included in a liquidation group classified as held for sale. IAS 38 also requires disclosure of increases or decreases in the value of intangible assets during the revaluation period. In particular, it provides information on intangible asset groups, the date of revaluation; the carrying amount of revalued intangible assets; the carrying amount that would be recognized if the revalued class of intangible assets were to be valued after the cost model recognition, the amount of revaluation, as well as the amount of the increase in value from revaluation related to intangible assets at the beginning and end of the period, the changes during that period and the methods and significant assumptions used in calculating the fair value of assets.

Paragraph 121 of IAS 38[21] further emphasizes the need to comply with the requirements of IAS 8[22] "Accounting Policies, Changes in Accounting Estimates and Errors" to disclose the nature and the magnitude of any change in accounting valuation that significantly affects the current period or is expected to have a significant effect in subsequent periods. Such disclosure may generally be necessary in connection with changes in the useful life of an intangible asset or in the method of amortization or residual value. IAS 38 also provides for selective disclosures. For example, a business entity may wish to provide a description of fully depreciated intangible assets that are still in operation. It is also recommended that information be

[21] Mizhnarodnyi standart bukhhalterskoho obliku 38 "Nematerialni aktyvy": Mizhnarodnyi dokument vid 01.01.2012 [International Accounting Standard 38 "Intangible Assets": International document dated 01.01.2012]. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_050. (in Ukrainian).

[22] Natsionalne Polozhennia (standart) bukhhalterskoho obliku 8 "Nematerialni aktyvy": Nakaz Ministerstva finansiv Ukrainy No. 242 vid 18.10.1999 [Regulation (standard) of accounting 8 "Intangible assets": Order of the Ministry of Finance of Ukraine 2242 from 18.10.1999]. Retrieved from: http://zakon0.rada.gov.ua/laws/show/z0750-99. (in Ukrainian).

provided on significant assets controlled by the entity, but not recognized as intangible because they did not meet all the necessary criteria for recognition. In general, the content of IAS 38 requirements regarding the disclosure of intangible assets in financial statements allows us to state that the national P(S)BUs have somewhat limited disclosure requirements. Consequently, this deprives the users of financial reports compiled under P(S)BU of access to detailed and useful information needed to make important management decisions. Summing up, it is worth noting that the specifics of identification, valuation, accounting and disclosure in the financial statements of intangible assets with their diversity, uniqueness in the context of each individual business entity indicates the need for further research in the context of their sectoral affiliation and forms of ownership, with subsequent development and approval of selected sectoral accounting regulations (standards).

2.4. Leases under IFRS: recognition, accounting, disclosure and right to lease as an intangible asset

Questions of the use of various types of assets by economic entities are important and relevant among scientific research. Not all business entities have at their own disposal facilities for running the economy. The management of leased assets is therefore an important step in their operations.

The accounting treatment of leases has attracted the attention of such researchers and scholars as: O. S. Vysochan, L. O. Voloshchuk, S. M. Denhy, I. M. Lepetan, N. V. Nikolayenko, Y. M. Osadcha, as well as leading specialists in IFRS rental research: O. M. Dzyuba, O. V. Karpachova, U. Z. Kostyuk, V. M. Parkhomenko, S. A. Rohoznyy, S. V. Khoma, O. F. Yarmolyuk, etc.

In Ukraine, leasing remains the most common form of property rights relations between landowners and land users, requiring due recognition, evaluation and disclosure of information about it in the records. By 2019, agricultural land leases were governed by IAS 17 "Leases" and UNAS 14 "Leases"[1]. According to IAS 17 "Leases" the treatment of leased land depended on the type of lease – financial or operational. Under the standard, a lease was classified as financial if it transferred virtually all the risks and rewards of ownership, and as operating if it did not transfer such risks and rewards, and the asset was transferred without ownership, which was returned to the lessor at the end of the lease term.

In January 2016, the International Standards Board published the IFRS 16 "Lease"[2] Accounting Standard, which introduced a single accounting model for all leases. Under this model, any lease should be recognized in the financial statement of the lessee. IFRS 16 supersedes IAS 17 and became mandatory on 1 January 2019. Some enterprises have started to apply the standard earlier. Early use of this regulation was allowed from the day of its official publication if the company used IFRS 15 "Proceeds from Contracts with Buyers" in

[1] *Ukrainian National Accounting Standard 14 "Leases".* (2000, July 28). Kyiv: Ministry of Finance of Ukraine. Retrieved from: https://zakon.rada.gov.ua/laws/show/z0487-00#Text [in Ukrainian]

[2] *International Financial Reporting Standard 16 "Leases"*. (2018, October 28). Retrieved from: https://mof.gov.ua/storage/files/IFRS16-ukr_AH-compressed-1.pdf [in Ukrainian]

accounting. IFRS 16 applies to almost all leases, including leases of assets in the form of use rights under a sublease[3].

The process of implementing the new International Financial Reporting Standard is quite complex. By assessing the impact of the transition to the new standard, enterprises may attempt to minimize the risks of the transition and revise certain contract terms as well as their business practices. The new standard provides for the choice of transition options. A key issue is whether to apply this standard retrospectively (taking into account the past), which may lead to additional questions, but as a result there will be greater consistency with data in comparative periods, or prospectively (in the future), on the date of first application, requires less information for prior periods, but may lead to a failure to compare historical data. IFRS 16 introduces new requirements for ratings and thresholds that require professional judgement and may affect the identification, classification and valuation of leases, financial results and the like[4].

In addition, not only IFRS 16 regulates the accounting of rental transactions, but also Tax Code of Ukraine[5], Law of Ukraine "On Accounting and Financial Reporting in Ukraine"[6], Law of Ukraine "On Lease of State and Communal Property"[7].

There is no single definition of "Leases" in legislation and other sources. Table 2.11 gives the content of the concept as defined in the various legislative acts regulating the recording of rental transactions (Table 2.11).

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[3] Yarmoliuk, O. (2019). Features of the agricultural lands lease accounting in the conditions of IFRS 16 "Leases" application. *Efficient economy* [Online], 5, Retrieved from: http://www.economy.nayka.com.ua/?op=1&z=7066 DOI: 10.32702/2307-2105-2019.5.60 [in Ukrainian]

[4] Dziuba, O. (2019). Features of implementation of IFRS 16 "Leases". *Eastern Europe: economy, business and management* 4(21), 549-552. Retrieved from: http://www.easterneurope-ebm.in.ua/journal/21_2019/84.pdf [in Ukrainian]

[5] Tax Code of Ukraine. (2010, December 02) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Kyiv: Parlam. vyd-vo. Retrieved from: https://zakon.rada.gov.ua/laws/show/2755-17#Text [in Ukrainian]

[6] Law of Ukraine On Accounting and Financial Reporting in Ukraine No. 996-XIV. (1999, July 16) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Retrieved from: https://zakon.rada.gov.ua/laws/show/996-14#Text [in Ukrainian]

[7] Law of Ukraine On Lease of State and Communal Property No. 157-IX. (2019, October 03) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Retrieved from: https://zakon.rada.gov.ua/laws/show/157-20#Text [in Ukrainian]

Table 2.11

Content of the concept of "Leases" in legislative and regulatory acts

Source	Interpretation of leases
UNAS 14 "Leases"[1]	A lease is an agreement under which a lessee acquires the right to use an irreversible asset for a fee within a period agreed with the lessor.
IFRS 16 "Leases"[2]	A lease is a contract, or part of a contract, that transfers the right to use an asset (base asset) for a period of time in exchange for compensation.
TCU[5]	Leasing (leasing) operation – business operation (other than charter (charter) of ships and other means of transport) of a natural or legal person (lessor) providing fixed assets for use by other natural or legal persons (lessees) for a fee and for a fixed period.
LU "On Lease of State and Communal Property"[7]	A lease is a right in rem to an asset, under which the lessor transfers or undertakes to make use of the property for a specified period of time
IPSAS 13 "Leases"[8]	Lease is a good thing, because the leaseholder transfers the lease in exchange for a payment or low payments for the right to register an asset for a period of time
UPSNAS 126 "Leases"[9]	A lease is a contract under which a lessee acquires the right to use an irreversible asset for a fee within a period agreed with the lessor

Scientists researching leasing operations highlight their own vision of the content of "leases" or "leases payments". Some of them are considered in the Table 2.12.

An evaluation of the above definitions (Table 2.12) leads to the assertion that the authors identify common features for the essence of the concept of "leases", in particular: contract, objects, entities and payment.

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[8] *International Public Sector Accounting Standard 13 "Leases"*. Retrieved from: https://buhgalter911.com/public/uploads/normativka/Standart_gossektor/МСБОДС/МСБОДС_13.pdf [in Ukrainian]

[9] National Regulation (Standard) of Accounting in the Public Sector 126 "Leases". (2010, December 28) *Vidomosti Verkhovnoyi Rady Ukrayiny*. Retrieved from: https://zakon.rada.gov.ua/laws/show/z0091-11#Text [in Ukrainian]

Table 2.12

The term “leases” and “leases operations” in the works of researchers

Author	The concept of leases
Dzyuba O.M. [4]	Leasing is an important and flexible source of financing for many companies.
Vakun O. V., Zarudna N. YA., Kundeus O. M.[10]	Leasing operations are based on a lease agreement that defines the leased object (property, plant and equipment, intangible assets, other non-negotiable tangible assets, etc.) and is concluded between two leaseholders: lessor and lessee
Parkhomenko V. M.[11]	Leasing (operating or financial) is one of the ways in which fixed assets are received for use by an enterprise for production or other purposes without or with subsequent title to them. Under the lease, one party (the lessor) transfers to the other party (the lessee) for payment of the right to use the asset for a specified period of time.
Rogozniy S. A.[12]	Leasing as a financial and business transaction involving the provision by the owner of his property for the paid use of others.

We believe that a more appropriate definition would be as follows: *lease is an official statement of the agreement that entitles the lessee to use the facility at a fixed and agreed fee within a fixed period of time.* If necessary, the lease term may be extended, increased or reduced, or other conditions of the leased facility modified. Such changes must necessarily be recorded in supplementary agreements to the main treaty.

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[10] Vakun, O., Zarudna, N., Kundeus, O. (2019). Challenges of lease transactions accounting according to national and international financial reporting standards. *Galician economic journal (Tern.)*, 60, 5, 102-111. Retrieved from: http://galicianvisnyk.tntu.edu.ua/?art=757 [in Ukrainian]

[11] Parkhomenko, V. (2019) Accounting for leases in IFRS and which accounting accounts should be used. Retrieved from: https://zakon.help/article/orenda-oblik-orendi-msfz-buhoblik-rahunki-buhobliku?menu=185 [in Ukrainian]

[12] Rohoznyi, S. (2020), Lease relations under IFRS: tax aspect. *Accounting, analysis, audit and taxation: a modern paradigm in terms of sustainable development: Proceedings of the 6th International Scientific and Practical Conference, dedicated 20th anniversary of the Dep. audit* (pp. 240–243). - Kyiv: KNEU [in Ukrainian]

In order to build an effective accounting system for rental transactions, it is necessary to correctly define their classification characteristics and to highlight the main features of their individual types and forms, since often the physical similarity is property-legal relations may lead to terminological differences, inconsistencies of legislation, identification of individual types thereof. In general, it can influence the process of accounting representation of these relationships and results in distorted information in the accounting records.

A decisive factor in the construction of an effective methodology for leasing operations is their economic and legal understanding. On the basis of an analysis of existing approaches, it has been established by researchers that leasing from the point of view of the owner of the leasehold should be considered as a form of economic relations, is a process for the temporary transfer of the right to use and dispose of an object of property (land, property, plant and equipment, intangible assets and other property) to an equivalent rental value[10].

IFRS 16 “Leases” is the accounting standard, providing a leading basis for the accounting treatment of leases compared to the national standard. This is due to the fact that there are more rental transactions in foreign accounting. However, it is worth bearing in mind that IFRS does not disclose the legal aspects of leases at all, as international accounting systems vary considerably from country to country.

At the same time, the basic accounting provisions for rental transactions proposed in national and international standards have been criticized on a case-by-case basis and can be considered as follows:

I. Capitalization of the impact of rental transactions. In a lessee, a financial lease is recognized as an asset in a balance sheet account and as a lease obligation, and an operating lease as an asset in an off-balance sheet account; in a lessor, a financial lease is recognized as a receivable for an asset in a finance lease, and the operating room is an asset in the balance sheet.

II. A system of accounts for recording rental transactions. On the basis of the current lease model implemented in the national accounting standards, separate groups of accounts for the lessor and the lessee are used for accounting purposes.

III. The strategic unreasonableness of applying the principle of substance over form. In the context of the accounting treatment of rental transactions, this principle should be understood as a rule to be followed in the accounting treatment of rental transactions, which provides that rental transactions should be accounted for according to their nature, and not only on the basis of the legal form[10].

The main difference between IFRS 16 and former IAS 17 is that the lessee is entitled to control the use of the asset, not just the right to use the asset (under IAS 17). Under IFRS 15[13], control is the legal right to determine the mode of use of the asset, to obtain all the economic benefits of the asset and to limit third parties to those benefits.

It is important to identify components that are lease-related and not lease-related. The lessor must divide the price of the lease transaction into separate obligations for the performance of the contract in accordance with the requirements of the Recognition of Proceeds Standard (IFRS 15). Already, the lessee distributes rent and non-lease components, refunds relating to a relatively separate price, and monitors prices and utilizes maximum market prices. All these elements are included in the accounting policy.

At the beginning of the lease, the right to use the asset is debited and the loan reflects the lease obligation. This is followed by initial recognition and valuation of the right to use the asset and the lease obligation using the present value of the lease payments.

Where a lease obligation is recognized, the lease term during which the lease payments are made and the discount rate are important indicators. With regard to the duration of the lease, it should be noted that if the lease on an object of property, plant and equipment provides for the possibility of an extension of the lease and sufficient expectation that the lessee will exercise that right, this is taken into account in the calculation of the liability. That is, the longer the lease term, the greater the liability. In determining the discount rate, the interest rate on a bank loan at the time the asset is leased for a similar period of time with similar security to purchase

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[13] International Financial Reporting Standard 15 "Proceeds from Contracts with Buyers". Retrieved from: https://www.mof.gov.ua/storage/files/IFRS-15_ukr-compressed.pdf [in Ukrainian]

an asset similar to that leased[14].

A further valuation of such liabilities is an increase in the lease obligation by the amount of accrued interest at the discount rate that is determined at the date of commencement of the lease or by a decrease in the lease obligation by the amount of payment made. Further valuation of the right to use the asset is based on depreciation of assets, applying the requirements of IAS 16 "Property, Plant and Equipment"[15].

At the end, the lessee calculates its profit or loss on the basis of accrued interest, the maximum economic benefits derived from the facilities and the accrued depreciation.

The initial valuation of the asset includes rental payments, initial contract costs, estimated dismantling and remediation costs and the initial valuation of the obligation, which in turn includes fixed payments, expected variable payments, that depend on the rate or index, the price of the purchase option, the expected termination penalties, the amounts guaranteed to the lessor.

Initial costs in the further valuation of an asset are net of accumulated depreciation and impairment losses. Depreciation is calculated on the basis of the lease term and useful life of the asset if an acquisition option is expected to be used. At a later valuation, the liabilities are amortized at the rental rate. Accrued interest on obligations and the amount that is defined as the difference between actual variable payments and their estimated value is attributed to profit or loss.

Under IFRS 16[15], the original value of an asset should be adjusted to the amount of the revaluation of the lease obligation. According to p. 16, after the start date of the lease, the lessee must assess the lease obligations as follows:

1) increasing the book value to reflect interest on rental liabilities;

2) reducing the book value to reflect the rental payments made;

3) revaluing the carrying amount to reflect revaluation or modification of leases, or to display essentially fixed lease payments

[14] Fartushnyak, O. (2019). Consistency of accounting and reporting on lease transactions according to international and national standards. *Economic development and legacy of Semyon Kuznets: materialy Mizhnarodnoyi naukovo-praktychnoyi konferentsiyi* (pp. 180-182). – Kharkiv: S. Kuznets KhNEU [in Ukrainian]

[15] International Accounting Standard 16 "Property, Plant and Equipment". Retrieved from: https://zakon.rada.gov.ua/laws/show/929_014#Text) [in Ukrainian]

reviewed.

That is, the Statement of Financial Position will reflect in all material respects the information reflected in Fig. 2.2.

The Income Statement reflects depreciation costs (separate from interest costs) and interest costs (separate from depreciation costs).

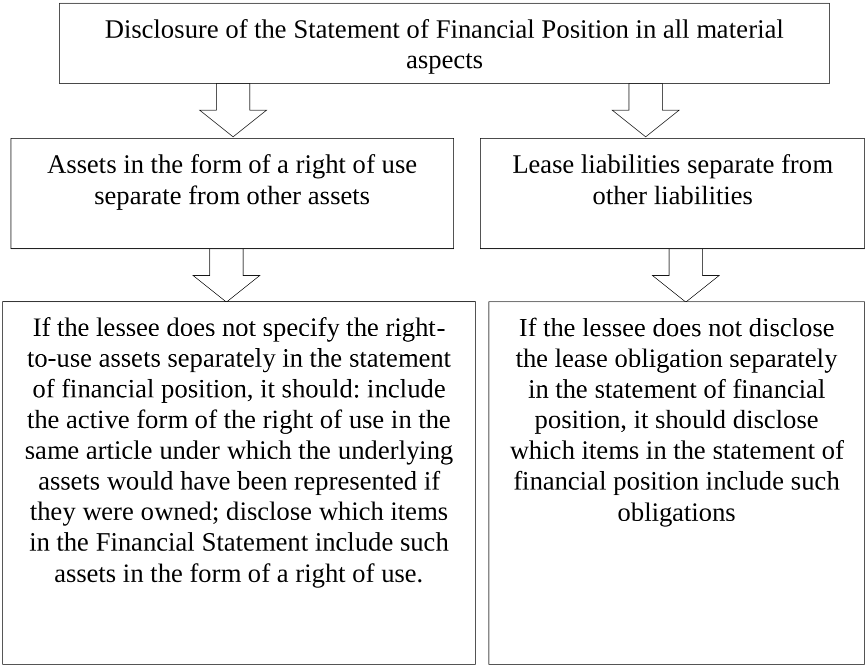

Fig. 2.2. Information management for the Financial Statements in all material aspects of leasehold rights

Source: compiled by authors on the basis [15]

A submission in a report or disclosure:

variable payment costs;

short-term lease costs;

low-cost asset leases.

The cash flow report reflects:

– cash payments on principal of financial leasing obligation;

– cash payments on interest on the lease obligation applying the requirements of IAS 7 “Cash flow statement” for interest paid;

– short-term lease payments, low-value asset lease payments and variable lease payments not included in the valuation of the operating activity lease obligation.

These characteristics of rental transactions need to be reflected in the accounting policy of the economic entity. In addition, it is advisable to take into account another point, namely the exceptions to the basic treatment of rental transactions, such as the possibility of a short-term lease of no more than 12 months without a purchase option and the possibility of a low cost of base assets (for example, mobile phone, tablet, etc.). Such costs will be recognized on a straight-line basis over the lease term.

Many scholars, researchers, practitioners are debating whether leases should be properly represented in accounting: fixed assets or intangible assets? Indeed, leased objects can be classified as fixed assets, but at the same time leases are the right that is defined in the accounting as an intangible asset. Typically, intangible assets of enterprises are assigned to their authorizations and rights. The right to use any object must be documented and recognized and, under Ukrainian law, includes intangible assets. The right to lease is therefore an intangible asset.

For example, in agricultural formations, land is the main leased object. The existence and economic activity of such economic entities is not possible without land parcels. In Ukraine, a significant part of agricultural land is leased and is subject to the right to lease it under the terms of a contract of agricultural formations.

An important aspect of proper accounting of rental transactions is that an asset in the form of a right to use land should be valued according to a certain model after the start date of the lease (Table 2.13).

The correct application of the leasing accounting model results to the accuracy of record-keeping, the accuracy of the calculation of rental payments, their recording in the accounts.

The lessee is fully liable to the lessor for the leased property and, in case of injury, will be obliged to reimburse its value. By lessor, the leased object, according to the "Instructions for the Application of the Chart of Accounts for Assets, Capital, Liabilities and Business Transactions", continues to be shown on the balance sheet account of accounting 10 "Property, Plant and Equipment". Considering that

Account 10 "Property, Plant and Equipment" is intended for the recording and consolidation of information on the existence and movement of own or financially leased objects, in our opinion it is advisable for the objects transferred to the operating lease, separate third-order sub-accounts should be provided for, and the corresponding item in reporting form 1 "Balance sheet". Implementing this approach in practice does not require changes to the Chart of Accounts, as enterprises can add new sub-accounts (second-tier, third-tier accounts) to the account 10 "Property, Plant and Equipment" in an annex to the accounting policy with the preservation of sub-account codes of the Account Plan, approved by the Order of the Ministry of Finance of Ukraine of 30.11.99. 291 (Table 2.14)[16].

Table 2.13

Valuation of an asset after recognition under IFRS 16 "Leases"[3]

Assessment model	Reasons for applying the evaluation model
Cost estimate	Accumulated depreciation (IAS 16 "Property, Plant and Equipment"); Accumulated impairment losses (IAS 36 "Impairment of Assets"); Revaluation (+/-) of the lease obligation (if an asset is written off to zero, a further reduction as a result of revaluation is reflected in gains and losses)
Accounting at revalued amount	If such an accounting model applies to similar classes of property, plant and equipment under IAS 16 "Property, Plant and Equipment"
Fair value accounting	For all assets in the form of a right to land use that meet the definition of investment property under IAS 40 "Investment Property"

Leasing (operating or financial) is one way in which fixed assets are received for use by an enterprise for production or other purposes without or with subsequent title to them. Under the lease, one party (the lessor) transfers to the other party (the lessee) for payment of the right to use the asset for a specified period of time. The period of the lease can be measured (by contract) in the time units of measure

[16] Lepetan, I., Ryazantseva, Y. (2019). Methodological approaches to accounting for lease transactions. *Agrosvit*, 22, 92–97. DOI: 10.32702/2306-6792.2019.22.92 [in Ukrainian]

(months, years) or in the number of units of production (volume of work, services) for which the leased property is to be used for production (execution).

Table 2.14

List of analytical accounts of property, plant and equipment leased by the lessor [17]

Account name	Sub-account code	Name of sub-account (analytical account)
10 “Property, plant and equipment”	101 “Land parcels”	1011 “Land transferred to operating lease”
	102 “Capital expenditure on land improvement”	1021 “Capital expenditure on improvement of leased land”
	103 “Buildings and structures”	1031 “Buildings transferred to operating lease”
	104 “Machinery and equipment”	1041 “Machinery and equipment under operating lease”
	105 “Vehicles”	1051 “Vehicles under operating lease”
	106 “Tools, instruments and Equipment”	1061 “Tools, instruments and equipment transferred to operating lease”

It is important to note that IFRS 16 does not allow a lessee to classify a lease in two ways – as operating or financial. The treatment of the lease under the new standard, however, would be similar to the treatment of the financial lease under IAS 17 with some exceptions, allowing the lessee not to recognize assets and liabilities in the Balance Sheet in the following cases:

a) short-term leases (12 months or less based on the impact of the extension)

b) leasing of low-value assets (for example, personal computers, telephones, office furniture, but not cars).

Under IFRS 16, the lessor classifies the lease as financial or operational.

If the lease is a financial lease, the lessee must apply a single lease accounting model that recognizes absolutely all leases on the balance sheet. When a lessee places an item on the Balance Sheet (the asset is transferred to a financial lease is necessarily included in the lessee's fixed assets), the lessee recognizes both as an asset and a long-term lease obligation. In this case, the amount of recognition is the lower of either the fair value of the leased asset or the present value of the minimum lease payments at the beginning of the lease.

In 2020, the global pandemic had a significant impact on the economy, making adjustments in all sectors of activity, including the economy. The accounting standards have undergone significant changes. Thus, a new provision of IFRS 16 and covid-19 has been issued. That is, the document defines the circumstances and the options of their solution in the accounting of the lease. These resulted in late rental payments, reduced amounts, loss of rent compensation and the like.

The Regulation is intended to support consistent application of requirements in IFRS standards. The document defines the treatment of leases related to the "covid-19" pandemic in the application of IFRS 16 "Leases"; the assessment of whether a change in payment constitutes a modification of the lease; changes in payments do not constitute a modification of the lease; Partial liquidation of lease obligations; impairment of assets[17].

The consequences of adopting the new standard by enterprises are therefore minimization of the risks of inappropriate use of leases in accounting, modification of certain terms and conditions of leases. The key issue in this transition is that IFRS 16 provides a choice of transition options, that is, how to apply the standard:

1) retrospectively (taking into account the past), which may raise additional questions, but as a result more rational data in comparative periods will be achieved,

2) or prospective (taking into account the future), on the date of first application, entailing less information for previous periods but may lead to the impossibility of identifying data for previous periods.

IFRS 16 introduced new measurement and threshold requirements that require professional judgment and may affect the identification, classification and valuation of leases, financial results and the like.

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[17] IFRS 16 and covid-19 Accounting for lease concessions related to the covid-19 pandemic when applying IFRS 16 Lease. Retrieved from: https://mof.gov.ua/storage/files/ifrs-16-rent-concession-educational-material_ukr.pdf [in Ukrainian]

2.5. Creation of provisions for expected credit losses on trade receivables according to the IFRS

For Ukrainian enterprises that conduct accounting in accordance with national accounting standards National Accounting Regulation (Standard) (NP (S) BU 10 "Accounts receivable" defines the methodological basis for the formation of accounting information on receivables and its disclosure in the financial statements. According to this normative document, a doubtful debt is a current receivable for which there is uncertainty about its repayment by the debtor.

The grounds for declaring a debt doubtful and the corresponding creation of a reserve for doubtful debts may be the presence of circumstances and professional judgments that confirm the uncertainty of income and non-repayment of receivables (letter of the Ministry of Finance dated 09.12.2003 No. 31-04200-30-5 / 7021)[1]. Analyzing the grounds for creating a reserve, the chief accountant is important to make decisions not only based on their own judgments, but also to take into account the professional assessment of the doubtful debt of management, lawyers, etc., who can express their expert opinion.

Legislative peculiarities should also be considered, such as the Law of Ukraine of 30.03.2020 No. 540-IX, which entered into force on 02.04.2020 "On amendments to some legislative acts of Ukraine aimed at providing additional social and economic guarantees in connection with the spread coronavirus disease (COVID-19) "item 12 of the section" Final and transitional provisions of the Civil Code of Ukraine was supplemented with the following content: "12. During the quarantine established by the Cabinet of Ministers of Ukraine to prevent the spread of coronavirus disease (COVID-19), the terms specified in Articles 257, 258, 362, 559, 681, 728, 786, 1293 of this Code shall be extended for the duration of such quarantine".

Article 257 of the Civil Code of Ukraine states that the general statute of limitations is 3 years, however, considering the above

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[1] Ministry of Finance of Ukraine (2020) Shchodo zastosuvannia normatyvno-pravovykh dokumentiv z bukhhalterskoho obliku. [Regarding the application of regulatory documents on accounting] Letter from 02.12.2010 No. 2755-VI. Retrieved from https://zakon.rada.gov.ua/laws/show/2755-17. (in Ukrainian).

changes, the statute of limitations is extended for the quarantine period and, accordingly, the recognition of bad debts due to expiration of the statute of limitations quarantine time is impossible. To date, the government has extended quarantine in Ukraine until May 31, 2022.

IFRS 9 Financial Instruments became effective on 1 January 2018 and is mandatory for all entities that report under IFRS. IFRS 9 changed the approach to impairment of trade receivables recognized in accordance with IFRS 15 "Income from Contracts with Customers" and introduced a new model of impairment based on expected credit losses, which replaced the previously proposed model of losses on financial assets of IAS 39. IFRS 9 replaced the "provision for doubtful debts" with a fundamentally new term – "provision for expected credit losses". These two terms exist in parallel. Thus, Articles 139.2.1 and 139.2.2 of the Tax Code of Ukraine state that:

1) increases:

– the amount of expenses for the formation of the provision for doubtful debts or the provision for expected credit losses (decrease in the usefulness of assets) in accordance with national regulations (accounting standards) or international financial reporting standards;

– the amount of expenses from the write-off of account receivables more than the amount of the provision for doubtful debts or more than the provision for expected credit losses (reduction in the usefulness of assets).

2) pre-tax financial result decreases:

– the amount of adjustment (reduction) of the provision for doubtful debts or the provision for expected credit losses (reduction in the usefulness of assets), which increased the pre-tax financial result in accordance with national accounting standards (standards) or international financial reporting standards;

– in the amount of written-off receivables (including due to the created reserve of doubtful debts or reserve of expected credit losses (decrease in usefulness of assets), which corresponds to the characteristics specified in subparagraph 14.1.11 of paragraph 14.1

of Article 14 of this Code[2].

According to Art. 134 of the Tax Code of Ukraine, taxpayers whose annual income is determined by accounting rules for the last annual reporting period exceeds forty million hryvnias (net of indirect taxes), the object of taxation must be determined by adjusting the pre-tax financial result for differences arising in accordance with the TCU, including the differences that arise during the formation of provision (reserves), which are specified in paragraphs 139.1 - 139.3 of Article 139 of the TCU. Note that the amounts of reflected differences must be reconciled with the relevant accounting data (accounts 38 "Provision for doubtful debts", 71 "Other operating income", 94 "Other operating expenses").

The previous IAS 39 standard had several significant shortcomings that contributed to the recent financial crisis. It used the concept of incurred losses for financial assets, according to which a loss is recognized in the financial statements only when the loss occurs. This led to the fact that losses on financial instruments were reflected in the reporting with delays and understated[3].

IFRS 15 Revenue from Contracts with Customers provides the following definition of receivables: "Accounts receivable are the company's unconditional right to compensation from the buyer.[4] 9 "Financial instruments" notes that "unconditional receivables" are recognized as an asset from the date of entry into the contractual relationship, resulting in legal rights to receive cash"[5].

According to IFRS, trade receivables are a financial instrument and, accordingly, its recognition in the balance sheet and further

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[2] Verkhovna Rada of Ukraine (2010) Podatkovyi kodeks Ukrainy [Tax Code of Ukraine] from 02.12.2010 No. 2755-VI. Retrieved from https://zakon.rada.gov.ua/laws/show/2755-17. (in Ukrainian).

[3] Bayul D. MSFZ 9 "Finansovi instrument". Pro novyi pidkhid [IFRS 9 Financial Instruments. About a new approach]. Retrieved from https://news.finance.ua/ua/news/- /418861/dmytro-bayul-msfz-9-finansovi-instrumentypro-novyj-pidhid. (in Ukrainian).

[4] Mizhnarodnyi standart finansovoi zvitnosti 15 "Dokhid vid dohovoriv iz kliientamy" [International Financial Reporting Standard 15 "Income from Contracts with Customers"]. Retrieved from http:// search.ligazakon.ua/l_doc2.nsf/link1/MU17027.html. (in Ukrainian).

[5] Mizhnarodnyi standart finansovoi zvitnosti 9 "Finansovi instrument": praktychni aspekty vprovadzhennia v Ukraini [International Financial Reporting Standard 9 (IFRS 9). Financial instruments] from 01.01.2012. No. 929_016. Retrieved from https://zakon.rada.gov.ua/laws/show/929_016#Text (in Ukrainian).

measurement is carried out according to the rules applicable to financial instruments. In this case, IFRSs understand financial instruments as an agreement "that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity". [6]

Impairment (impairment) requirements for IFRS 9 do not apply to all financial assets, but only to debt assets measured at amortized cost and fair value through other comprehensive income (§ 5.5.1 of IFRS 9). National Accounting Standards require the recognition of an impairment only if there are signs of impairment that indicate that it has occurred as at the reporting date. IFRS 9 defines the creation of provisions for expected credit losses, ie impairment losses that may be incurred in the future, even with minimal probability. As a result of the application of these requirements, the provision for credit losses is created from the initial recognition of the asset, which obviously increases the amount of reserves compared to current accounting.

IFRS 9 "Financial Instruments" will certainly have a significant impact on financial institutions, especially banks, as they mostly hold significant and complex portfolios of financial instruments and apply complex models of financial risk management. Banks are better aware of the importance of IFRS 9 for their reporting, not least through the efforts and guidance of the National Bank of Ukraine and have already begun to apply the new standard in their accounting. However, IFRS 9 will also affect non-financial institutions, even if they have only simple financial instruments, such as receivables, loans (financial assistance) and bank deposits. Many of these organizations are still in the early stages of analyzing and implementing IFRS 9 and are only now beginning to realize the extent to which it has changed from previous IFRS and IFRS rules and the corresponding impact on financial performance.[7]

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[6] Mizhnarodnyi standart finansovoi zvitnosti 9 "Finansovi instrument": praktychni aspekty vprovadzhennia v Ukraini [International Financial Reporting Standard 9 (IFRS 9). Financial instruments] from 01.01.2012. № 929_016. Retrieved from https://zakon.rada.gov.ua/laws/show/929_016#Text (in Ukrainian).

[7] Taran I. MSFZ 9 "Finansovi instrument": praktychni aspekty vprovadzhennia v Ukraini [IFRS 9 Financial Instruments: Practical Aspects of Implementation in Ukraine]. EXPERIENCE & JUDGMENT. IFRS practice. 2018. September. P. 28-36. Retrieved from https://www.pwc.com/ua/uk/publications/2018/ifrs-9-financial-instruments.pdf (in Ukrainian).

It should be noted that for the practice of foreign accounting there is such an unresolved issue as the lack of a special standard for regulating the accounting of receivables. In practice, accounting should comply with the requirements of IFRS 9 Financial Instruments, which treats receivables from a financial asset, and this approach is quite new for Ukrainian accounting.

The works of many scientists, in particular: I.V. Zholner, L.M.Kindratskaya, O.E. Kuzminskaya, O.V. Nebyltsova, R.S. Korshikova, L.I. Lukyanenko, Plikus I.Y., L.P. Snigurskaya, V.V. Khodzytska. However, given the problematic issues that arise when accounting for receivables, there is a need for further study of the valuation and creation of a provision for credit losses.

The rules for measuring trade receivables as a financial asset are set out in IFRS 9 Financial Instruments. First, all financial assets are measured at fair value, then, for further measurement, the entity classifies financial assets:

– such that will be measured at amortized cost

– or those that will be measured at fair value based on the business model of the entity used to manage financial assets.

Trade receivables are, in most cases, measured at fair value, with the exception of a significant component of financing in the contract with the buyer. If there is a significant financing component in the contract, the buyer's receivables will be reflected in the balance sheet (Statement of financial position) at discounted value, and the difference between the initial estimate and the amount payable will be interest (financial) income in the Financial Statements. results (Statements of comprehensive income).

The rules for measuring trade receivables as a financial asset are set out in IFRS 9 Financial Instruments. First, all financial assets are measured at fair value, then, for further measurement, the entity classifies financial assets at those that will be measured at amortized cost or at fair value based on the entity's business model used to manage financial assets. The standard states that a financial asset is measured at fair value if the following conditions are met:

– the financial asset is held within the business model, the purpose of which is to obtain the contractual cash flows;

– cash flows are exclusively payments of the principal amount of debt and interest on the outstanding part of the principal amount of debt”[8].

The main difficulty in accounting for receivables is the assessment, which is divided into primary and next. Upon initial recognition, receivables, like any other financial asset, must be measured at fair value and in most cases the fair value of goods and services is determined on a contractual basis. Further accounting of receivables is more complex and depends on its type (long-term or short-term)[9].

Conservative accounting policies provide for the reflection of transactions only upon their implementation. In this case, receivables are reflected in the balance sheet at face value, and bad debts are written off only upon recognition – the method of direct write-off of bad debts. According to Ukrainian law, the debt is considered bad after the expiration of the statute of limitations.

IFRS 9 provides for the assessment of the buyer’s credit risk and the creation of a provision. The provisioning method involves estimating and accruing a provision for doubtful debts on sales on credit, while reflecting in the Balance Sheet (Statement of Financial Position) the decrease in the value of receivables. The main problem with the use of the provisioning method for the company is to assess the risk of default. The most common is the use of past practical experience of the enterprise.

There are two approaches to calculating the amount of the IFRS reserve: the balance sheet method (the method of estimating accounts by maturity) and the method of income statement (the method of interest on net sales on credit).

IFRS 9 Financial Instruments introduced a new model for impairment of financial assets based on expected credit losses, the

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[8] Mizhnarodnyi standart finansovoi zvitnosti 9 “Finansovi instrument”: praktychni aspekty vprovadzhennia v Ukraini [International Financial Reporting Standard 9 (IFRS 9). Financial instruments] from 01.01.2012. No. 929_016. Retrieved from https://zakon.rada.gov.ua/laws/show/929_016#Text (in Ukrainian).

[9] Plikus I.Y., Ganus I.S., Gordeeva A.V. Implementatsiia MSFZ 9 “Finansovi instrument” v systemu obliku debitorskoi zaborhovanosti [Implementation of IFRS 9 “Financial Instruments” in the Accounts Receivable Accounting System "]. Market infrastructure. 2019. Issue 37. P. 749-757. Retrieved from http://www.market-infr.od.ua/journals/2019/37_2019_ukr/110.pdf (in Ukrainian).

provision for which is recognized before they occur, i.e. entities must estimate expected credit losses according to general or simplified approaches and create a provision for credit losses. However, IFRS 9 does not express a clear opinion on the calculation of the allowance for impairment (expected credit losses) of receivables, the choice of credit risk assessment method, determining the credit rating of the debtor, the choice of the probability of default, and so on. Therefore, it is possible to apply an individual approach applied to the use of international ratings to calculate expected credit losses for both domestic and foreign debtors. International rating agencies annually present reports with a detailed analysis of countries, regions, industries and systematically review rating positions, which allows you to use relevant information at any time. The use of international ratings allows to include in the estimated loss a significant number of macroeconomic factors that are considered by rating agencies to determine the class of credit risk[10].

Expected credit losses are determined by the standard as a probabilistic estimate of credit losses, which should take into account even those cases where it is expected that all payments will be received in full, but the contractual term of payment will be overdue.[11]

Upon initial recognition of receivables, the impairment loss is zero. In the event of deterioration in credit quality, the impairment loss increases.

The event that causes the loss occurs before the loss provision is created. According to the model of impairment, which is based on expected credit losses, the provision for losses is recognized before the loss of credit, in other words, companies must consider expected losses (those that are likely to be incurred in the future, not those

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[10] Hanus I.S., Plikus I.I., Zhukova T.A. Reitynhuvannia debitoriv yak instrument upravlinnia debitorskoiu zaborhovanistiu Accounts receivable rating as a tool for managing receivables]. Bulletin of Sumy State University. Series "Economics. 2020. No. 3. C. 121-129. Retrieved from https://visnyk.fem.sumdu.edu.ua/issues/3_2020/13.pdf (in Ukrainian).

[11] Mizhnarodnyi standart finansovoi zvitnosti 9 «Finansovi instrumenty»: praktychni aspekty vprovadzhennia v Ukraini [International Financial Reporting Standard 9 (IFRS 9). Financial instruments] from 01.01.2012. No. 929_016. Retrieved from https://zakon.rada.gov.ua/laws/show/929_016#Text (in Ukrainian).

already incurred) to IFRS 9, entities recognize losses immediately after the initial recognition of a financial asset and review the amount of the provision for expected credit losses at the reporting date.

Entities should estimate expected credit losses on a financial instrument using a method that:

– will allow to obtain an unbiased and probability-weighted amount determined by estimating the range of probable results;

– will take into account the value of money over time and reliable information on past events, current conditions and forecasts of future economic conditions, which will be available on the reporting date without undue expense and effort. Therefore, IFRS 9 provides two main approaches to the assessment of credit risk and, accordingly, the expected credit losses from each financial instrument, namely:

– general approach, which is based on the fact that the amount of credit loss is determined by assessing the current credit quality of the financial instrument;

– a simplified approach, in which the credit loss is estimated by determining the probability of non-repayment by the debtor of the debt, which is multiplied by the amount of overdue debt[12].

The provision for expected credit losses is created by:

1) for financial assets measured at amortized cost, namely loans issued by the company; receivables (including trade); cash; deposits; savings (deposit) certificates, not intended for sale, etc.;

2) financial assets measured at fair value through other comprehensive income;

3) lease receivables arising in accordance with IFRS 16 Leases;

4) receivables and contractual assets that arise in accordance with IFRS 15 “Income from Contracts with Customers”;

5) financial guarantee agreements.

The provision for expected credit losses should be recognized at each reporting date, depending on the degree of credit risk of the financial asset from the date of its initial recognition. At each reporting date, assess whether the risk of credit loss of the financial

[12] Mizhnarodnyi standart finansovoi zvitnosti 9 “Finansovi instrument”: praktychni aspekty vprovadzhennia v Ukraini [International Financial Reporting Standard 9 (IFRS 9). Financial instruments] from 01.01.2012. No. 929_016. Retrieved from https://zakon.rada.gov.ua/laws/show/929_016#Text (in Ukrainian).

asset has increased and by how much. This is necessary to determine the degree of impairment of the financial asset and the amount of the provision to be shown in the financial statements.

Determining the date of creation of the provision for credit losses causes several controversies. Some experts believe that at the time of initial recognition of a financial asset. They argue that the company cannot be 100% sure that the debt will be repaid in full. Therefore, the expected credit losses will always be greater than zero. Other experts agree but notice that IFRS 9 does not explicitly require a provision for expected credit losses immediately after initial recognition. In accordance with § 5.1.1 of IFRS 9, on initial recognition, financial assets are measured at fair value based on their acquisition or issue costs. Whereas under § 5.5.3 IFRS 9 the provision for credit losses is recognized on each reporting date. Therefore, it is not a mistake not to create a reserve immediately after recognizing a financial asset. The opinion of international auditors is unequivocal: "In the general case, companies are required to recognize in profit or loss an estimated provision for expected credit losses for all financial assets – even for those that have just created or acquired. Even though the company should not recognize the estimated provision for losses on the initial recognition of a new financial asset, but only on the next reporting date after recognition, the effect is similar to the recognition of loss on the first day. However, IFRS 9 does not explicitly require a provision for expected credit losses immediately after initial recognition"[13].

We agree with A. Lebedyk, which states that the impairment of a financial asset should be reviewed immediately after initial recognition, considering its own experience of working with a counterparty, information about it that is available at the time of recognition of the financial asset, and prospects for cooperation with him. That is, be guided by their own experience and forecast information. IFRS 9 (§ 5.5.17) requires that the estimated estimate of the provision reflect reasonable and confirmatory information that can be obtained without undue expense or effort as at the reporting date.

[13] Lebedyk A. Chy stvoriuvaty rezerv sumnivnykh borhiv za MSFZ 9 [Whether to create a provision for doubtful debts under IFRS 9]. Golovbukh Magazine. 2019. June. No. 24. Retrieved from https://egolovbuh.mcfr.ua/739950 (in Ukrainian).

The recognition of expected losses (§ 5.5.5 of IFRS 9) is as follows:

– if the credit risk has increased significantly since the initial recognition of the financial asset, the provision is estimated at the amount of the expected credit loss over the life of the asset (§ 5.5.3 of IFRS 9).

– if as at the reporting date the credit risk on the financial instrument has not increased significantly since initial recognition, then, subject to the provisions of paragraphs 5.5.13-5.5.16, the entity estimates the provision for losses on such financial instrument in the amount that equal to the 12-month expected credit loss.

Credit loss occurs even when you expect to receive the full amount of the debt from the debtor, but later than under the agreement (§ B5.5.28 IFRS 9). That is, the amount of credit loss is the expected amount of uncollected cash under the agreement reduced to present value.

In general, the expected credit losses are understood as the estimated estimate of all possible credit losses during the term of the financial asset, multiplied by the percentage of probability of their occurrence. To calculate the provision for expected credit losses, you must first determine the amount of credit loss. To do this, subtract the expected present (discounted) cost of payments from the current (discounted) value of payments under the contract. Discount both amounts at the market interest rate. That is, the amount of credit loss – is reduced to present value the expected amount of uncollected cash under the agreement.

The provision for expected credit losses is a cumulative amount. Its creation (increase) is reflected in the debit of profits and losses: debit "Expenses" credit "Reserve for expected credit losses". The statement of financial position is reflected in assets. That is, it reduces the carrying amount of the financial asset.

The general method of calculating the provision for expected credit losses involves three stages of growth of credit risk of a financial asset (Table 2.15).

IFRS 9 does not contain definitions of "significant increase in credit risk" and "default". The standard only assumes that the credit risk on a financial asset will increase significantly from its initial recognition if the debtor defaults on the contract for more than 30 days (§ 5.5.11 of IFRS 9). And the default will occur no later than the moment when he delays payment under the contract for 90 days. Except where it can be justified and confirmed that it is appropriate to apply the criterion with a longer delay in payment (§ B5.5.37 of IFRS 9).

Table 2.15

Characteristics of stages of credit risk growth [14]

Stage	Characteristics of credit risk growth	Features of reserve recognition
1	2	3
First	No significant increase in credit risk is observed	At the time of initial recognition and at each reporting date, the provision is recognized in the amount of 12-month expected credit losses. For the entire life of the financial asset, the company analyzes the expected credit losses (ie the total amount of uncollected funds) that will occur in the event of default of the debtor within 12 months after the reporting date (or shorter if the expected life of the financial asset less than 12 months) on the probability of its occurrence. That is, we are talking about funds that were not received within the next 12 months, and the contract in view of the forecast analysis of the debtor’s financial condition for the next 12 months.
Second	Credit risk increases significantly from the initial recognition of a financial asset	The provision for expected credit losses is recognized on the basis that the risk of default of the debtor is probable throughout the term of the agreement. Continue to recognize financial income (interest) based on the carrying amount of the financial asset.

[14] Lebedyk A. Chy stvoriuvaty rezerv sumnivnykh borhiv za MSFZ 9 [Whether to create a provision for doubtful debts under IFRS 9]. Golovbukh Magazine. 2019. June.. No. 24. Retrieved from https://egolovbuh.mcfr.ua/739950 (in Ukrainian).

Continuation of table 2.15

1	2	3
Third	It begins when the debtor has not paid the contract. This is the stage of default	At this stage, the financial asset must be classified as impaired. As in the second stage, continue to recognize the provision for the entire life of the asset. But financial income (interest) should already be accrued on the basis of the net book value of the asset, i.e. after deducting the reserve.

The simplified method of calculating the provision in accordance with IFRS 9 applies:

• for trade receivables;

• contractual assets arising from the application of IFRS 15 “Revenue from Contracts with Customers”;

• lease receivables for the receipt of lease payments in accordance with IFRS 16.

With a simplified calculation, the provision for expected credit losses is allowed to be estimated for the entire term of financial assets, ie it is possible not to determine the stage of credit risk growth because these assets usually have a short maturity. For them, IFRS 9 proposes to apply several practical techniques, one of which is the construction of a redundancy matrix. The provisioning matrix provides for the analysis of trade receivables by maturity and overdue payments.

For some types of financial assets, IFRS 9 requires that a simplified reserve calculation method be always applied. Trade receivables and contractual assets that do not contain a significant financing component in accordance with IFRS 15.

Typically, trade receivables that do not contain a significant financing component under IFRS 15 are repaid in less than 12 months. Therefore, the provision for expected credit losses for the entire term of such receivables is calculated in the same way as the provision for 12-month expected credit losses. Such trade receivables at initial recognition should be measured at the transaction price (in accordance with the requirements of IFRS 15). Therefore, it is not necessary to discount the amount of uncollected funds to determine the expected credit loss.

IFRS 9 uses a simplified estimate of expected credit losses for trade receivables using the valuation reserve matrix. The provisioning matrix (Table 2.16) is calculated by determining the default ratio (loss) for each individual group of receivables.

Table 2.16

Algorithm for calculating the reservation matrix

No.	Stage	Characteristic
1.	Classification of account receivables	Criteria for classifications can be selected: geographical region; type of products (goods, works, services); customer rating; availability of collateral; trade accounts payable insurance; type of client (wholesale or retail). When classifying receivables, it is important to determine the factor that most significantly affects the credit risk of each group.
2.	Analysis of past credit losses (determination of the period for analysis and grouping of receivables by maturity)	IFRS 9 does not specify criteria for the length of the sampling period. In practice, this period can vary from 2 to 5 years in terms of the following terms: - up to 30 days; - from 30 to 60 days; - from 60 to 90 days; - more than 90 days.
3.	Calculated credit loss ratio (default ratio)	The total amount of credit loss (bad debts) is divided by the amount of arrears by maturity.
4.	The default factor for forecast information is adjusted	Specialists of the enterprise on the basis of the conducted researches of economic conditions of the region and other circumstances can increase (reduce) loss from trade receivables on the calculated percentages.
5.	Calculation of the provision for expected credit losses	Provision for expected credit losses is calculated by multiplying the current balance of receivables by certain default ratios.

The default ratio (loss) is determined based on own experience and forecast information for a certain period. It is necessary to analyze what part of trade receivables that arose during the selected period, fell into default. Then you need to divide the receivables by maturity and determine the default rate. Next, credit losses are adjusted for forecast information. Forecast information is understood as substantiated and confirmed forecasts that may affect the credit loss in the future. For example, a sharp rise or fall in unemployment, changes in inflation, and so on.

The use of redundancy matrices is the most common approach to reserve valuation in practice. The source data for provisioning matrices are usually historical data on late payments and write-offs of bad debts. However, approaches to calculating the percentage of redundancy in such matrices, in the absence of guidance in the standard, may be different. First, the approach used depends on the availability and quality of historical data. The methods we see most often include:

– analysis in terms of individual balance sheets. This approach monitors the dynamics of repayment of each individual balance of receivables, usually in terms of individual invoices, and then averages the resulting statistics of defaults;

– vintage analysis, which traces the history of overdue and write-off of receivables arising from sales for a certain period. The application of this approach requires the availability of data on the status of overdue receivables that arose in a certain period, in all subsequent periods;

– analysis of changes in the status of arrears of the total balance of receivables at the end of each period in terms of arrears, but regardless of the period of occurrence. This is, of course, not an exhaustive list of possible methods and the standard does not limit the use of others. But any method gives adequate results only if it is based on a sufficiently large and statistically representative amount of information. These methods do not work for some particularly large debtors or debts with special conditions that are significantly different from others. Methods of a general approach to impairment are more appropriate for such balance sheets. In addition, the use of aggregate data should take into account the characteristics of receivables and analyze together only balance sheets with similar characteristics [15].

Therefore, IFRS 9 allows the use of several practical tools to create a provision for credit losses, including the provision matrix and the receivables rating method.

Ganus I.S., Plikus I.Y., Zhukova T.A. in their study propose to rate debtors according to the level of risk of corporate default, and such a rating can reliably assess the probable risks. The method of rating debtors is based on the use of credit ratings as the main factor in choosing the expected loss ratio. This method is not mandatory for companies and was developed because of the desire of businesses to estimate the probable losses more accurately. This method uses credit ratings. A credit rating is a relative assessment of credit quality generalized over a period (business cycle). A credit rating may not specifically indicate the likelihood of a debt being repaid by a receivable, but it may allow a more objective assessment of it using many economic factors that determine the average financial climate in a country. Currently, there are three major rating agencies that are used in decision-making in every country in the world (Moody's; Standard & Poor's; Fitch Ratings). The use of international credit ratings allows a more objective assessment of the creditworthiness of both foreign and domestic debtors, considering the current macroeconomic situation in the country.[16]

Therefore, IFRS 9 Financial Instruments introduces a new impairment model based on expected credit losses, which recognizes a provision for losses before credit losses, ie in this approach the entity must take into account current conditions and reasonable forecast information, which it can be obtained without undue expense in assessing credit losses.

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[15] Taran I. MSFZ 9 "Finansovi instrument": praktychni aspekty vprovadzhennia v Ukraini [IFRS 9 Financial Instruments: Practical Aspects of Implementation in Ukraine]. EXPERIENCE & JUDGMENT. IFRS practice. 2018. September. P. 28-36. Retrieved from https://www.pwc.com/ua/uk/publications/2018/ifrs-9-financial-instruments.pdf (in Ukrainian).

[16] Hanus I.S., Plikus I.I., Zhukova T.A. Reitynhuvannia debitoriv yak instrument upravlinnia debitorskoiu zaborhovanistiu Accounts receivable rating as a tool for managing receivables]. Bulletin of Sumy State University. Series "Economics. 2020. No. 3. P. 121-129. Retrieved from https://visnyk.fem.sumdu.edu.ua/issues/3_2020/13.pdf (in Ukrainian).

It should be noted that different methods of determining impairment of assets in accordance with IFRS can be applied to different types of receivables. The chosen approach should be specified in the accounting policy of the enterprise. To avoid tax risks and accounting errors, it is advisable to systematically analyze the amount of receivables, timely accrue provisions and monitor the statute of limitations.

2.6. IFRS expenses: recognition, accounting, influence on reporting

Transformation of financial statements in accordance with International Financial Reporting Standards (IFRS) continues to become more relevant. The most influential article determining the profit of an enterprise is the costs of its activities. Therefore, one of the most important problems is the transformation of the costs of enterprises. Their reflection in accounting and reporting on national and international standards is ambiguous and contradictory. International financial reporting standards are an indisputable tool for understanding and increasing transparency of information, which creates a reliable base for recognizing costs, assessing assets and liabilities and provides an opportunity to objectively disclose existing financial risks to reporting entities, as well as to compare the results of their activities in order to ensure an adequate assessment of their potential and make appropriate management decisions. In addition, IFRS qualitatively affect management capabilities and provide significant advantages over competitors for certain entities that will help ensure economic growth and further development of the enterprise[1].

There are no special standards in IFRS the regulate accounting and the order of reflection in cost reporting. All this is spelled out in separate standards: IFRS 2 “Stocks” (IAS 2 – Inventories) regulates the assessment of costs for materials, IFRS16 “Fixed Assets” (IAS 16 – Property, Plant and Equipment) – depreciation costs, IFRS 19 “Employee Benefits” (IAS 19 – Employee Benefits) – labor remuneration costs. These standards, including those governing the procedure for including the incorporation of expenses into the original value of products (materials, goods), fixed assets and intangible assets (their capitalization), and the order of their write off in the form of amortization (decapitalization) or retirement. Furthermore, IFRS23 “Loan Costs” (IAS 23 – Borrowing costs) defines how to account for loan expenses.

[1] Rudenko A.O. Common features and differences in costs by international and national accounting standards. Management development, No. 1 (122), 2012. P. 112-114.

In Ukraine, the methodological basis for the formation in the accounting of information on the costs of enterprises and the disclosure of such information in the financial statements is governed by NAR(S) 16 “Costs”[2] and NAR(S) 1 “General requirements for financial statements”.

IFRS 2 “Stocks” distinguishes two categories of expenses: product costs, and period costs. Domestic NAR(S) 16 “Costs” does not provide such a distinction, but operates only by a category of costs. It is noteworthy that the “cost” and "cost” categories are of various nature and significance, as evidenced by many studies over a long period of time. Thus, the category of “costs” is a value assessment of resources used by the enterprise in the course of economic activity; “Product costs” category is a part of the costs associated with the manufacture or purchase of assets, which determines their value, and which forms the profit of enterprises in the process of their implementation.

The discussions related to the study of the problems of organization and methodology of accounting for the costs of enterprises occupy a significant place in the theory and practice of the current state of reforming financial accounting. The study of estimating and recognizing costs in accounting has been carried out by many economic scientists. Significant contribution to the solution of this problem made the following domestic scientists economists: F.F. Butynets, S.F. Holov, V.A. Derij, M.R. Luchko, E.V. Mnykh, V.M. Parkhomenko, V.V. Sopko. But the research they conducted did not fully take into account the integration of Ukraine into the world community. The problems and prospects of improving accounting in Ukraine based on IFRS continued to be investigated by such scientists as: S.F. Golov, O. Gubachova, V. Kostiuchenko, V. Parkhomenko and a number of others.

Regulatory and legislative changes given in the Regulations of Accounting Standards NAR(S) and the Tax Code of Ukraine (TCU) regarding the recognition of costs in accounting, and their impact on the formation of financial and tax reporting, should be compared with IFRS. In particular, the recognition of costs involves the study

[2] Polozhennia (standart) bukhhalterskoho obliku 16 “Costs” [Regulation (standard) of accounting 15 “Income”]. Nakaz MFU No. 290. (1999). Vylucheno: www. rada.gov.ua.

of the definition of the term “cost” according to national and international regulatory sources. It should be noted that the terms “costs” according to national and international standards are basically identical. But the definition under IFRS is more generalized. Recognition of expenses also indicates the identity in NAR(S) and IFRS.

Certain differences are also recorded in the Tax Code Regarding the classification and composition of the costs of activity. There is also a number of disagreement between the NAR(S) and the TCU[3], requiring consideration and in-depth research to eliminate them. In particular, in the division of costs for operational and other expenses of activity, which in accordance with the norms of the Tax Code include the cost of goods sold, works performed, services rendered. These provisions of the Tax Code of Ukraine need to be revised and for the calculation of costs when calculating the tax object, not only the cost of goods sold, works performed, services rendered, as well as administrative and sales expenses, other operating expenses, financial, investment and other expenses of activity should be taken into account.

In the study of the Conceptual Framework of International Standards[4] there are discrepancies in the classics of income and expenses in IFRS. Classification of costs by their nature includes amortization, material costs, employee benefits and other expenses, and classification of costs by their functions cost of implementation, administrative costs, sales costs and other costs.

Exploring the problem of IFRS and NAR(S) cost accounting should return to the theoretical basis of cost classification.

Reliability of cost accounting and calculation of production cost can be achieved only by applying a scientifically-based classification of costs on certain features. The diverse nature and content of costs allows to identify a significant number of classification features.

Classification of costs in the interpretation of individual scientists economists makes it possible to conclude that there is no single point

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[3] Podatkovyi kodeks Ukrainy, ukhvalenyi Verkhovnoiu Radoiu Ukrainy 02 hrudniaon December 2, 2010 No. 2755-VI]. Retrieved from: https://zakon.rada.gov.ua/laws/show/2755-17.page32#Text [in Ukrainian].

[4] Mizhnarodni standarty finansovoi zvitnosti [International Financial Reporting Standards] [Elektronnyi resurs]. Vylucheno: http:www.minfin.gov.ua

of view neither with respect to the number of features, nor with respect to their content. From the classification that actually occurred, the researchers distinguished between 3 and 9 characters.

The classification of production costs should reflect the object of study according to the level of production development. It is advisale to determine the content of classification features in such a way that the accounting information by distributing into certain groups, depending on the general characteristics, allows time to solve the problems for planning, analyzing and calculating the cost price.

Regarding the classification of costs by economic content, the versatile approach to determining the economic content of costs on this basis led to the fact that the issue of economic limits of production costs has not been resolved by this time. In practical activities, there are both cases of unreasonable increase in costs, and cases when the costs of creating products are not consciously displayed.

On an economic basis, all costs are divided into living and materialized labour costs. The work of people in the process of economic activity is the costs of live work, the waste items (in the form of seeds, fertilizers, etc.) and means of work (in the form of depreciation deductions), which are means of materialized labour. The rationale for these questions is usually invoked by C. Marks' teachings. But it is worth noting that in this case, only the formation of socially necessary production costs, that is, the cost of the created product, is taken into account. Insurance payments, scholarships for students, and deductions to higher organizations and cash payments are also considered for production costs. The listed costs are the simple expenditure of money, caused by production conditions. In this regard, there is some interest in the research of scientists on the distribution of costs by their economic nature into three groups:

1. Costs, describing the participation of production in the creation of new products (material values and depreciation of labor);
2. Costs, characterizing the use of the required product and the provided types of payment;
3. Expenses, characterizing the use of additional product (provided by the legislation of deduction and payment for research works).

So, the economic content of the cost is advisable to divide not two, but three groups:

a) living labor costs in the form of remuneration with accruals;

b) expenses of materialized labour (labor items and depreciation deductions);

c) costs in the form of cash used for production needs.

Insufficiently substantiated, in our opinion, and grouping the costs of the elements into five groups:

1. Material costs;
2. Labor costs;
3. Deductions for social events;
4. Amortization;
5. Other operating expenses.

The existence of the Material Cost group in the Amortization Group violates the requirements of the provisions reflected in the regulatory documents, since depreciation of fixed assets is also a material cost in terms of fixed assets. Therefore, the “Material Expenses” group is more appropriately named “The Objects of Labor”.

The Other Operating Expenses Group, in our opinion, should include only cash payments in the form of insurance payments, interest paid on the loan, payments to higher organizations, payments for rationalization offers, scholarships to students, etc. d. This group would be more appropriate to call “Monetary Expenses (Payments)”.

Varying degrees of participation in value creation divides costs into productive and nonproductive. Productive, in turn, create the value of products and are presented by the following articles: raw materials, fuel and energy for technological purposes, basic wage, additional wages, depreciation.

Nonproductive costs, unused in the production process, include: Deductions for social events, insurance payments, deductions for the maintenance of higher organizations, deductions for bonuses and the creation of new equipment.

The study of economic literature allows us to conclude that there is no partial distinction between concepts of productive and production expressions, as well as nonproductive and nonproductive. Manufacturing incorporate and are not performance based, indicating the need for further research and theoretical justification for an existing cost classification.

By role in the production process, the costs are divided into main and overhead. The basic refers to the technological costs without which it is impossible to create a product. Identification of management costs with general economic and general production and their unification into the concept of overhead – is illegal. There is a difference in the meaning of these concepts.

The study of literary sources confirms that the conclusions of a number of authors categorizing costs are insufficiently augmented. The presence of various interpretations of the main and overhead costs indicates the existence of the problem and the need for its solution. A generalization of various views on the feasibility of costs division on a technological basis and the need for scientific justification of it is of interest.

The separation of costs for role in the production process contributes to the implementation of current accounting and control of technological and economic operations. This grouping is due to the role of the main and overhead costs in the formation of the cost of production, but do not identify them by dividing them into direct and indirect. The basis for dividing the costs of the main and overhead ways of allocating the costs of certain types of products.

The division of costs into direct and non direct is made by the way of including them in the cost price. The costs that can be directly attributed to the cost of production of a particular product are direct – these include the costs of payment to employees directly engaged in the production of a certain product, example plant production – seed costs, fertilizers, depreciation of fixed assets for narrow-industry purposes. Indirect costs are subject to distribution, as they simultaneously relate to several types of products.

The division of costs into direct and non direct provides a methodology of costs by the objects of calculation, so a sign of their division is the division between analytical accounts, which is of practical importance in individual industries.

We join the opinion of scientists that the cost classification should be based on theoretically grounded, methodologically justified their groups, possible for practical use in order to identify reserves for reducing the cost of production and factors of its formation. A classification feature is the grouping of costs by way of inclusion in the cost price of products, which is of interest due to the possibility of regulating production activities.

The volume and range of direct and indirect costs directly depends on the specialization, nature and variety of products, organizational structure of enterprises. In addition to the costs associated directly with the production process, enterprises bear the costs associated with the maintenance of production management. The ability to account for such expenses for each object is excluded, which causes the need for their distribution in a conditional way. The reliability of the data allocated in this way depends on the choice of the distribution database. In our opinion, the concepts “not direct” and “distributed” are identical.

Costs associated with production depend on its volume, prone to changes, are variable. They include: remuneration of labor, seeds and planting material, fuel and lubricants materials, auxiliary production services. Costs are less subject to change, are conditionally constant, since absolutely constant costs do not exist. Classification of costs on this basis has not yet practical use either in accounting, in planning, or in calculating the cost price. The only place of its application – economic analysis.

The structure costs are divided into elementary (simple) and complex (complex). Uniform economic costs are simple. In crop production, these include the costs of seeds, the payment of workers employed directly in production. Costs that consist of elements diverse in their economic content are complex or complex.

During the period of attribution of the costs of the cost, current and future periods are formed. In our opinion, it is advisable to include part of the cost of fertilizers to the costs of future periods, since the introduction does not completely spend its nutritional properties in the first year.

The separation of costs into planned and unplanned is of great importance. In the practical activities of industries there are cases that require the implementation of operations not provided for by the plan.

Vivid examples can be: Refulfillment of poor quality of work.

By role and place of occurrence costs are divided into industrial and out of production: express capital repairs, capital investments and in the field of household service and cultural needs of employees.

The division of costs by stages of circulation on costs relating to the sphere of production and the sphere of circulation, are, in the opinion of some scientists, an important feature of classification.

Scientifically substantiated accounting construction determines the need for a single classification of costs for articles, as they are widely used in planning, and accounting, and in calculating the cost of production. This classification contributes to the control of the compliance of the costs of their appointment and makes it possible to analyze the cost of production in order to create reserves to reduce it.

Cost classification studies the general methodological framework for building production costs. The correct division of costs according to the classification characteristics will improve the planning, accounting and calculation of the production cost.

Cost classification plays an important role in creating an efficient production management system. The availability of a scientifically based classification will allow for the construction of cost accounting to be able to determine performance across particular sites, operations, compare unit costs with regulatory or planned indicators, and with previous year’s data.

The proposals considered will provide for the definition of real production costs, which confirms the scientific validity of the classification of costs according to the characteristics.

Justification of the composition and cost of production is one of the conditions for effective use of resources – additional production.

Both IFRS and NAR (S) do not have rules specifically set out in a separate standard regarding cost estimates, but some standards contain provisions that determine the assessment of the relevant costs.

But in p. 138.2 of the TCU, the expenses that are taken into account to determine the object of taxation are recognized on the basis of primary documents confirming the implementation by the taxpayer of expenses, the mandatory maintenance and storage of which are provided by the rules of accounting.

IFRS, in contrast to a number of national reporting rules in Ukraine, function on the principles rather than on the rules, that is, the main thing is the economic essence of the process. The principles laid down in the procedure for reporting according to IFRS make it capable of reflecting the actual financial state of enterprises.

According to international experience, IFRS reporting has a high level of information content for users. The use of IFRS by foreign and Ukrainian companies involved in the international market ensures that interested parties are provided with transparent information about their activities, in particular, in terms of recognizing costs.

The reporting systems are identical in many aspects, as a result of the fact that the principles of IFRS are laid in the basis of NAR(S) of Ukraine. International standards form the development of national accounting and reporting systems, summarizing the accumulated experience of leading countries. The analysis of the content of the NAR(S) confirms their continuous development and improvement in accordance with the changes taking place in the economy of Ukraine.

The Law of Ukraine "On Accounting and Financial Reporting in Ukraine" points out the need for compliance with the NAR(S) with international standards, which provides for the introduction of appropriate changes in national standards for accounting and assessment of costs for the purpose of their convergence.

The norms laid in NAR(S) 16 "Expenses" do not in fact contradict recognized in international practice, at the same time, some provisions that are disclosed in the IFRS have not been reflected in the national NAR(S) of Ukraine.

So, a separate IFRS "Expenses" is not approved, the main methodological principles of the formation in the accounting of information on the enterprise's expenditures are disclosed in the Conceptual Bases of the Preparation and Submission of Financial Reports.

The International Financial Reporting Standards (IFRS) are an absolute tool in economic policy disclosure.

2.7. Classifications of intangible assets under Ukrainian and international law

The value of an enterprise is not limited only to its tangible assets, as it also includes, for example, trademark, goodwill, result of intellectual activity etc. Intangible assets account for the lion's share of an asset structure in the large number of foreign companies, while Ukrainian enterprises usually include only the cost of computer programs and licenses in the item of intangible assets. Other items are not presented at all or are recorded as costs. The current state of economic development requires us to come up with new approaches to accounting, analysis, audit, control and management of intangible assets and to form a deeper understanding of their economic substance. In order to expand the boundaries of accounting and analytical information on intangible assets, their current classification needs to clarified, as it will provide the information necessary for their proper management.

Both Ukrainian and foreign scientists have been studying criteria for intangible assets grouping, among them I. Bihdan, A. Hus, K. Ivanova, P. Kutsyk, L. Melnyk, N. Slobodianiuk, S. Shulha, Kh. Andersen, D. Colduell, L. Shneidman and others. Despite this fact, the issue of their classification is still not fully resolved.

The meaning of the concept of "intangible asset" was clarified in International Accounting Standard (IAS) 38 Intangible Assets in the late 1990s and in International Valuation Standard (IVS) GN No. 4: Valuation of Intangible Assets a bit later. In the early 1990s, according to Ukrainian law, intangible assets included objects of intellectual and industrial property rights as well as objects of right of ownership and use. With the introduction of National Accounting Standard (NAS) 8 Intangible assets, intangible assets are understood to mean non-monetary assets that can be identified and which do not possess any physical substance.

V. Kachalin notes that the non-material form of intangible assets causes some difficulties for their accounting. Its lack of physical qualities makes evidence of its existence elusive, its value is often difficult to estimate, and its useful life may be indeterminable. Some intangible assets may be contained in or on a physical substance, although the physical element of the asset is secondary to its intangible component.

Nowadays, the concept of "intangible assets" is used not only in the accounting field. Intangible assets include items that are different in nature. There are some differences in economic, legal, accounting and evaluative approaches, which create a gap between methodologies for intangible asset accounting and the requirements of the modern economy.

Approaches to the interpretation of the concept of "intangible assets" that have been formed in scientific circles reveal their essence, place, role and significance in an entity's operations. First and foremost, the items of intangible assets have to conform to the characteristics of property defined by the Commercial Code of Ukraine (CCU) and only then to the criteria for the attribution to intangible assets, which reads as follows:

– possibility of cost determination;

– production or use in an entity's operations;

– reflection in the balance sheet of an entity or in other forms of property accounting of an entity;

– the absence of physical substance or its secondary nature in relation to an item;

– non-monetary form;

– identifiability;

– possibility of obtaining future economic benefits[1].

According to P. Tsibulov, characteristics of intangible assets are the following:

a) the absence of physical substance and at the same time possession of such valuable quality as the ability to bring income to an owner, based on long-term rights and benefits that give them this right for as long as possible;

b) the absence of intention to sell intangible assets under normal conditions of an enterprise's operations;

c) useful life, which allows intangible assets to be taken into account as current assets in the composition of long-term investments and allows to set a more reasonable terms to pay their original cost through the chosen accounting option with regards to

[1] Gus, A. (2021). Nematerialni aktyvy: hospodarsko-pravovyi aspekt Intangible assets: economic and legal aspect]. Uzhhorod: Fond ekonomicheskoy knigi. (in Ukrainian)

the general uncertainty of the terms of operation (goodwill, trademark etc.);

d) the absence of waste;

e) the multi-purpose nature of operation, which allows to use an item in the different fields of enterprise activity;

f) increased level of risk in the pursuit of getting income from the use of such assets[2].

The "useful life" feature of intangible assets gives the possibility to establish to which type these assets belong. For an asset with a finite useful life, it is possible to set a specific time interval (from one year to a specific operating period). However, for intangible assets with an indefinite useful life, it is not possible to specify the period during which they will be used. Paragraph 88 IAS 38 provides for that intangible assets with an indefinite useful life do not have a limit on the period during which they will generate net cash flow to an entity.[3]

Foreign researchers claim that intangible assets consist of human capital, which is proposed to be considered as the number of employees, their personal qualities and a working community[4].

The definition of the term "intangible assets" given in national and international standards gave grounds for I. Nazarbaieva to identify three characteristics, the presence of which allows referring an item to the category of intangible assets: non-monetary form, intangibility and identifiability. In addition, an item must meet the main characteristics of an asset as such (to be controlled, bring economic benefits to an enterprise)[5].

A classification is understood as a system of subcontracting concepts of any field of knowledge or human activity, which is often presented in the various forms of diagrams (tables) and is used to establish links between these concepts or classes of objects, as well

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[2] Cibulev, P. (2003). Ocenka intellektualnoi sobstvennosti [Intellectual Property Valuation]. Kiev: In-t intellektualnoi sobstvennosti i prava. (in Ukrainian)

[3] International Accounting Standard 38 Intangible Assets International document 01.01.2012. URL: http://zakon2.rada.gov.ua/laws/show/929_050. (in Ukrainian)

[4] Ahonen G. Generative and Commercially Exploitable Assets / G.Ahonen // Eds J.E. Grojer and H.Stolowy // Classification Intagibles. France: Group HEC, Jour-en Josas, 2002. p.206-213.

[5] Nazarbaieva I. (2009). Nematerialni aktyvy: neprostyi shliakh do vyznannia [Intangible assets: a difficult path to recognition]. Zbirnyk systematyz.zakonodavstva, 6, 91–96. (in Ukrainian)

as to accurately navigate through the variety of concepts or relevant objects. S. Shulha believes that the scientific classification of intangible assets from economic and legal perspective makes it possible to objectively determine all their components, while the accounting approach significantly narrows their range, as it recognizes only those that are assigned to subaccount 12 Intangible Assets. Furthermore, the following should be taken into account: each individual classification should be aimed at achieving a certain goal; a clear definition of a classification criterion will make it possible to apply the developed classification in practice; each object of classification should be assigned only to one certain classification group based on a certain criterion[6]. In our opinion, the proposal of S. Shulha to isolate trade secrets into a separate group, apart from the objects of intellectual property rights, is unfounded because under Article 420 of the Civil Code of Ukraine (CCU) trade secrets are attributed to the objects of intellectual property rights.

From a legal perspective, intangible assets can belong to the objects of industrial property, they are subject to any law, such as patent law, they are clearly distinguished from the total mass, estimated and included in the balance sheet of an enterprise under its own name (identified, i.e. can be alienated from an entity). A. Aksonov includes in this group the following: patents for inventions, rights to use various natural resources, specifically documented research work results etc. Unidentifiable (inalienable) intangible assets are also legal objects, but most often they fall into the group of goodwill, which, in accordance with the law of Ukraine, can be determined only at the time of sale. They include a part of the value of an existing enterprise, which is determined by the ability and right to use its good name, business connections, reputation, popularity of a brand name, trademark etc. Some researchers duplicate the classification criteria (identification and alienation), but in accordance with IAS 38, these are similar concepts that do not need to be considered separately.

According to L. Pozharska, the division of intangible assets on the basis of right will make it possible to analyze all enterprise assets

[6] Shulha, S.V. (2006). Accounting and auditing of intangible assets: theory, organization, methodology: PhD thesis abstract. K. (in Ukrainian)

in terms of owned and leased items. The division of intangible assets, e.g. by right of disposition will help to make management decisions on the possibility of licensing or sublicensing their use by others, by right to use – to determine the possibility for an entity to appropriate useful goods which derive from the use of such asset.[7]

Some foreign scientists have suggested the existence of ten categories based on which the one can classify intangible assets:

– related to marketing (trademarks, brand names, logos, colors);

– related to technology (patents, process patents, business method patents, patent applications, technical documentation);

– related to artistic expression (literary works and their copyrights, musical works and their copyrights, musical compositions, photographs, maps, engravings);

– related to data processing (software platforms, software copyright, automated databases, microchips and their patterns);

– related to a consumer (customer lists, customer contracts, customer relationships, open purchase orders);

– related to engineering (industrial prototype, proprietary information, drawings and diagrams, technical know-how);

– related to contracts (license agreements, franchise agreements, licenses, subscription rights, futures contracts);

– related to human capital (trained labor and wages, contracts, labor unions, employment contracts);

– related to a location (subsoil use rights, easements, air rights, water rights);

– related to the Internet (domain names, communication addresses, website design)[8].

D. Norton and R. Kaplan consider intangible assets as the main source of value creation for an enterprise and single out the following types:

– human capital (skills, talents, knowledge);

– information capital (databases, information systems, networks and technologies);

– organizational capital (culture, leadership, relevant staff,

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[7] Pozharskaya, L. (2012). Problemi priznaniya i klassifikacii nematerialnih aktivov. [Problems of recognition and classification of intangible assets]. Accounting and audit, 2, 24–28. (in Ukrainian)

[8] Reilly R. and Shweihs R. Valuing Intangible Assets. – N.Y.: McGraw-Hill, 1999. – 518p.

teamwork, knowledge management)[9].

Thus, foreign scholars look at intangible assets through the prism of "capital" as one of the production factors. Such approach reflects the ability of intangible assets to yield profit or loss to an entity. The advocates of the economic approach have tried to describe the structure of intangible assets, identify their main component and describe its impact on market value. The economic approach reflects the structure of intangible assets more broadly as it includes human capital. While lawyers include only identifiable assets in the group of intangible assets, economists include both identifiable and unidentifiable ones. Human capital cannot be directly reflected in intangible assets, although it is indirectly present in each item in the form of the contribution of a creator or user.

T. Banasko suggests classifying intangible assets based on the content of items, the source of acquisition, the relation of an item to an innovative product that has a market value, the purpose of development and the scope of use. This will allow building information models for accounting and control as well as regulate their use[10]. I. Lepetan suggests dividing the objects of industrial property rights into two groups:

1) traditional ones, which include the right of ownership for an invention, a utility model, an industrial prototype, a mark for goods and services, and

2) non-traditional ones, which include the right of ownership for successful plant and animal breeding results[11].

When classifying intangible assets, it is of importance to include them into accounting groups. It accelerates the preparation of notes to the annual financial statements and enables the correct determination of the useful life of intangible assets, taking into account the minimum allowable duration of the relevant rights.

According to NAS 8, intangible assets are divided into the following groups:

– rights to use natural resources (subaccount 121);

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[9] Kaplan R.S. (2004) Izmerenie strategicheskoi gotovnosti nematerialnih aktivov [Measuring the strategic readiness of intangible assets] Rossiiskii zhurnal menedzhmenta. 3, 85-104.

[10] Banasko, T.M.. (2010). Accounting and control of intangible assets: valuation and order of reflectio: PhD thesis abstract. K. (in Ukrainian)

[11] Lepetan, I.M. (2010) Accounting and control of intangible assets in research farms: PhD thesis abstract. K. (in Ukrainian).

– rights to use property (subaccount 122);

– rights to commercial designations, except for those whose acquisition costs are determined by royalties (subaccount 123);

– rights to industrial property (subaccount 124);

– copyright and related rights, except for those whose acquisition are determined by royalties (subaccount 125);

– other intangible assets (subaccount 127).[12]

Prior to the revision of NAS 8, there was another group called capital investments in intangible assets.[13]

According to IAS 38, the structure of intangible assets comprises intangible resources that meet the following requirements: identifiability, control over a resource and the existence of future economic benefits. In accordance with paragraph 9 of IAS 38, intangible assets include: scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand names and publishing titles)[14]. Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licenses, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights.

Thus, in contrast to Ukrainian law, the International Standard includes items that do not have a formal definition and cannot be identified into the group of intangible assets. In addition, IAS 38 offers classification based on the following criteria:

1) by recognition:
   a) separately acquired intangible assets;
   b) intangible assets acquired in business combinations;
   c) internally generated intangible assets;
2) by measurement after recognition:
   a) actual intangible assets;

[12] P(S)BO 8 “Nematerialni aktyvy”. [Accounting standard "Intangible assets"] Nakaz MFU 18.10.1999r. No. 242. URL: http://zakon2.rada.gov.ua/laws/show/z0750.

[13] Pro zatverdzhennia Zmin do deiakykh polozhen (standartiv) bukhhalterskoho obliku [About the statement of Changes to some provisions (standards) of accounting]: Nakaz MFU 18.03.2011r. No. 372 URL: http: //sips.gov.ua/ua/vsjo&08.

[14] International Accounting Standard 38 Intangible Assets International document 01.01.2012. – URL: http://zakon2.rada.gov.ua/laws/show/929_050. (in Ukrainian)

b) revalued intangible assets;

3) by useful life (the period over which an asset is expected to be available for use; or the number of production or similar units expected to be obtained from the asset):

a) intangible assets with finite useful lives;

b) intangible assets with indefinite useful lives.

The composition of intangible assets presented in NAS 8 fully reflects the approach of grouping items in accordance with their legal nature, but it requires certain clarifications in terms of property basis of activities.

By contrast with National Standard (NS) 4 Valuation of intellectual property rights[15] and NAS 8[16], International Valuation Standards (IVS) 210[17] and IAS 38[18] identifies items of intangible assets related to the customer service of a company (customer lists, backlog, customer contracts and related relations, information on customer loyalty and non-contractual customer relationships). Along with customer relationships, intangible assets include relationships with suppliers. At the same time, IAS 38 states that in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to an entity, an entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (e.g. portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets. Customer relationships will meet the definition of an intangible asset also if exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships[19].

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[15] National standard No. 4 “Assessment of the rights of intellectual power”. URL: https://zakon.rada.gov.ua/laws/show/1185-2007-%D0%BF#Text.

[16] P(S)BO 8 “Nematerialni aktyvy”. [Accounting standard "Intangible assets"] Nakaz MFU 18.10.1999г. №242. URL: http://zakon2.rada.gov.ua/laws/show/z0750.

[17] International valuation standard 210. Intangible assets. – URL: https://infopedia.su/5x91d8.html.

[18] International Accounting Standard 38 Intangible Assets International document 01.01.2012. – URL: http://zakon2.rada.gov.ua/laws/show/929_050. (in Ukrainian)

[19] International Accounting Standard 38 Intangible Assets International document 01.01.2012. – URL: http://zakon2.rada.gov.ua/laws/show/929_050. (in Ukrainian).

Paragraph 119 of IAS 38 provides a recommendation list of certain classes of intangible assets, including brand names, mastheads, publishing titles, computer software, licenses, franchises, copyrights, patents, other industrial property rights, service and operating rights, recipes, formulae, models, designs and prototypes and intangible assets under development.

In our opinion, the grouping of intangible assets listed in IAS 38 has some failures, as some of the items are repeated both in Paragraphs 9 and 119. To improve accounting, they should be grouped in one paragraph of IAS 38 with examples provided for each respective group.

Thus, Ukrainian and foreign scholars do not have a consensus on the classification of intangible assets. Having compared the classification according to Ukrainian and international law, we can conclude that although the IAS classification has its own specifics, it is still applicable in order to assign an account to each type of intangible assets.

In order to approximate Ukrainian legislation to international standards, we consider it necessary to introduce the category of “list of customers” to the items of intangible assets. A developed customer base in modern conditions has a significant impact on increasing the competitiveness and efficiency of a company and hence on increasing its value.

Based on the analysis of approaches to the classification of intangible assets, we offer to use the following criteria for the needs of intangible assets accounting:

1) by the sources of acquisition (purchased with money; included to the authorized capital of an enterprise; obtained by exchange for a similar item; obtained by exchange for a dissimilar item; obtained as a result of business combinations; received free of charge; created at an enterprise);

2) by the sources of disposal (sold for money; included to the authorized capital of other enterprises; transferred by exchange for a similar item; transferred by exchange for a dissimilar item; transferred free of charge; disposed);

3) by legal grounds (rights to use natural resources; rights to use property; rights to commercial designations; rights to industrial property; copyright and related rights; others);

4) by the possibility of depreciation (depreciated; non-depreciated);

5) by the degree of identification (identifiable (alienable from an enterprise); unidentifiable (inalienable from an individual and inalienable from an enterprise));

6) by the term of use (with a finite term of use; with an indefinite term of use);

7) by the nature of ownership (owned; leased);

8) by the method of valuation (individual valuation; valuation in total);

9) by the presence of liquidation value (with liquidation value; without liquidation value);

10) by useful life (up to one year; more than a year);

11) by uniqueness (unique; not unique);

12) by the nature of use (for production needs; for non-production needs);

13) by normative regulation (regulated by patent law; regulated by copyright; regulated by other branches of law);

14) by the scope of application (for sale; for temporary provision to others; for internal use);

15) by the fields of use (in agriculture; in industry; in forestry; in construction; others).

Therefore, in recent decades, there has been an increase in the role and importance of intangible assets in Ukrainian enterprises. There is still no clear approach to the grouping of intangible assets for accounting purposes, which leads to distortion of reporting indicators. Researchers use different approaches to the classification of intangible assets. Due to insufficient research, many of them are not used in enterprise reporting, which leads to an underestimation of the potential of such enterprises. To eliminate the difficulties, it is necessary to develop a single classification system that would meet the requirements of all users of information.

We believe that the proposed classification of intangible assets will rationally maintain synthetic and analytical accounting of these economic resources.

SECTION 3
PRACTICAL ASPECTS OF ACCOUNTING FOR PROVISIONS AND LIABILITIES IN THE CONTEXT OF IFR

3.1. Income by the IFRS: recognition, accounting, influence on reporting

There are quite a lot of complex theoretical and practical issues when applying IFRS to Ukrainian enterprises. It should be noted that the Ministry of Finance of Ukraine in the letter dated 24.09.2018 No. 35210-06-5 / 24914 "About the interpretation of international financial reporting standards" states: that given that IFRS are adopted by the International Accounting Standards Board (London, Great Britain), their interpretation by the Ministry of Finance of Ukraine is not carried out[20].

Experienced consultants, auditors, professional accounting publications and professional organizations actively provide practical assistance to domestic accounting specialists in applying IFRS. Among them is the Federation of Professional Accountants and Auditors of Ukraine.

Important tasks for any company are to obtain the maximum level of profitability, expanding sources of income. At the same time, the management of enterprise income is closely linked to their high-quality accounting support.

The works of such scientists as M.T. Bilukha, Yu.A. Chain, S.F. Head, S.Ya. Zubilevich, V.I. Yefimenko, D.V. Karpenko, O.V. Кarpenko, N.O. Lokhanova, Y.O.Nochovna, H.B. Prohar, V.V. Sopko, S.B. Shipina and others are devoted to the research of the problems of income accounting according to national and international standards. However, some aspects of the economic content, accounting methods, income classification need further research in the context of globalization and the implementation of International Financial Reporting Standard (IFRS) 15 "Revenue from

[20] Ministry of Finance of Ukraine (2018) Shchodo tlumachennia mizhnarodnykh standartiv finansovoi zvitnosti [Regarding the interpretation of international financial reporting standards] the letter from *24.09.2018 No. 35210-06-5/24914*. Retrieved from http://search.ligazakon.ua/l_doc2.nsf/link1/MF18058.html. (in Ukrainian).

Contracts with Customers".

In Ukraine, the accounting of income is regulated by the following national and international standards: NP (S) BU 15 "Revenue", NP (S) BU 18 "Construction contracts", IFRS 15 (IFRS 15) "Revenue from contracts with customers". A comparison of these standards indicates that they have significant differences in terms, timing of recognition of income, their evaluation, the order of reporting.

The basis for recognizing the results of the period is the recognition of income, as IFRS has a single standard that regulates the accounting and reporting of expenses in general. In accordance with International Standards, income and expenses may be recognized without documentary evidence. The main point is who owns the asset and who can benefit from receiving it. In this regard, the main issues in accounting for income are determining the time of recognition. Revenue is recognized when it is probable that future economic benefits associated with the item will flow to the entity.

Karpenko E.A. and Shiyka G.I. note that: "The provisions of international standards are more detailed regarding the accounting of sales revenue, they contribute to the expansion of analytical, reliable, and understandable information generated in accounting and reflected in the financial statements of the entity". [21]

IFRS 15 Revenue from Contracts with Customers is a new standard, replacing IAS 18 Revenue and IAS 11 Construction Contracts. Therefore, the standard that defines the principles of revenue recognition is IFRS 15 Revenue from Contracts with Customers. Transactions with other specifics of origin and the recognition of which is determined by other standards are removed from the general principles of revenue recognition:

– lease (IFRS 16 Leases);

– insurance (IFRS 4) "Insurance contracts");

– financial instruments and other contractual rights or obligations governed by IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate

[21] Karpenko E.A., Shiyka G.I. Oblik dokhodiv vid realizatsii za mizhnarodnymy ta natsionalnymy standartamy [Accounting for sales income according to international and national standards]. Market infrastructure. 2018. Issue 17. C. 441-446. Retrieved from http://www.market-infr.od.ua/journals/2018/17_2018_ukr/73.pdf. (in Ukrainian).

Financial Statements and IAS 28 Investments in Associates and joint ventures";

– non-cash exchanges between business entities in the same business area to facilitate sales to customers.

The adoption of IFRS 15 Revenue from Contracts with Customers was the result of 10 years of joint work between IFRS and GAAP. This standard is mandatory for annual periods beginning on or after 1 January 2018. Application to earlier periods was also allowed. If an entity has applied this standard ahead of time, it is required to disclose that fact.

IFRS 15 "Revenue from Contracts with Customers" provides a single comprehensive model to be applied to contracts with customers and uniform criteria for recognizing revenue. Accordingly, the category "income" is defined as an increase in economic benefits during the reporting period in the form of income or improvements in assets or a decrease in liabilities that lead to an increase in equity, other than an increase in equity related to contributions from equity participants.

The objective of the Standard is to establish the principles that an enterprise should apply to provide users of financial statements with useful information about the nature, amount, timing and uncertainty of income and cash flows arising from a contract with a customer. In IFRS 15, the category "income" is defined as follows: income is the increase in economic benefits during the reporting period in the form of income or increase in assets or decrease in liabilities that lead to an increase in equity, other than those related to owners' contributions". [22]

Applying this standard, the company should be guided not only by the presence of a consignment note or the act of work performed. It is necessary to consider all the terms of the contract and relevant facts and circumstances. An entity shall apply IFRS 15 to an agreement only if the counterparty to the agreement is the customer, that is, the party that entered into an agreement with the entity to

[22] Mizhnarodnyi standart finansovoi zvitnosti 15 "Dokhid vid dohovoriv iz kliientamy" [International Financial Reporting Standard 15 "Income from Contracts with Customers"]. Retrieved from http:// search.ligazakon.ua/l_doc2.nsf/link1/MU17027.html. (in Ukrainian).

receive the goods and services that result from the entity's ordinary activities in exchange for compensation.

IFRS 15 clearly states that a counterparty to a contract will not be considered a customer if, for example, the counterparty has entered into an agreement with an entity to participate in a joint venture or process in which the parties to the contract jointly assume the risks which are the result of such an activity or process and not for the purpose of obtaining the results of the ordinary activities of the entity.

In practice, in most cases, companies will use the model to account for individual contracts with customers, as IFRS 15 defines the procedure for accounting for an individual contract with the client. However, as a practical solution, an entity may apply IFRS 15 to a portfolio of contracts (or performance commitments) with similar characteristics.

In this case, contracts are combined and accounted for as one contract if they:

1) concluded at the same time or at about the same time;

2) with the same client (or related parties of the client).

In addition, one or more of the following criteria must be met for these contracts**:**

– these agreements were agreed as a single package for a single commercial purpose;

– the amount of compensation to be paid under one contract depends on the price or performance of another contract;

– the goods or services promised in the contracts (or certain goods or services promised in each of the contracts) constitute one performance obligation.

However, the negotiation of several agreements at the same time is not sufficient confirmation that they are a single agreement for accounting purposes.

Along with the term "income" in IFRS 15, the term "revenue" is used, which has the meaning that it is "income in the ordinary course of business". We agree with NO According to Lokhanova N., such an interpretation of the relevant category is not correct, because in the normal course of business can generate a variety of income, which is usually not actually revenue. For example, income in the form of dividends and interest is also income from ordinary activities, but it can hardly be considered revenue in its traditional sense. Revenue is closer in content to operating income, rather than ordinary activities in its broadest sense[23].

IFRS 15 contains requirements for accounting for income, which are specified in the form of the so-called "five-step model". The five main steps to revenue recognition are as follows:

1. Determine the contract (contracts) with the client;
2. Determine the contractual obligations in the contract;
3. Determine the transaction price;
4. Distribute the price of the agreement taking into account the order of fulfillment of obligations in the contract;
5. Recognize revenue when (or how) the company meets contractual obligations in the process of performing the contract.

The first step is to determine the contract with the customer. The term "contract" is set out in IFRS 15 and is defined as an agreement between two or more parties that establishes rights and responsibilities"[24].

Therefore, in accordance with the requirements of the first step, it is necessary to determine whether a particular contract falls within the scope of IFRS 15, and it is necessary that the following conditions are met:

– the contract was approved by the parties to the agreement;

– the rights of each participant to the goods or services to be transferred can be identified;

– the contract has a commercial content;

– there is a probability that the reward that the company is entitled to receive in exchange for goods or services will be received.

Note that the recognition of income begins with the identification of the transaction under which revenue should arise and the main criterion for recognition in this case is that the company is likely to receive benefits for goods and services.

The second step is to determine the procedure for fulfilling the

[23] Lokhanova N.O. Oblik vyruchky po dohovorakh z kliientamy – novi pidkhody do vyznannia vidpovidno do MSFZ 15 [Revenue accounting under agreements with clients – new approaches to recognition in accordance with IFRS 15]. Investments: practice and experience. 2014. No. 21. P. 38-41. Retrieved from http://nbuv.gov.ua/UJRN/ipd_2014_21_9. (in Ukrainian).

[24] Mizhnarodnyi standart finansovoi zvitnosti 15 "Dokhid vid dohovoriv iz kliientamy" [International Financial Reporting Standard 15 "Income from Contracts with Customers"]. Retrieved from http:// search.ligazakon.ua/l_doc2.nsf/link1/MU17027.html. (in Ukrainian).

obligation in the contract. This means that at the beginning of the contract, the entity must clearly identify the goods or services to be transferred to the customer and determine how the obligation under IFRS 15 will be met.

However, obligations may be fulfilled in different ways: either by the supply of different goods or services (or their batch), which are differently identified, or by a series of goods or services that are similar and have the same structure in terms of their transfer to the customer. Each type of fulfillment of the obligation has its own criteria. The need for the second step is explained by the fact that in some economic relationships with counterparties, the unit of revenue recognition is not a contract. This is the case when the contract covers mixed supplies, when several different batches of goods are delivered, or several different services, or both goods and services. In this regard, it is possible to divide the contract into separate contractual obligations [25].

The general approach is that goods or services are considered separate if both criteria are met at the same time:

1) the product or service may be separate (that is the customer may have benefit from each of these components separately);

2) the goods or services are separate in the context of the contract (that is the obligation to transfer the goods or services can be separated from the rest of the contractual obligations).

The third step is to determine the transaction price. In making such a decision, the enterprise should consider past experience and, in particular, business practices in accordance with the requirements of IFRS 15 (in accordance with paragraph 47).

In practice, not in all cases the contract contains a fixed price. It may also provide for a variable component, which may be related to the situation when discounts, returns, loans, special offers, etc. are provided. Also, sometimes the contract may provide that the price depends on the occurrence of a future event (paragraph 51).

The fourth step involves allocating and linking the contract price

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[25] Lokhanova N.O. Oblik vyruchky po dohovorakh z kliientamy – novi pidkhody do vyznannia vidpovidno do MSFZ 15 [Revenue accounting under agreements with clients – new approaches to recognition in accordance with IFRS 15]. Investments: practice and experience. 2014. No. 21. P. 38-41. Retrieved from http://nbuv.gov.ua/UJRN/ipd_2014_21_9. (in Ukrainian).

to the contractual obligations. Thus, if the contract provides for several different obligations to be fulfilled, the company must break the price of the transaction in accordance with the obligations under the contract with reference to their relatively autonomous selling prices (according to paragraph 74).[26]

If the autonomous selling price is not directly determined, the company will have to estimate it. IFRS 15 sets out various methods that may be used for these purposes, including the followings:

– adjusted market approach;

– an approach based on the use of expected value, plus margin;

– residual approach (allowed only in a limited number of cases).

Any general discount, if provided for in the contract, must be divided between the contractual obligations on a relative basis in proportion to the autonomous selling price.

In the fifth step, revenue should be recognized when the entity is performing a contractual obligation. In this case, the income is reflected when it passes control, and this can happen either over a long period of time or at a certain point at a particular time.

Goods and services are assets when they are received and used (as in the case of many services). Asset control means the ability to manage the use of an asset and derive virtually all other benefits from it. Control also includes the ability to prohibit other entities from managing and benefiting from the use of the asset. Asset benefits are potential cash flows (cash flows or savings that are disposed of) that can be obtained directly or indirectly in many ways.

In accordance with the requirements of paragraph 35 of IFRS 15, revenue is recognized for a long time, if the following criteria are met:

– the client receives and uses all the benefits of the goods (services) provided by the contractor as the contractual obligations are fulfilled;

– or the company creates and refines an asset, control of which is transferred to the customer as the creation or refinement of such an asset;

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[26] Mizhnarodnyi standart finansovoi zvitnosti 15 “Dokhid vid dohovoriv iz kliientamy” [International Financial Reporting Standard 15 “Income from Contracts with Customers”]. Retrieved from http:// search.ligazakon.ua/l_doc2.nsf/link1/MU17027.html. (in Ukrainian).

– or in the process of fulfilling contractual obligations, the company creates an asset that has no alternative use, and the company has the right to demand payment for contractual obligations performed on a certain date.

If the company does not meet the obligation within a certain time, it satisfies it at a certain time. Revenue will then be recognized when control of the asset is transferred at a particular time. The following factors may indicate the transfer of asset management to the buyer (Table 3.1):

– the company has a current right to pay for the asset;

– the client has ownership of the asset;

– the enterprise has transferred physical possession of the asset;

– the client is transferred significant risks and rewards associated with ownership of the asset;

– the client accepted the asset [27].

In recognizing revenue under the five-step model, the application of each step must be based on the specific facts and circumstances provided for in the contract with the counterparties, and requires a well-thought-out professional judgment of accounting professionals.

For each performance obligation that is met over time, an entity recognizes revenue from ordinary activities over a period of time, assessing progress toward full satisfaction of that performance obligation. For all performance commitments that are met over time, the entity applies a single method of measuring progress, and the entity shall apply that method consistently to similar performance commitments and in similar circumstances.

At the end of each reporting period, the entity re-evaluates progress toward full satisfaction of performance commitments that are met over time.

Relevant methods of assessing progress include:

– methods of evaluation by results;

– methods of estimation by the resource.

[27] Mizhnarodnyi standart finansovoi zvitnosti 15 "Dokhid vid dohovoriv iz kliientamy" [International Financial Reporting Standard 15 "Income from Contracts with Customers"]. Retrieved from http:// search.ligazakon.ua/l_doc2.nsf/link1/MU17027.html. (in Ukrainian).

Table 3.1

Options for transferring control of an asset to IFRS 15 "Revenue from Contracts with Customers" for revenue recognition [8,28]

No.	Options for transferring control of an asset	Characteristic
1	2	3
1	The entity is currently entitled to pay for the asset	If a customer is currently required to pay for an asset, it may mean that the customer has been able to direct the use and received virtually all other benefits from the asset received in exchange for payment.
2	The client has ownership of the asset	Ownership may indicate which party to the contract is able to direct the use of the asset and obtain virtually all other benefits from it or limit the access of other entities to these benefits, so the transfer of ownership of the asset may indicate that the client has control asset. If the entity retains ownership solely as a means of protection against the customer's refusal to pay, such entity's ownership rights do not prevent the entity from gaining control of the asset.
3	An entity has transferred physical possession of an asset	The fact that the customer physically owns the asset may indicate that the customer has the ability to direct the use of the asset and receive virtually all other benefits from the asset or to restrict access to other benefits to those entities. However, physical possession may not coincide with control of the asset. Thus, in some resale agreements, as well as in some supply agreements, a customer or buyer may physically own an asset that is controlled by the entity. On the other hand, under some storage and sales agreements, an entity may physically own an asset that is controlled by the customer.

[28] Zyukova M.M., Voronina V.L. Pidkhody do obliku dokhodiv za mizhnarodnymy ta natsionalnymy standartamy [Approaches to accounting for income according to international and national standards]. Black Sea Economic Studies. Accounting, analysis and audit 2020. Issue 53. P. 195-201. Retrieved from http://bses.in.ua/journals/2020/53_2020/32.pdf. (in Ukrainian).

Continuation of table 3.1

1	2	3
4	The client has significant risks and rewards associated with owning the asset	The transfer of significant risks and rewards of ownership of an asset to the client may mean that the client has gained the ability to direct the use of the asset and receive virtually all other benefits from the asset. However, in assessing the risks and rewards of holding the promised asset, an entity shall eliminate all risks that give rise to a separate obligation to perform in addition to the obligation to perform the transfer of the asset. For example, an entity has transferred control of an asset to a customer but has not yet met an additional performance obligation to provide maintenance services related to the transferred asset.
5	The client accepted the asset	Acceptance of an asset by a customer may indicate that it has gained the ability to direct the use of the asset and receive virtually all other benefits from the asset.

Valuation methods involve the recognition of income from ordinary activities based on direct estimates of the value to the customer of goods or services transferred to date in relation to other goods or services promised under the contract. The methods of evaluation by the result include analysis of the implementation completed to date, evaluation of the results achieved, the steps taken, the time elapsed, and the number of manufactured or transferred units.

Resource measurement methods involve the recognition of operating income based on the entity’s efforts or resources used to meet a performance obligation (for example, material resources consumed, hours worked, costs incurred, elapsed time, or machinery used). hours) in relation to the expected total amount of resources required to meet this commitment to fulfill.

Taking into account changes in the economic development of the country, the company must constantly adapt to changes in the external competitive environment in which it operates, which is also related to accounting policy, which should reflect all aspects of accounting at the company. In the context of this study, we consider the components of accounting policies for income.

It is traditional to divide the components of accounting policy into general and those that are directly related to the element of financial reporting, in this case – income. In addition, different amounts of accounting policy components are provided in the administrative document and disclosed in the notes. This aspect is not disclosed in the works of domestic scholars, as traditionally, according to national standards, notes were provided only in numerical form (form No. 5 annual financial statements). It should be noted that the proposals of domestic scientists and practitioners are influenced by the position of the regulator – the Ministry of Finance of Ukraine, which believes that accounting policy should be chosen only when the standards offer its options[29]. Therefore, for revenues, it was considered sufficient to indicate the procedure for assessing the degree of completion of operations for the provision of services and methods for determining the degree of completion of works under a construction contract. Such components of accounting policy are distinguished by N.R. Dombrovska, O.A. Lagovska, O.M. Savchenko, L.L. Traction. T.M. Chorniavska adds to these components the division of income for each classification group.[30]

Methodical recommendations on the accounting policy of the enterprise (Section II "Formation of accounting policy") provide the following elements of the accounting policy of the enterprise on income: the procedure for assessing the degree of completion of operations for the provision of services; the procedure for determining the degree of completion of works under the construction contract[31].

V.A. Kulik, taking into account national practice, current legislation and principles of accounting and reporting, the main

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[29] Zubilevich S.Ya.   Formuvannia ta rozkryttia oblikovoi polityky za MSFZ 15 "Dokhid vid dohovoriv z kliientamy" [Formation and disclosure of accounting policies under GAS 15 "Revenue from contracts with customers"]. Bulletin of NUVGP. Series "Economic Sciences". 2018. No. 3 (83). P. 78-90. (in Ukrainian).

[30] Kulyk V.A. Formuvannia ta rozkryttia oblikovoi polityky za MSFZ 15 "Dokhid vid dohovoriv z kliientamy" [Accounting policy of the enterprise: gained experience and prospects of development: monograph. Poltava: RVV PUET. 2014. (in Ukrainian).

[31] Ministry of Finance of Ukraine (2013) Metodychni rekomendatsii shchodo oblikovoi polityky pidpryiemstva [Methodical recommendations on the accounting policy of the enterprise, approved]. By order of the No. 635 from. 27.06.2013. Retrieved from https://zakon.rada.gov.ua/rada/show/v0635201-13/stru#Stru. (in Ukrainian).

elements of the company's accounting policy for income include: determining the criteria for estimating income from services and work on the balance sheet date; choice of method for assessing the degree of completion of operations for the provision of services and completion of works under construction contracts, the list and composition of future income[32].

S.Ya. Zubilevych, notes that the components of accounting policy should be divided into general and for a particular element of financial reporting; intended for regulations on accounting policy, notes to the annual and interim financial statements; intended for permanent use and for the period of transition to a new (revised) standard[33].

The interpretation of the recognition criteria in IFRS 15 differs significantly from the approaches of IAS 11 Construction Contracts and IAS 18 Revenue, which did not consider the loss of control but the transfer of risks and rewards. However, whether the income received from the performance of the contract with the client should be recognized as income from operating activities and in full, depends on the status of a company under this agreement (principal or agent). Therefore, the accounting policy should include the characteristics of the agent and the principal, detailed in paragraphs. B34 – B38 of Appendix B to IFRS 15, and relevant accounting approaches. Recognition of income is also affected by the availability of clauses in the agreement with the client for redemption (paragraphs B64-B76 of Annex B to IFRS 15). Thus, the criteria set out in the standard should specify when and which alternative accounting approaches should be followed – IFRS 16 Leases or IFRS 9 Financial Instruments"[34].

Paragraph 114 of IFRS 15 specifies that an entity disaggregates

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[32] Kulyk V.A. Formuvannia ta rozkryttia oblikovoi polityky za MSFZ 15 "Dokhid vid dohovoriv z kliientamy" [Accounting policy of the enterprise: gained experience and prospects of development: monograph. Poltava: RVV PUET. 2014. (in Ukrainian).

[33] Zubilevich S.Ya. Formuvannia ta rozkryttia oblikovoi polityky za MSFZ 15 "Dokhid vid dohovoriv z kliientamy" [Formation and disclosure of accounting policies under GAS 15 "Revenue from contracts with customers"]. Bulletin of NUVGP. Series "Economic Sciences". 2018. No. 3 (83). P. 78-90. (in Ukrainian).

[34] Zubilevich S.Ya. Formuvannia ta rozkryttia oblikovoi polityky za MSFZ 15 "Dokhid vid dohovoriv z kliientamy" [Formation and disclosure of accounting policies under GAS 15 "Revenue from contracts with customers"]. Bulletin of NUVGP. Series "Economic Sciences". 2018. No. 3 (83). P. 78-90. (in Ukrainian).

operating income recognized in contracts with customers into categories that reflect the effects of economic factors on the nature, amount, timing and uncertainty of income from ordinary activities and cash flows.

Such features may be: type of goods or services (for example, type of product); geographical region (e.g. country); market or type of client (for example, clients – business and public sector entities); type of contract (for example, contracts with a fixed price and a variable component); contract duration (short-term and long-term); the time of transfer of goods or services (for example, income recognized at a particular point in time and income recognized over time); and sales channels (for example, goods sold directly to customers and goods sold through agents)[15].

Most of the nuances are provided by IFRS 15 and Appendix B to the assessment of income and liabilities under the contract.

Note that in accordance with the possibilities provided by IFRS 15, the company had to make a choice regarding the method of transition:

– full retrospective application (application of the retrospective method to each prior reporting period submitted in accordance with IAS 8 Accounting for Policies, Changes in Accounting Estimates and Errors), or;

– modified retrospective application for annual periods beginning on or after 1 January 2018 applying the retrospective method only to contracts that have not been completed at the date of transition to IFRS 15).

The final step is to reflect in the financial statements information about contracts with customers. In this case, the part of revenue that is recognized and, accordingly, part of the costs associated with obtaining such revenue is reflected in profit or loss for the period in the Statement of financial performance (Statement of comprehensive income). The presentation of information in the Balance Sheet (Statement of Financial Position) is displayed differently).

IFRS 15 uses the terms "contractual asset" and "contractual obligation", but this document does not prohibit an entity from using alternative descriptions for those items in the statement of financial position. If an entity uses an alternative description for a contractual asset, the entity shall provide sufficient information to enable the user of the financial statements to distinguish between receivables and contractual assets.

Table 3.2

Displaying information about contracts with clients in the Balance Sheet (Statements of financial condition)

No.	Indexes	Example of economic situation	The name of the article
1.	The company receives an unconditional right to receive compensation from the client	The goods were shipped and accepted by the customer, who also confirmed his payment obligations	Accounts receivable for goods, works, services
2.	The company has fulfilled all or part of the contract with the client, but the terms of the client's payment obligations have not yet come	The company delivered equipment to the customer, which was recently accepted. Under the terms of the contract, the customer's obligation to pay occurs only after the installation of the delivered equipment.	Contractual asset. The contractual asset after the right to claim compensation will be reclassified to receivables for goods, works, services
3.	The customer has transferred the prepayment under the contract, but the obligation to supply goods or services has not yet arisen	The company has received a prepayment for seeds, but according to the terms of the contract, the supply obligation must be fulfilled 4 months after receiving the prepayment	Contractual obligation

In the Table 3.3 shows examples of options for disclosing the impact of the first application of IFRS 15 on individual indicators of financial statements

Table 3.3

Examples of options for disclosing the impact of the first application of IFRS 15 on individual indicators of financial statements [35]

The name of the article	Report	Possible impact
Net revenue is the sale of products	Profit / loss statement and other comprehensive income	The application of IFRS 15 to contracts with customers, which require that the sole obligation to perform will be the sale of the finished product, has not affected on revenue and profit or loss. Revenue is recognized when control of the asset is transferred to the buyer
Net revenue is a variable remuneration	Profit / loss statement and other comprehensive income	The company does not have significant agreements to provide rebates, so the restrictions in IFRS 15 on variable remuneration did not have a material effect on the financial results.
Net revenue - performance of works or services	Profit / loss statement and other comprehensive income	Income from the performance of works and the provision of services by the enterprise is recognized over time, taking into account that the buyer simultaneously receives and consumes the benefits provided. The application of IFRS 15 did not affect the revenue, cost of sales and financial results of the enterprise

[35] Zubilevich S.Ya. Formuvannia ta rozkryttia oblikovoi polityky za MSFZ 15 “Dokhid vid dohovoriv z kliientamy” [Formation and disclosure of accounting policies under GAS 15 “Revenue from contracts with customers”]. Bulletin of NUVGP. Series “Economic Sciences”. 2018. No. 3 (83). P. 78-90. (in Ukrainian).

The entity must determine what level of detail is required to achieve the purpose of the disclosure and how much attention should be paid to each of the many requirements. An entity aggregates or disaggregates information that is disclosed so that useful information is not obscured either by the inclusion of a large number of non-essential details or by the aggregation of items that have significantly different characteristics.

Additional issues of revenue recognition include consideration of non-standard contracts with customers (for example, commission or repurchase agreements), as well as the recognition of costs under the contract with the client.

If an entity recognizes revenue under a contract with a customer, it is also necessary to recognize the costs associated with obtaining such revenue, and the costs incurred are also included in profit or loss for the period. This is primarily due to the costs incurred, but the revenue associated with them has not yet been recognized. Such costs are capitalized as part of the assets of the enterprise, but it is impossible to capitalize any costs, as the following criteria must be met:

1) only direct costs of the contract are subject to capitalization;

2) costs generate or improve resources that are used to perform the contract;

3) it is expected that such costs will be covered by the benefits of the contract or reimbursed by the client.

Therefore, an important issue in the recognition of revenue is the definition of the contract, it should be noted that it is not a legal definition, but a financial one. The application of IFRS 15 requires a detailed elaboration of the composition of contractual obligations for the correct recognition of contract revenue. For several enterprises that supply goods and perform works, provide services under a single contract, revenue recognition will remain a difficult task and requires additional information, such as prices for each component. In addition, the introduction of IFRS 15 requires a revision and amendment of the accounting policies of most companies, as the revenue indicator is the basis for all companies, and approaches to its reflection in the financial statements will change significantly.

3.2. Provision, contractual obligations and contractual assets in the international accounting system

Globalization of the world economy and strengthening of integration processes, covering all spheres of economic life, requires further study of international experience and implementation of relevant international normative and legal acts in the practice of Ukrainian enterprises.

Today, economic information, as well as the methodology of its collection, processing and disclosure, has been given increased attention. One of the important qualitative characteristics of economic information is its clarity for all interested users, which can be achieved using a single approach by economic entities in accounting, in particular, through the use of international accounting and financial reporting standards. The implementation of IAS and IFRS aims to increase transparency and efficiency of the enterprise management system, provides an opportunity to attract investments and enter the international markets. Also, due to the application of international standards, a reliable information base is created concerning the determination of incomes, expenses, assets and liabilities and the disclosure of existing financial risks.

In modern conditions, in addition to the main accounting objects, supplementary ones appear, which also provide information about the financial status of the business entity. Disclosure of information on their status and the impact on economic activity should be in the financial reporting. One of these facilities for today is conditional obligations and collateral, conditional assets.

According to the Ukrainian legislation, economic entities can use international and national accounting standards when conducting accounting and reporting.

In international practice, the procedure of recognition, methods of assessment and disclosure in financial reporting of information on security, conditional assets, conditional liabilities are covered in IAS 37, provision, conditional liabilities and conditional assets.

The accounting of the conditional obligations and guarantees according to the national standards is regulated by UAS 11 “Obligations”, UAS 26 “Payments to employees”. However, these standards, compared with international ones, significantly narrow the disclosure of information about such obligations, and the method of accounting of conditional assets is not at all broken.

The lack of regulation of accounting, assessment of security, conditional liabilities and conditional assets will lead to discussion both at theoretical and practical levels. The necessity of generalizing the results of research of scientists in order to determine the basic provisions of accounting of security, conditional obligations and conditional assets, necessity of clarifying their essence in the conditions of unstable economic environment determined the relevance of the research.

The definition of the categories such a “provision”, “conditional obligations” and “conditional assets” are given in IFRS 37 (Table 3.4), allowing to reach a conclusion that the characteristic feature for them is the factor of uncertainty regarding the realization of facts of economic life (their condition).

Table 3.4

Definition of “provision”, “conditional obligations”, “conditional assets” according to IAS 37[1]

Definition	Interpretation
Provision	liabilities with an indefinite term or amount
Contingent liability	(a) a contingent liability that arises from past events and whose existence will be confirmed only after one or more uncertain future events that are not fully controlled by the entity have occurred or have not occurred, or (b) an existing obligation that arises from past events but is not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the liability cannot be estimated with sufficient reliability
Contingent asset	a possible asset that arises from past events and whose existence will be confirmed only after one or more uncertain future events have occurred or will not occur that are not fully controlled by the entity

[1] Provision, liabilities and liabilities: International Accounting Standard 37. Retrieved from http://zakon4.rada.gov.ua/laws/show/929_051 (in Ukrainian).

There is still no legislative list of uncertain (conditional) facts of economic life in Ukraine. However, this does not mean that such facts do not exist or are not found in practice.

The conditional facts of economic life in the economic literature include:

– the court cases in which the business entity is a plaintiff or defendant, and the consequences of the decision are uncertain and will be taken in the following periods;

– guarantees, liabilities and other types of liabilities in favor of third parties, which have not been fulfilled, are issued to the reporting date;

– any actions taken by other organizations or persons, as a result of which the business entity should receive compensation, the amount of which is the subject of judicial review, are carried out before the reporting date;

– the guaranteed obligations issued by the business entity in relation to products, goods, works and services sold by the entity in the reporting period;

– commitments to environmental protection;

– sale or termination of any activity of the business entity, closure of its subdivisions or transfer to another geographical region and other similar facts [2].

Today in the accounting literature distinguish conditional facts of economic life, which are also called facts with uncertain consequences. It should be noted that most domestic scientists interpret these categories as identical. At the same time there is a need to specify the concept of "uncertainty", which reveals the essence of these facts. Characteristics of this concept according to the views of Ukrainian scientists Korinko M. and Titarenko H. shown in Fig. 3.1.

According to the approaches of these scientists in the concept of the fact of economic life with an uncertain consequence, uncertainty is characterized by situations when:

1) the distribution of the random value is well known, but it is not known exactly what the value will be random (probably distributed);

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[2] Orlov I.V. Cconditional obligations definition of the essence of the concept. *Mizhnarodnyi zbirnyk naukovykh prats*. 2(17) Retrieved from http://pbo.ztu.edu.ua/article/download/51909/48129 (in Ukrainian).

2) the distribution of random magnitude is unknown, but there are known probability of certain events determined by expert means (subjective probability) or it is known that it can take any value in the specified interval (interval uncertainty);

3) time uncertainty (caused by the fact that it is impossible to predict the value of a factor in the future with accuracy to one.

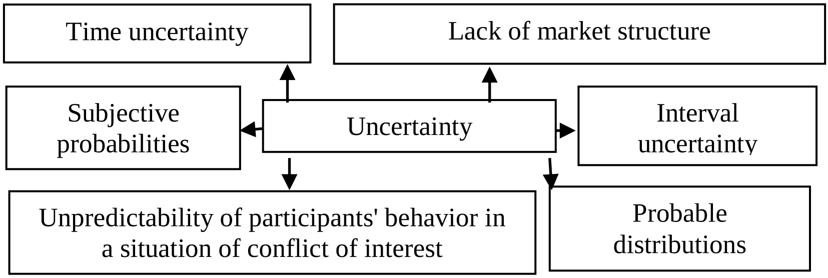

Fig. 3.1. The essence of the category of uncertainty[3]

In the accounting system, the conditional facts of economic life are not objects of accounting, but their consequences (conditional assets, conditional liabilities, security) are shown if there is a high probability of their occurrence.

As noted by Legenchuk S., Petruk O., Volska K. reflection in the accounting of facts of economic life directly depends on their consequences. Time span between facts of economic life with defined consequences and conditional facts of economic life can coincide and not coincide (Fig. 3.2).

Thus, the concept "conditional fact of economic life" is characterized by the presence of the following components: uncertainty of consequences of the occurrence of the mentioned fact of economic life; dependence on the occurrence of certain conditions and circumstances.

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[3] Korinko M. D., Titarenko H. B. (2010). *Bukhhalterskyi oblik pry restrukteryzatsii subiektiv hospodariuvannia Ukrainy: napriamy naukovykh doslidzhen* [Accounting at reorganization of subjects of economic activity of Ukraine]. Kyiv: LLC "Klyaksa" (in Ukrainian).

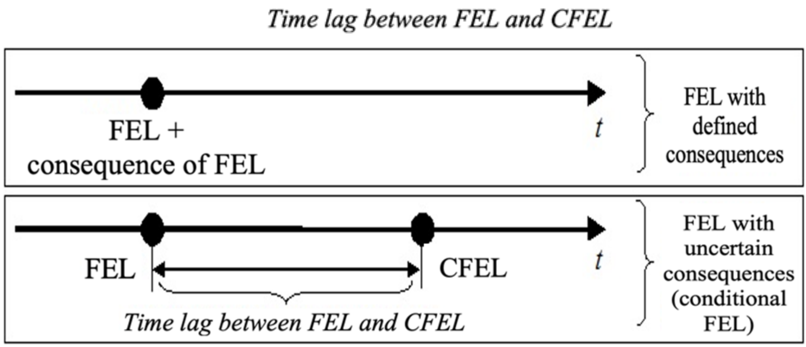

Fig. 3.2. Time span between the facts of business life with defined Facts of Economic Life (FEL) and uncertain consequences (FEL)[4]

The facts of economic life are disclosed in the financial statements of the economic entity, which in turn leads to an increase or decrease of assets, own capital, liabilities. The reflection of obligations, guarantees, conditional assets and conditional liabilities has its peculiarities.

It should be noted that the economic content of the categories such a "provision", "obligations" and "conditional obligations" has a close relationship.

Provision is an obligation with an indefinite term or amount. All provisions is conditional, that is, they are not recognized, because their existence will be confirmed only after occurrence or not occurrence of uncertain future events, or those which are not fully controlled by the business entity. Also, the term "conditional obligation" applies to obligations which do not meet the criteria of recognition.[5]

Today, it should be taken into account that the interpretation of the category "obligations" can be considered from an economic and legal point of view.

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[4] Lehenchuk S., Petruk O., Volska K. (2014). Facts of economic life as elementary parts of reality in the system of accounting. *Sophus Naukovyi klub*. 2014_04_17-18 Retrieved from http://sophus.at.ua/publ/2014_04_17_18_kampodilsk/sekcija (in Ukrainian).

[5] Provision, conditional obligations and conditional assets: International Accounting Standard 37. Retrieved from http://zakon4.rada.gov.ua/laws/show/929_051. (in Ukrainian).

Economic and Civil Codes of Ukraine, which describe the legal side of the notion of "obligation" define it as relations arising between the business entity and other participants of relations in the sphere of economy, when the obliged party should take a certain action of economic or managerial-economic character in favor of the other person (to perform work, transfer property, pay money, provide information, etc.), or refrain from certain actions, and another entity (the authorized party, including the creditor) has the right to demand from the binding party the performance of its duty". The commitment must be based on the principles of good faith, understanding and justice[6]. At the same time, the main types of economic obligations are property and economic obligations and organizational and economic obligations. In other words, the essence of the obligations is disclosed by the rights and obligations of the parties, which are confirmed by the agreement.

According to accounting standards, IAS 37 "Provision, conditional obligations and conditional assets", UAS 1 "General requirements to financial statements" and UAS 11 "Obligations" the term "obligations" define identically as "existing obligations of the economic entity arising from past events and repayment of which, according to expectations, leads to the disposal of resources, economic benefits"[7]. That is, from the economic point of view, obligations are considered as accounts payable, repayment of which will lead to the disposal of resources, and this considerably narrows the essence of the concept. Therefore, not all obligations arising in civil and economic law are reflected in the accounting.

It should be noted that according to international standards, the obligation may arise not only from agreements or laws, but also from voluntary acceptance of obligations in order to maintain good business relations with partners or to try to act on justice. In other words, these additional provisions of IAS 37 allow for a much broader list of obligations that can be reflected in financial statements. It is envisaged to divide obligations into legal and constructive, and the precondition of such obligations is the event

[6] Commercial Code Ukraine. (2003, January 16). Retrieved from https://zakon.rada.gov.ua/laws/show/436-15#Text 0(in Ukrainian).

[7] Provision, conditional obligations and conditional assets: International Accounting Standard 37. Retrieved from http://zakon4.rada.gov.ua/laws/show/929_051. (in Ukrainian).

that creates such obligations and consequently leads to the fact that the business entity there is no real alternative to fulfilling the obligation.

The legal obligation arises as a result of the contract, legislation or other action of the law. This obligation has a legal basis.

A constructive commitment arises in accordance with past practice, published by politicians or a sufficiently specific current statement, which creates reasonable expectations from other parties regarding the fulfillment of such obligations. In other words, the existence of a constructive obligation of the business entity is stated on its own. For example, recognition of commitments in the socially responsible business concept or environmental policy of the company; notification of additional supply of assets in certain cases and others.

The recognition of the conditional obligations and collateral is shown in Fig. 3.3.

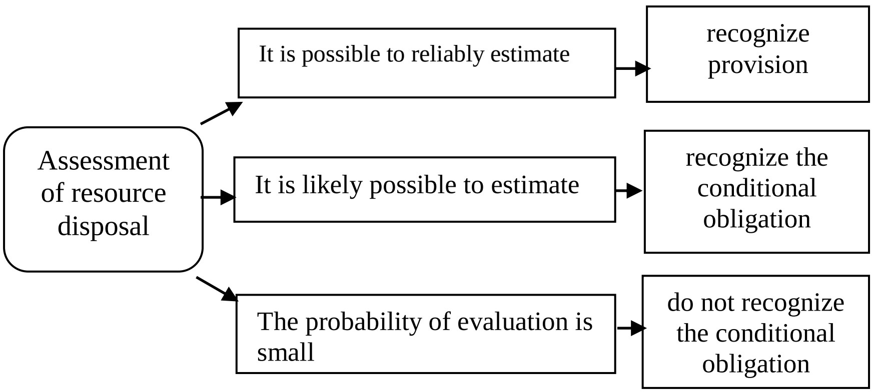

Fig. 3.3. Recognition of conditional obligations and guarantees

When assessing legal and constructive obligations, it should be considered that the amount of possible outflow of resources, which constitute economic benefits, can be determined with a high degree of reliability, but the occurrence of the event, on which fulfillment of obligations depends, is unlikely.

For example, the participation of an economic entity as a defendant in a court proceeding with a specified amount of claim can be considered as the amount of outflow of resources is determined with a high degree of reliability. However, based on experts' opinion that the probability of losing in the court of occurrence of an event on which fulfillment of the obligation (for example payment of a claim) depends is unlikely. This situation should be considered as a condition of obligation.

Therefore, if an economic entity has a possible obligation, which will be confirmed only after a certain future event is or does not take place, is not fully controlled by the enterprise; or is there a commitment that is not recognized, since it is not likely that what resources will be used; whether the sum of the commitment cannot be assessed with sufficient reliability should be recognized as a conditional obligation.

In financial statements it is necessary to disclose the information about the amount of the conditional obligation. When carrying out the assessment of the conditional obligation it is necessary to take into account the amount of the counterclaim or the number of requirements to the third parties. This is done in cases where the right of demand arises as a result of the relevant conditional fact.

The conditional obligation must be assessed in monetary terms. For this purpose, make the necessary calculation and provide its confirmation (for example, auditors or experts). When assessing the conditional obligations, the enterprise must adhere to the requirements of caution.

Methods of monetary assessment of conditional obligations:

– as an estimation is accepted average weighted value;

– as an estimation, the enterprise accepts the arithmetic mean of the largest and smallest values of interval;

– an estimate of the corresponding interval values. First, they determine the arithmetic mean of the largest and smallest values of each interval, and then they perform the estimation. The received average weighted value is taken as an estimation of the conditional obligation.

The information on the liabilities at the end of the reporting period shall be disclosed in the notes to the financial statements in the following order:

– brief description of the nature of the contingent liability;

– estimate of its impact on financial indicators;

– indication of uncertainty as to the size and amount of possible resource disposal;

– possibility of any compensation [8].

In the event of past occasions of existing obligations (legal or constructive), the provision should be recognized if resources are released, realizing economic benefits and opportunities to assess the number of obligations in a reliable way[9].

In other words, IAS 37 provides that provision as current obligations are subject to disclosure in the reporting and conditional obligations are subject to disclosure in the notes to the reporting.

If it is unclear whether there is an existing obligation and how it should be reflected – in the collateral or conditional obligations, then the probability of events should be considered.

In the understanding of IAS 37, the event is likely if there is a possibility that the event will take place than it does not take place.

For example, if the probability of losing the case is low, the obligations are considered conditional. If the probability exceeds 50%, it is necessary to estimate and to recognize as a part of the obligations a certain amount as a guarantee of future expenses. The criteria for recognizing the probability of events are shown in Fig. 3.4.

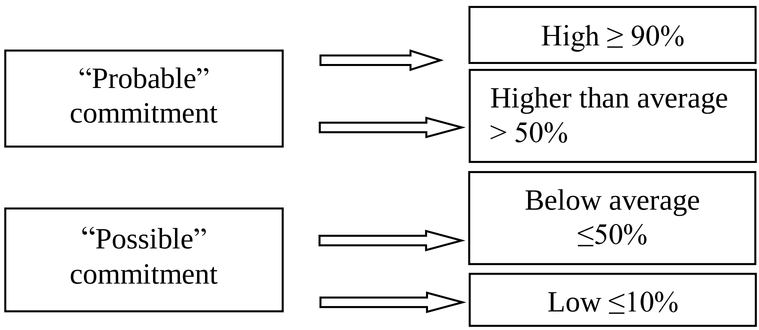

Fig. 3.4. Probability criteria [10]

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[8] *Conditional accounting and subjective reporting* (15.04.2022). Retrieved from http://parusconsultant.com/?doc=08G625B71A (in Ukrainian).

[9]Provision, conditional obligations and conditional assets: International Accounting Standard 37. Retrieved from http: //zakon4.rada.gov.ua/laws/show/929_051 (in Ukrainian).

[10] Luchko M. R., Benko I. D. (2016). *Oblik i finansova zvitnist za mizhnarodnymy standartamy* [Accounting and financial reporting according to international standards]. Ternopil: Econ. opinion of TNEU. Retrieved from

Tereshchenko V. S. offers a similar but more detailed methodology for the distribution of obligations to contractual and collateral[11].

In particular, if the risk of making a payment is very high (95–100%), it is necessary to form a security; if the risk is high (50–95%), the security calculation is of a recommendation; if the probability of payment is medium (5–50%), the economic entity should make a decision on the expediency of forming a security; if the estimated risk is low (1–5%), it is not necessary to provide for future expenses and payments, but on off-balance accounts it is necessary to show occurrence of unforeseen obligation; if probability of payment is less than 1%, such consequences of a conditional event in the accounting system are not reflected.

To some extent, there are common requirements for the conditions for the recognition of security in UAS 11 and IAS 37. Thus, according to the requirements of IAS 37, security should be recognized if:

an economic entity has an existing obligation (legal or constructive) as a result of the past event;

it is likely that the disposal of resources that translate into economic benefits will be necessary to fulfill the obligation;

the amount of the liability can be estimated reliably[12].

At the same time, according to the requirements of UAS 11: "Security is created in the event of past occasions, the repayment of which is likely to lead to a decrease in resources that realize economic benefits, and its assessment can be calculated"[13].

360c.http://dspace.wunu.edu.ua/bitstream/316497/18078/1/%D0%9A%D0%BD%D0%B8%D0%B3%D0%B0%20%D0%9C%D0%A1.pdf (in Ukrainian).

[11] Tereshchenko V.S. Zabezpechennia maibutnikh vytrat i platezhiv: kryterii vyznannia i mekhanizm formuvannia v obliku [Provision of future expenses and payments: recognition criteria and mechanisms of accounting formation]. *Advanced technologies of science and education:* Materialy XIV Mizhnarodnoi naukova internet-konferentsii. Retrieved from http://intkonf.org/tereschenko-vs-zabezpechennya-maybutnih-vitrat-i-platezhiv-kriteriyi-viznannya-i-mehanizmi-formuvannya-v-obliku (in Ukrainian).

[12] Provision, conditional obligations and conditional assets: International Accounting Standard 37. Retrieved from http://zakon4.rada.gov.ua/laws/show/929_051 (in Ukrainian).

[12] Obligations: Ukrainian Accounting Standards 11. (11.02.2000). No. 85/4306. Retrieved from http://http://zakon4.rada.gov.ua/laws/show/929_051 (in Ukrainian).

[13] Obligations: Ukrainian Accounting Standards 11. (11.02.2000). No. 85/4306. Retrieved from http://http://zakon4.rada.gov.ua/laws/show/929_051 (in Ukrainian)

In order to determine the security, the business entity must understand what expenditures will be needed to fulfill its existing obligations. IFRS 37 does not consider how to account for the costs of creating security: as assets or as expenses of the period, so the requirements of other IFRS should be taken into account. Under the general rule, the costs of creation of security are recognized as expenses of the period (the corresponding articles are defined in the accounting policy). The exception is the provision, the cost of which is capitalized in the cost of the assets with which the respective collateral is connected. For example, provision of expenses for dismantling, relocation of the object of fixed assets and restoration of the territory, which is included in the cost of such object. The provision is created to compensate for the following (future) operating expenses, so it is advisable to determine which types of collateral can be created and disclosed in the financial statements of economic entities.

Disclosure in the financial statements of the security should be in accordance with the principle of caution, i.e., to prevent underestimation of obligations.

The balance sheet should be reviewed on each balance sheet date and adjusted if necessary. If the probability of disposal of assets to repay future obligations is not probable, the amount of such provision is subject to reversal.

The provision should be used only for the expenditures for which it was established.

UAS and IAS have specified types of security that should be created and disclosed in financial statements, but this list is not exhaustive (Table 3.5).

In practice, provision can also be created according to Instruction No. 291[14], that is, the security represented by the sub-accounts to the account 47:

- 471 “Provision of holiday payments”;
- 472 “Additional pension provision”;
- 473 “Provision of guaranteed obligations”;
- 474 “Provision of other expenses and payments”;

[14] Plan of accounts of the accounting of assets, capital, liabilities and economic operations of enterprises and organizations. Instruction No. 291 (1999, November 30). Retrieved from https://zakon.rada.gov.ua/laws/show/z0893-99?lang=uk#Text (in Ukrainian)

Table 3.5

Types of implementations according to national and international standards

UAS 11, UAS 26	IAS 37
	lawsuits;
holiday payment to employees	
additional pension provision;	
fulfillment of warranty obligations;	warranty obligations;
restructuring, fulfillment of obligations in case of termination of activity	business restructuring;
fulfillment of obligations on onerous contracts;	onerous contracts;
dismantling of fixed assets and restoration of land plots.	dismantling, moving FA and restoring the territory where it is located.

- 475 “Provision of the prize fund (reserve of payments)”;
- 476 “Reserve for payment of jackpot not provided with participation fee”;
- 477 “Provision of material incentives”;
- 478 “Provision of restoration of land plots”.

Luchko M. R., Benko I. D. distinguish the following types of security

– provision of court cases;
– decommissioning costs (removal reserve);
– warranty service (repair and maintenance);
– security on unprofitable orders (onerous contracts);
– provision of pension obligations [15].

Accounting standards are regulated, which do not recognize the provision for future operational losses.

As for the mechanism of forming of security, it is necessary to rely on national accounting practice when calculating. The following elements should be considered: the frequency of provision payments, the high rate of payments, the period of provision payments.

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[15] Luchko M. R., Benko I. D. (2016). *Oblik i finansova zvitnist za mizhnarodnymy standartamy* [Accounting and financial reporting according to international standards]. Ternopil: Econ. opinion of TNEU. Retrieved from 360c.http://dspace.wunu.edu.ua/bitstream/316497/18078/1/%D0%9A%D0%BD%D0%B8%D0%B3%D0%B0%20%D0%9C%D0%A1.pdf (in Ukrainian)

Considering the nature and peculiarities of the expenses for which the provision is charged, and the terms of their actual occurrence, the mechanism of formation can be different. It is necessary to delimit the formation of collateral for expenses which are constant (repeated annually) and one-time. An example of constant expenses is provision for the payment of leave to employees, the one-time expenses, concerning the restructuring of the enterprise. It is also necessary to consider whether it is possible to schedule a period of actual occurrence of expenses under which security is formed, or whether it is possible to predict in advance difficult or will happen certain events after which it is possible to expect occurrence of such expenses.

Two mechanisms of calculation can be used to create collateral for expenses that are of a one-time nature and the period of occurrence of them is planned:

1) calculation of monthly payments starting from 12 months, despite the period of implementation of the measures;

2) clearly limit the actual completion of the measures the period of the security calculation. Thus, monthly payments will be calculated based not on 12 months but on the number of months from the beginning to the end of the works.

Using the first option, allows to cover expenses sufficiently, probably arise, while using the second option may have a deficit of the reserved funds, that is, the sum accumulated at the beginning of the implementation of the reserve will not be able to cover actual expenses[16].

For the expenses that arise in the enterprise annually during the whole year, formation of collateral is provided monthly by multiplying the standard to the actual base chosen for calculation of each specific type of collateral, during the whole reporting year.

An example of the costs to be incurred each year is the payment of leave to employees, as well as the compensation for the years of retirement.

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[16] Shepel I.V. (2019) Osoblyvosti vidobrazhennia v oblikovii politytsi narakhuvan zabezpechen [Features of displacement in accounting policy of environmental protection] *Infrastruktura rynku*, 28, 384-390. Retrieved from http://www.market-infr.od.ua/journals/2019/28_2019_ukr/58.pdf (in Ukrainian).

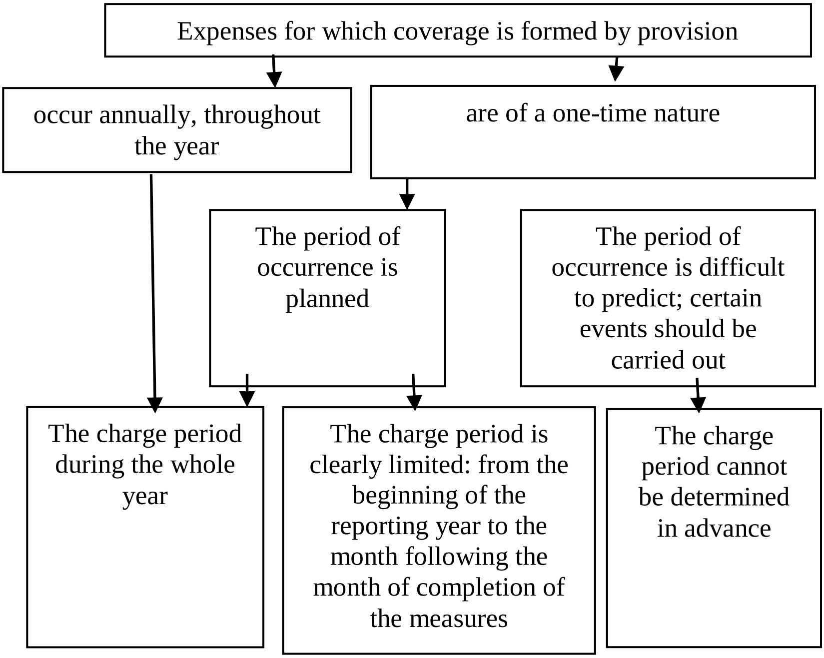

Fig. 3.5. Choice of the charge period of provision

The purpose of the provision for the payment of leave is the distribution of expenses during the year between the reporting periods for the uniform formation of the cost of goods (works, services), expenses and financial results of the activity. It should be noted that the formation of a leave-to-pay security is a requirement of the national accounting standards, and the IAS also has a norm to ensure the payment costs to employees who occur annually. Therefore, all enterprises that keep accounting for IAS are obliged to create security for payment of holidays and compensation for unused days of vacation and the calculation of the amount of United Social Tax (UST) associated with such payments.

The amount of the holiday payment is calculated monthly as the day of the accrued salary to the employees and the percentage calculated as the ratio of the annual planned sum to the total planned fund of the labor payment, taking into account the respective amount of the UST payment[17].

According to Regulation No. 879[18] which provides that the provision of holidays will be corrected only once a year after the inventory. However, if the planned number of wages or vacation is changed during the year, the provision for the next months is calculated based on the new planned amount. But the amount of security accrued earlier is not adjusted.

The Ukrainian legislation also provides for the creation of provision for the costs of additional pension payments. International accounting standards provide for two types of programs: on programs with established payment and on programs with established payment.

Provision related to additional pension security may be formed to compensate for privileged pensions on lists No. 1 and No. 2 (applies to those employees who are involved in work with particularly harmful and especially difficult working conditions) or in case of payment at their own expense of voluntary contributions to non-governmental pension provision of employees, etc.

But, for today, national practice does not have a sufficient legal base to regulate the activities of non-governmental pension funds. Ukraine has not created yet and there are no enterprises forming/replenishing pension funds at their own expense, so it is almost impossible to reveal the issue of practical calculation of this reserve.

The International Accounting Standard 37 provides for the formation of lawsuits if the business entity is the defendant, and on condition that there is a high probability of loss and outflow of economic benefits. The method of calculating such a reserve includes analysis of timely information on legal claims and assessment of the probability of loss in the court and the outflow of assets. The Legal Department should provide such information, and based on it decide on the need to form security for legal claims.

Also, the legal department must keep the register of agreements,

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[17] Plan of accounts of the accounting of assets, capital, liabilities and economic operations of enterprises and organizations. Instruction No. 291 (1999, November 30). Retrieved from https://zakon.rada.gov.ua/laws/show/z0893-99?lang=uk#Text (in Ukrainian)

[18] On the inventory of assets and liabilities. Regulation No. 879 (2014, September, 02). Retrieved from https://zakon.rada.gov.ua/laws/show/z1365-14#Text ([in Ukrainian].

(pledge agreements, lease of assets, purchase and sale, credit agreements, etc.), and be able to provide all necessary information from which to draw notes to financial statements (for example, about investment obligations, assets transferred and pledged, terms of credit agreements, etc.).

Rather common practice is creation of subjects of business providing of fulfillment of guaranteed obligations.

The procedure of calculation of the amount of guaranteed provision in IAS 37 is not defined, therefore, the method of calculation of the enterprise develops independently and prescribe it in the accounting policy.

National accounting practice the assessment of warranty service obligations can be carried out based on information on actual costs related to warranty repairs for each product in several reporting periods. The interest from the volume of sales of products (goods) for the respective period is considered for the calculation of security. The amount of provision is determined on the balance sheet date by the accounting estimation of resources (on the calculation of the amount of expected compensation) necessary for repayment of obligations[19].

National and international accounting standards have provided an opportunity to create security for business restructuring. It should be noted that the practice of Ukrainian economic entities to create such security has not gained wide use. Restructuring is carried out with the purpose of financial improvement of the enterprise, increase of production efficiency, increase of output of competitive products etc.

In creating collateral for the restructuring of the IAS 37 business, the condition that the structure of the business is significantly changed at the expense of:

- the volume of activity carried out by the business entity,
- or the way in which this activity is carried out[20].

The national practice provides that the amount of provision for reimbursement of restructuring costs is defined as the amount of direct expenses not connected with the continuing activity of the

[19] Obligations: Ukrainian Accounting Standard 11 (11.02.2000). No. 85/4306. Retrieved from http://http://zakon4.rada.gov.ua/laws/show/929_051 (in Ukrainian)

[20] Provision, conditional obligations and conditional assets: International Accounting Standard 37. Retrieved from http://zakon4.rada.gov.ua/laws/show/929_051 (in Ukrainian)

business entity. The security for restructuring is created by the enterprise if the plan of restructuring approved by the management with concrete actions, terms of their implementation and the amount of expenses, which will be incurred after the implementation of this plan.

In the process of economic activity contracts are constantly concluded, defining rights, and obligations of each party of the contract (contract), which concludes the contract. Under certain conditions, such contracts may become burdensome. IAS 37 treats the contract as a burden if "it contains unavoidable costs of fulfilling contract obligations exceed the economic benefits expected to be obtained by them".[21]

If the business entity has a difficult contract, then according to national and international accounting standards, the existing obligations under such a contract should be recognized and assessed as security.

The security under a serious contract is determined in the amount of unavoidable costs associated with its implementation. The amount of unavoidable costs associated with the performance of the contract is determined at the lowest of two values: either the cost of the contract, or the cost of the payment of the penalty (fines, penalties) for the non-performance of the contract.

Expenses of the performance of a serious contract are estimated at the difference between the costs of its performance and the revenues (losses) from the performance of another contract concluded in order to minimize the losses from the performance of a grave contract.

In cases where contracts can be terminated without compensation, the obligation does not arise.

Economic entities can create future expenses for dismantling, moving the object of fixed assets and restoring the territory on which it is located. This type of security is one of the accounting features of large industrial enterprises. The issue of decommissioning of fixed assets and restoration of land plots is of particular concern to both companies and the state and environmental organizations, that is, of national importance.

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[21] Provision, conditional obligations and conditional assets: International Accounting Standard 37. Retrieved from http://zakon4.rada.gov.ua/laws/show/929_051 (in Ukrainian)

According to IAS 37, the security assessment should be based on future costs associated with the termination of fixed assets and the restoration of land plots, considering the experience of other companies with similar costs, and the findings of independent experts.

In order to obtain the best assessment of the collateral, consideration should be given to the following:

– all risks and uncertainties caused by the decommissioning of fixed assets.

– the method of discount expected expenses, as the impact of the cost of money in time is significant. Discount rate should be a rate of tax and reflect current market estimates of the value of money in time and the risks inherent in the obligation.

The issue of contingent assets is insufficiently studied in the national practice of accounting and enterprise management. There are no definitions and methods of accounting for this category of enterprise assets in national accounting regulations (standards). However, there is in IFRS 37, which partially discloses the nature of the category of “contingent assets” and the method of their accounting.

Contingent assets are not recognized in the financial statements as this may result in the recognition of income that may never be received. However, when there is complete confidence in the receipt of income, then the related asset is not a contingent asset, and its recognition is appropriate. When the inflow of economic benefits is probable, the entity should disclose brief information about the nature of contingent assets at the end of the reporting period and (if possible) about the assessment of their financial impact (Fig. 3.6).

The assessment of conditional assets should be carried out continuously to ensure that changes in reporting are reflected.

If the events after the reporting date give the organization the necessary additional information, with the help of which it is possible to estimate the sum connected with the terms on the reporting date, then the conditional assets should be adjusted according to the given events.

If the events after the reporting date have not influenced the conditional assets as of the reporting date, these events should be disclosed in the notes to the financial statements.

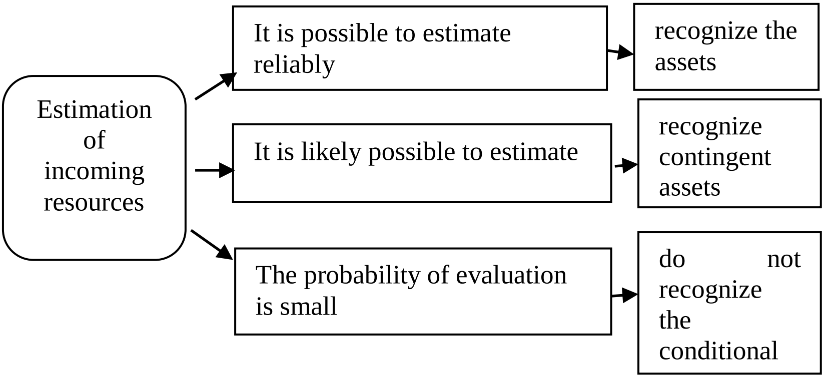

Fig. 3.6. Recognition of conditional assets

When the information about the conditional assets of economic entities is disclosed in financial statements, they are cited:

– a brief description of the nature of contingent assets;

– assessment of their financial effect (if possible).

It should also be noted that IFRS allow for situations where it is reasonable to believe that disclosure of all or part of the information about a contingent liability or contingent asset may seriously harm an entity's position in a dispute with other parties. In this case, it is possible not to disclose such information, but it is necessary to disclose the general nature of the dispute, indicating the reason for incomplete disclosure.

Accounting for collateral involves the use of the provisions of IAS 37 "Provision, conditional obligations and conditional assets" and certain practical methods of domestic law. It should be noted that international standards, in contrast to national regulations (standards), widely identify possible alternative options for accounting for collateral, which simplifies the preparation of financial statements and allows more objective coverage of the entity.

3.3. Types of payments to employees, their accounting and representation in the reporting

Payments to employees are an essential component of the total costs of each enterprise and are one of the most complex and important objects of accounting, which includes a rather large list of payments. Each type of these payments has its own characteristics that appear in both accounting and external reporting of enterprises.

This is caused by the fact that in current circumstances each enterprise can independently determine the formulation and standard of payments to employees, which depend on the specifics of labor organization and enterprise needs.

At the same time, the issue of wages in terms of establishing its minimum level, determining the level of industrial indicators of wages, providing disability benefits, duty journey, vacation pay and other statutory benefits to employees, as well as the rates of social contributions and taxes levy, are under constant supervision and control by the authorized state bodies.

Such conditions force enterprises to develop more flexible systems of employee benefits based on the need to ensure the optimal correlation between the level of employee benefits and the level of labor productivity, the level of employee's interest in efficient and quality work and the need to ensure planned indicators of range, quality and quantity of manufactured products.

The level and structure of payments to employees are of great social importance and affect not only ongoing, but also future performance of the enterprise, the level of solvency of employees and their families and the level of social welfare in general.

This may be attributed to the fact that payments to employees, combined with entrepreneurial income and various social or state benefits, are the main form of monetary income related to employment.

This makes payments to employees an important element in developing industrial relations that combine the self-interest of employees with the interests of employers and the state. Finding the most effective method for implementing and preserving the interests of the said tripartite partnership is an important condition for effective economic and state development in general, achieved by the adjustment of the level of employees' nominal payments to their actual level.

As a significant component of total costs, employee benefits is one of the determining factors that significantly affect the efficiency of production, which is why accounting and control of payments to employees occupies an important place in the accounting and internal control of the enterprise. It is one of the largest and most complex areas of accounting work that requires accurate, complete and timely information on changes in existing rates, valuations, norms, rates, number and categories of workers, time-use and production costs and allows to make changes in labor efficiency stimulation and optimize the differentiation of employees' incomes and taxes.

Provision of a clear quality and effective organization of accounting and control of payments is achieved by automating accounting and control processes and the introduction of computer-integrated technologies as a unification of different types of information technology into a single computer technology complex. This allows enterprise administration timely, efficiently and fully meet its information needs on the structure, status and rate of payments to employees, in order to effectively manage the production process and ensure optimal balance between productivity and the rate of said payments.

In this regard, relevance of consideration, accounting and payment control with the use of computer technology is caused by the need of ensuring optimally balanced, complete and timely calculations for these payments, receiving quality complete and timely accounting information about the structure, condition and the extent of such calculations, in order to ensure maximum coordination of interests of an enterprise, employees and the state.

Employee benefits are the final stage of the complex relationship between employers and employees that arise in the process of work, and illustrate the results of this relationship, thus the disclosure of meaning of such economic category as "employee benefits" is directly dependent on the category of "labor", as the act of production of socially useful material or spiritual products.

Social and labor relations are a dynamic system that is going through constant changes under the influence of economic, political, social, technological, cultural, religious factors. At the same time, changes in social and labor relations can be considered in the context of transformations that occur in social production as a whole.

Current circumstances allow an enterprise to independently determine the types and forms of wages, taking into consideration their own individual needs with the provision of optimal balance between labor costs and the degree of interest of employees in labor efficiency, participation in enterprise development and final results.

In order to form universal approach and conditions in terms of wages, the state, for its part, determines the methodological basis for the formation of accounting information on payments (in cash and non-cash) for work performed by employees, and its disclosure in the financial statements, which are used by employers : enterprises, organizations, other legal entities, regardless of ownership (except for budgetary institutions and enterprises, which in accordance with the law prepare financial statements in accordance with international financial reporting standards).

Thus, in accordance with the order of the Ministry of Finance of Ukraine on approval of the National accounting regulation (standard) 26: "Payments to employees" current payments to employees include:

– wages in proportion to salaries and tariffs, other types of remuneration for work;

– payments for time not worked (annual leave and other payments for time not worked);

– bonuses and other incentive payments given within twelve months after the end of the period in which the employees perform the relevant work, etc.

For comparison, IAS 19 Employee Benefits defines short-term employee benefits as payments to employees (other than severance payments) that are payable in full within twelve months after the end of the period in which the employees provide the related services. Following articles are included:

– salaries for workers and employees and social security contributions;

– short-term compensated absence (such as annual leave and sick leave); in this case, compensation for absence shall be paid within twelve months after the end of the period in which the employees provide the relevant services;

– profit participation and bonuses payable within twelve months after the end of the period in which employees provide the relevant services;

– non-monetary benefits (such as health plans, housing, provision of vehicles, free or subsidized goods or services) for current employees.

Important components of benefits to employees according to Ukrainian accounting regulation (standard) (UAR(S)) 26 are post-employment benefits, which include employee benefits payable at the end of their employment (other than severance and share-based payments).

To the contrary, IAS 19 defines post-employment benefits as payments to employees (other than severance payments) that are payable after the termination of service.

Another component of employee benefits according to UAR(S) 26 is long-term employee benefits, which include payments that are not payable in full within twelve months after the end of the month in which the employee performed the relevant work (except for post-employment benefits, dismissal pay and share-based payments).

According to IAS 19, other long-term employee benefits include such benefits that are not payable in full within twelve months after the end of the period in which the employees provide the related service (except retirement benefits and dismissal benefits).

An important component of employee benefits according to UAR(S) 26 is dismissal pay as remunerations to an employee that are payable by the enterprise’s decision to dismiss the employee before them reaching retirement age or by the employee’s decision to dismiss voluntarily until they reach the retirement age.

For comparison, under IAS 19, severance benefits are payments to employees that are payable as a result of:

– the decision of the business entity to dismiss the employee before the established date of retirement;

– the employee’s decision to agree to voluntary dismissal in exchange for such payments.

According to the rules of UAR(S) 26, payments to employees also include share-based payments, which are payments to the employee that they are entitled to receive in the form of financial instruments of equity issued by the enterprise (or its parent enterprise). The amount of liabilities of the enterprise to the employee depends on the future price of financial instruments of equity issued by the enterprise. It should be noted here that the accounting of liabilities for such payments is regulated by a separate standard UAR(S) 13 “Financial Instruments”.

According to IAS 19, payments of equity instruments of an enterprise as part of employee benefits are not provided, they are governed by a separate standard of IFRS 2 “Share-based Payment”.

For the employee, as a subject of social and labor relations, among all the allocated payments wages are of paramount importance because of their exchangeability for consumer goods and services necessary to meet their current needs.

According to the current legislation, the salaries of local Ukrainian enterprise employees on are paid in banknotes that have legal circulation on the territory of Ukraine. Payment of wages in the form of promissory notes and receipts or in any other form is prohibited. In addition, wages may be paid by bank checks in the manner prescribed by the Cabinet of Ministers of Ukraine in agreement with the National Bank of Ukraine.

As for payment in kind, it includes issuing part of the employee’s salary in the form of the company’s own products, purchased or received from other companies for goods (works, services) provided to employees. This form of remuneration is used as an exception and should be provided for in the collective agreement. In this case, the payment of wages in kind is made at prices not exceeding the cost and in an amount not exceeding 30% of the salary accrued for one month, in those industries or professions where such payment is equivalent to the cost of wages in monetary terms or is common or desirable for employees, except for goods, the list of which is established by the Cabinet of Ministers of Ukraine.

According to the current legislation, the structure of wages in monetary terms has three components:

– basic salary, which is a reward for work performed in accordance with established labor standards (time, production, maintenance, job responsibilities) set in the form of tariff rates (wages) and piece rates for workers and salaries for employees;

– additional payments, which are remuneration for work over the established norms, for labor success and ingenuity and for special working conditions. Mentioned payments include surcharges, supplements, guarantee and compensation payments provided by current legislation; bonuses related to the performance of production tasks and functions;

– other incentive and compensation payments, which are payments in the form of remuneration based on the results of year work, bonuses under special systems and regulations, grants, compensation and other monetary and material payments not provided by applicable law or made in excess of the norms of the established acts [1].

The current legislation defines the tariff systems of remuneration and other systems that are formed on assessments of the complexity of performed work and the qualifications of employees.

The wage system is used in the distribution of work depending its complexity, and the distribution of employees depending on the qualifications and categories of the tariff grid. It is the basis for the formation and differentiation of wages and it is formed from:

– tariff rate, as the minimum size of the official salary established by the Cabinet of Ministers of Ukraine. In this case, the minimum salary (tariff rate) is set at a rate not less than the subsistence level established for able-bodied persons on January 1st of the calendar year;

– pay scale (also known as a salary structure), which is formed on the basis of the tariff rate of the first category worker and inter-qualification (inter-job) ratios of the amount payable (official salaries or wages). In this case, the pay scale of employees of budget financed institutions, establishments and organizations is formed on the basis of inter-job (inter-qualification) amount payable and tariff coefficients.

– professional standards (qualification characteristics) according to which the employer, in agreement with the elected body of the primary trade union organization (or trade union representative), assigns the work performed to certain tariff categories and assigns qualification categories to workers. In this case, professional

[1] International Accounting Standard 19 “Employee Benefits”. Retrieved from: http://zakon3.rada.gov.ua/laws/show/929_011.

standards (qualification characteristics) specify the requirements for qualification and special knowledge of employees; thus their tasks, responsibilities and specialization are determined by professional standards or qualification characteristics of employees' professions[2].

Depending on the specifics, organization, technical level and technological process of production, the state of organization and labor standards, the enterprise chooses an hourly or piecework pay. In the case of hourly pay, the measurement of labor is the amount of time worked, and in the case of piecework pay it is the amount of items produced.

The hourly pay can be presented in the form of:

– direct hourly rate system in which the amount of earnings of the employee is determined by multiplying the established tariff rate by the number of hours worked;

– hourly bonus system of remuneration, the amount of the employee's earnings is determined by adding to the amount of their direct hourly wage a bonus for achieving certain quantitative or qualitative indicators;

– collective hourly wage system in which crew members are rewarded for their performance of standardized tasks and compliance with established quality indicators.

The rate of piecework pay depends on the quantity of high-quality products produced by the employee, taking into account certain pre-established production standards, rates, complexity and working conditions. The basis in this case is the production rate and tariff rate.

Piecework pay can be presented in the form of:

1) direct piecework pay system. Hereby the amount of wages directly depends on the amount of manufactured products or work performed and is calculated according to individual piecework rates:

– when applying the rate of production (see form. 3.1) rates (R) are determined by dividing the hourly or daily tariff rate, which corresponds to a certain category of work performed (TR), by the hourly or daily rate of production (RP):

$$R = \frac{\mathrm{TR}}{\mathrm{RP}}, \tag{3.1}$$

[2] UAR(S) 26 "Payments to employees". Retrieved from: http://zakon3.rada.gov.ua/laws/show/z1025-03.

– when applying the time norms (see form. 3.2) rates are determined by multiplying the hourly pay rate (HPR) by the time norms (TN).

$$R = HPR \times TN, \tag{3.2}$$

2) piecework bonus system of remuneration, whereby the employee is paid under the direct piecework rate system and is accrued a bonus for the implementation and overfulfillment of certain quantitative and qualitative indicators as a percentage of earnings;

3) piece-progressive system of remuneration, which provides for the payment of production within the production task at fixed rates and production above the task is provided for at higher rates, increasing progressively in accordance with the increase of overtime production on a specially established scale;

4) chord system of remuneration whereby the piece rate is set not for a single production operation, but for the whole complex of works in general, based on current time norms and rates;

5) indirect piecework pay system whereby the total amount payable are determined by multiplying the indirect piece-rate by the actual performance of the task for the objects of service, and the indirect piecework rate (IPR) is determined by formula 3.3:

$$IPR = \frac{\mathrm{TR}}{\mathrm{F} * RP}, \tag{3.3}$$

hereby: TR – daily tariff rate of an auxiliary worker under the indirect piecework system;

F – the number of production facilities serviced according to standards;

RP – the planned rate of production, which is set for each production facility served.

6) collective piece-rate form of remuneration whereby the collective piece-rate (CP) is determined (form. 3.4):

$$CP = \frac{\Sigma \mathrm{TR}}{PRC}, \tag{3.4}$$

hereby:

ΣTR – the sum of tariff rates of crew members;

PRC – production rate of the crew.

Other remuneration systems include flexible and non-tariff systems whereby the employees are guaranteed only a minimum, statutory wages. In this case, the rate of the guaranteed minimum wage for all employees of the enterprise is withheld from the determined total amount of collective earnings, and the rest is distributed among the members of the collective according to the established rules.

Payments for time not worked (annual leave and other paid time not worked) provided by the state guarantees of the right to leave are also important for the employee during their employment. These guarantees determine the conditions, duration and procedure for granting leave to employees to restore their ability to work, promote health, as well as to raise children, meet their own vital needs and interests, and comprehensive personal development.

According to the legislation in force, leave is divided into following types:

– annual leave: basic leave; additional leave for work with harmful and severe conditions of emloyment; additional leave for the special nature of work; other additional leave provided by the legislation;

– additional study leave;

– creative leave;

– leave for preparation and participation in competitions;

– social leave: maternity leave; parental leave (until the child reaches the age of three); adoption leave; leave to care for children or a full age child with a disability (person with disability since the childhood of subgroup A of the 1st group);

– unpaid leave.

The procedure and amounts of benefits at the end of employment are governed by the legislation in force and the terms of the relevant program of benefits at the end of employment.

Post-employment benefit plans include the full range of such benefits made by the enterprise under various agreements (including collective ones). Such programs are divided into two types:

– defined contribution programs;

– defined benefit programs.

According to the provisions of UAR(S) 26, post-employment benefits include various types of retirement benefits (other than the ones provided by the government) and other liabilities of the enterprise that it assumes in respect of its former employees.

For comparison under IAS 19, post-employment benefits include: pensions; life insurances after employment; medical care after employment.

Payments upon dismissal of an employee are regulated by the legislation in force (Labor Code of Ukraine) and the collective agreement and depend on the reasons for dismissal of the employee (see Table 3.6).

Table 3.6

Payments upon dismissal in accordance with the reasons for dismissal

The amount payable	The reason for dismissial
1	2
Not less than the average monthly wage	In case of refusal of the employee to transfer to another locality together with the enterprise, and also refusal from continuation of work caused by the change of essential working conditions (para. 6 of the Art. 36 of the Labor Code of Ukraine)
	At the employer's initiative in case of: - organizational changes of production and labor, including liquidation, reorganization, bankruptcy or re-profiling of the enterprise, reduction of the number of employees and collective redundancy (para. 1 of Art. 40 of the Labor Code of Ukraine); - identified inconsistency of the employee to the position or work performed due to insufficient qualifications or health conditions that prevent the continuation of such work, as well as in case of refusal to grant access to state secrets or revocation of such admission, if the employee's duties require access to state secrets (para. 2 of Art. 40 of the Labor Code of Ukraine); - reinstatement of an employee to their former position (para. 6 of Art. 40 of the Labor Code)
Two minimum wages	In the case of an employee's or owner's individual conscription or enrollment for military service, referral to alternative (non-military) service, except in cases where the employee retains a job or position in accordance with parts three and four of Art. 119

Continuation of table 3.6

1	2
	of the Labor Code (para. 3 of Art. 36 of the Labor Code of Ukraine)
In the amount established by the collective agreement, but not less than three average monthly wages	In case, when the employee's application for voluntary redundancy is due to the impossibility to continue performance of work (caused by relocation, college entrance, pregnancy, need to care for a disabled child, retirement, hiring by competition, as well as other valid reasons), the employer must terminate the employment contract within the period requested by the employee (Art. 38 of the Labor Code of Ukraine)
	At the employee's initiative in case of their illness or disability, which interfere with the performance of work under the contract, violation by the employer of labor legislation, collective or employment agreement (Art. 39 of the Labor Code of Ukraine)

When choosing a system of remuneration, it is necessary to take into account the need to adhere to certain principles of labor evaluation:

– justice, which requires equal pay for equal work;

– consideration of the complexity, severity, harmful working conditions and the level of qualification of work;

– incentives for the quality of work and conscientious attitude towards it and monetary penalties for rejected products and irresponsible attitude towards their responsibilities;

– outpacing the growth rate of labor productivity over the growth rate of average wages;

– indexation of wages according to inflation.

Thus, payments to employees are made, as a rule, in cash, and, in cases provided by the current legislation, also in kind, and consist of ongoing payments, post-employment benefits, other long-term payments, severance payments, share-based payments, with application of tariff systems of remuneration and other systems, the choice of which depends on the specifics, organization, technical level and technological process of production, the state of organization and rationing of labor at the enterprise.

3.4. Information technologies for the preparation of reporting according to international standards of financial statements

Information technologies have been setting trends in economic development for several decades, gradually reaching the global level. Creation and development of global production, markets, finance, management, information management systems, including accounting and analytical information systems, is consistently taking place. According to E. Toffler, mankind has long understood the benefits of the global economy, but theoretically no one explained them up to the XIX-XX centuries[1]. Globalization has set new challenges for managing economic reproduction processes and has led to the need to make full use of the opportunities of all sectors of economic science.

A special mission in the study of globalization processes was put on accounting. Ensuring more effective realization of scientific-cognitive, informational, control, prognostic and social functions as well as a harmonious attitude of the person to the environment of its environment become an actual problem.

It motivates improvement of quality and fuller use of accounting information in the mechanisms of regulation of economic relations, which are constantly complicated. Practical solution of these problems is achieved by improving accounting and reporting in the direction of more complete satisfaction of information needs of external users, managers and other participants of public reproduction, as well as unification of accounting methodology and reporting at the international level. The implementation of international financial reporting standards has taken place in the context of globalization. Reporting according to international standards is a rather complicated process from a methodical point of view and requires considerable labor costs of highly qualified specialists in accounting and audit. The use of information systems of accounting automation and enterprise management can significantly optimize this process.

The research of global processes was devoted to their works by J.

[1] Toffler E. (2010). *The third wave. Philosophy of science and innovative development.* Part 2. Kyiv: Millenium, 272–284 [in Ukrainian].

K. Helbreyt, P.S. Yeshchenko, A.H. Arseyenko, J. Stihlits[2], E. Eoffler and other scientists. The impact of globalization on the accounting system in Ukraine has been reflected in publications of such researchers as V.M. Zhuk, H.H. Kireytsev[3], O.M. Petruk, I.B. Sadovska and others. The study of the use of information systems for accounting and reporting was considered in works by S.F. Holov, S.V.Ivakhnenkov[4], S.F. Legenchuk[5] and others. At the same time, the problems of application of information technologies for preparation of reports according to international standards of financial reporting are not sufficiently investigated.

The peculiarity of accounting is the constant balance between economic theory and law. Accounting is conducted in a certain legal field. That is why it is extremely important to provide legal and regulatory accounting under which the whole set of normative acts, which regulate the accounting in general or some of its objects, and includes the Constitution of Ukraine, the Code of Ukraine (Tax, Commercial, Civil, Labor), Laws of Ukraine, resolutions of the Cabinet of Ministers of Ukraine, decrees of the President of Ukraine, orders of the Ministry of Finance of Ukraine, resolutions of the National Bank of Ukraine, regulations, instructions, methods, recommendations of ministries and agencies, orders (on accounting policy) of economic entities.

Under the influence of the globalization of the economy and integration of Ukraine into international organizations and associations, the legislation was adapted to the International Financial Reporting standards (IFRS). In particular, article 387 of chapter 13 of the Association Agreement between Ukraine and the European Union provides for the introduction of appropriate international standards at the national level and gradual approximation to the EU law in the sphere of accounting and auditing. The Parties shall also direct their activities to exchange

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[2] Stihlits J. (2003). *Globalization and its burden.* Kyiv: Publishing house “KM Academy”, 252 [in Ukrainian].

[3] Kireytsev H.H. (2007). *Economy globalization and unification of accounting methodology: Training report.* Zhytomyr: ZSTU, 68 [in Ukrainian].

[4] Ivakhnenkov S.V. (2018). *Automation of business processes and accounting: “cloud” revolution?* Accounting and audit, 5. 26–35 [in Ukrainian].

[5] Lehenchuk S.F. (2020). *The future of corporate reporting: history, prospects and problems.* Accounting and finance, 88. 29-38 [in Ukrainian].

information and experience on existing systems and relevant innovations in the mentioned areas[6].

According to S. Holov, in order to successfully implement the provisions of the Association Agreement with the EU on accounting and auditing, a set of methodological and organizational measures should be implemented, including:

– review relevant regulatory and legal acts;

– review of statistical financial information formation procedure;

– clear division of functions for the control and enforcement of IFRS and Ukrainian Accounting standards;

– personnel changes aimed at attracting highly professional and patriotic employees to the above-mentioned events;

– review of the mechanism of formation and functioning of the methodological board of accounting[7].

Factors that lead to changes in the accounting methodology and practices are formed in real economic life, which is constantly complicated.

The main among them are:

– change and development of ownership relations on means of production, relations and mechanisms of formation and distribution of incomes, organizational forms of production and sale of goods;

– processes related to the globalization of the world economy and international capital markets.

The first group of factors has its origin. They were studied by scientists during the second half of the last century. Accounting for the above period remained as a national system, which was adequate to its economic mechanisms of its functioning and regulation.

The second group of factors has an international origin. Their impact on the development of national accounting systems requires further research.

The factors of both the first and the second groups influence the accounting methodology is not separate. However, the factors of the

[6] *The Association Agreement between Ukraine on the one hand and the European Union, the European Atomic Energy Community and their member states on the other*. (20.04.2022). Retrieved from: http://www.kmu.gov.ua/kmu/control/uk/publish/article?art_id=246581344 [in Ukrainian].

[7] Holov S.F. (2014). *Regulation of accounting and auditing in the EU and challenges for Ukraine.* Accounting and audit, 10. 3–13 [in Ukrainian].

second group have their peculiarities. They are formed under the influence of decisions of international financial structures (International Monetary Fund, World Bank, etc.). And international professional non-governmental organizations (International Federation of Accountants, International Council on Accounting standards). On the domestic terms, changes in methodology have developed the forms of development and approval by the Ministry of Finance of Ukraine UAS it does not contradict the provisions of the IFRS[8].

It is impossible to assess the progress, consequences and impact on the accounting methodology of the factors of the second group beyond understanding the nature and essence of the globalization of the economy. Knowledge of the causal condition of globalization, both from the accounting scientists and from the practicing accountants, is mandatory. It is connected with the fact that social division of labor and specialization were, is and will remain the basis of scientific and technical achievements. They lead to high levels of concentration of production and at the expense of this – to economy on a conditional-constant expenses, i.e. economy on scale of activity.

The exact idea of an accountant-professional (theorist and practice) about the nature of such economy is important, because the market economy operates in conditions of uncertainty, limited resources and their marginal utility. The limited resources are becoming increasingly threatened.

In research of qualitative features and quantitative parameters of conditions, processes and results of economic reproduction, the priority place belongs to system accounting and reporting.

The accounting transformation was based on and remains the requirements of IFRS, which are developed and renewed for the conditions of a developed market economy.

Ukrainian Accounting standards (UAS) is a systematic list of principles, rules and provisions of methodology, method and organization of accounting, its maintenance, preparation and submission of financial statements that do not contradict the

[8] The strategy of application of international financial reporting standards in Ukraine, approved by the Cabinet of Ministers of Ukraine resolution dated 24.10.2007 (20.04.2022). Retrieved from: http://www.minfin.gov.ua/control/publish/article/main?art_id=293078&cat_id=293063 [in Ukrainian].

International Financial Reporting standards. UAS is a document that regulates only the financial accounting system. Compliance with standards is mandatory. Such a norm appeared as a result of the increased influence on management of the internationalization of the economy.

The opportunities for economic internationalization, despite on the growing impact of its globalization, remained limited. Different accounting rules have become an obstacle to the application of the common principles of calculating indicators that characterize the profit-making of multinational companies from their foreign economic activities and from international economic operations.

Under the influence of international financial structures and international professional organizations (International Federation of Accountants), Ukraine has been actively involved in the process of reforming the national accounting and reporting system.

The essence of the reform was to develop the provisions Ukrainian Accounting standards (UAS) which do not contradict IFRS. The inevitable globalization of the economy is connected with the limited resources used. It makes it difficult to avoid unification of accounting methodology and standardization of financial statements at the international level as a condition of minimization of uncertainty.

Enterprises, proceeding from the international markets of physical and financial capital, should have a system of accounting and reporting that would help to successfully solve the following main problems:

– it is necessary to develop forms of justified, objective, timely and reliable financial reporting, which is based on the requirements of international accounting standards and should promote transparency of the economy and increase of trust on the part of external and internal investors.

– the system of accounting and financial reporting at the national level should facilitate the development and harmonization of tax relations, that is, facilitate the creation and effective functioning of the system of taxation of all business structures, companies and corporations. Accounting and reporting should ensure that the tax system implements a clear, positive and transparent mechanism for its impact on the rational use of scarce resources, organized information and on the minimization of transaction costs. In addition, accounting and reporting should meet the needs of production management and local economy development as much as possible.

The globalization of the economy determines the conditions of the dominant influence on the national economies of global finance. In fact, it provides for the creation of global production, commodity and financial markets, the formation of a system of global governance and its provision, including accounting information[9].

Parallel accounting provides that the enterprise simultaneously accounts for all economic transactions under two systems of standards: for UAS and IFRS (Fig. 3.7).

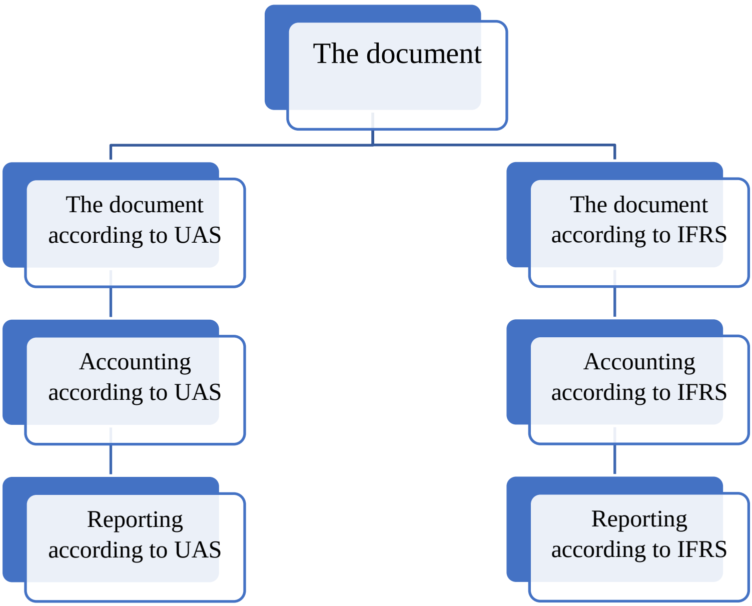

Fig. 3.7. Parallel accounting for UAS and IFRS

For IFRS reporting information systems usually use one of three approaches: parallel accounting, translation or transformation of accounting.

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[9] Kireytsev H.H., Lytvynenko V.S., Mavrina N.Y (2014). *The impact of globalization of the economy on the development of the accounting system in Ukraine*. Accounting and audit, 4. 47–53 [in Ukrainian].

This method allows you to generate IFRS reporting as quickly as users need. The parallel method is appropriate when operational management decisions are made on the basis of IFRS reporting and there is a need for more frequent reporting than monthly or quarterly.

The method of translation of accounting operations involves creation of a subsystem of accounting for IFRS in the software product of the automated system of accounting of the enterprise (Fig. 3.8).

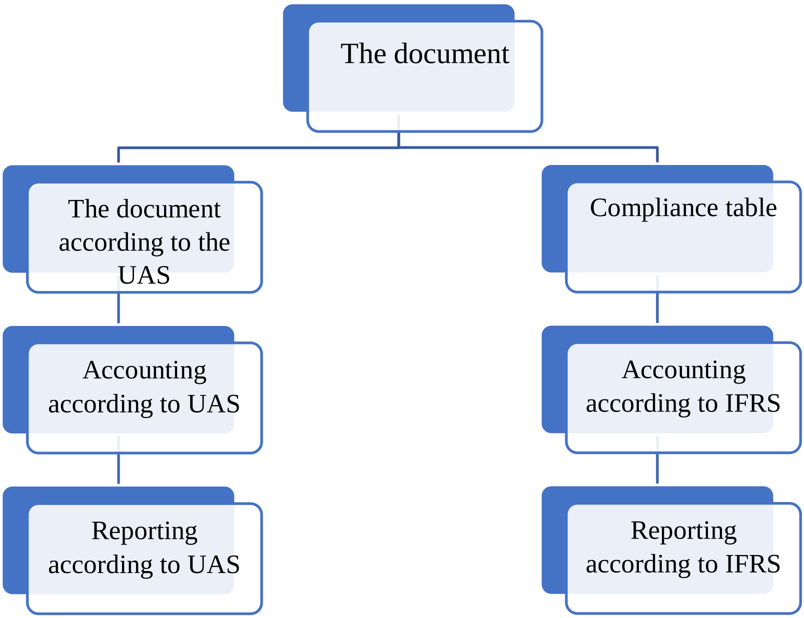

Fig. 3.8. The method of translation of accounting transactions into the IFRS accounting subsystem

Automated accounting is achieved by partial data transmission, which provides that on a separate plan of accounts of the international accounting of wiring are formed in three ways.

1. Conversion (translation) of accounting records according to the rules of the mapping – correspondence between the data of UAS and IFRS, which are specified in the subsystem of the IFRS.

2. Independent accounting for IFRS in separate directions, which are not subject to conversion from UAS and IFRS provide different

approaches to accounting of certain reporting articles with the help of a specially developed functional with the possibility of analysis of movements according to UAS for the period.

3. Operations that do not convert from UAS for which it is not necessary to realize special function. Such operations may be transferred manually. For example, accounting records.

The common method used by it systems is the transformation of financial reporting according to IFRS rules. It consists of a set of accounting and analytical procedures to be implemented on the reporting date. During the transformation, the following steps must be taken:

– to recognize assets and liabilities for IFRS all that has not been recognized as an asset or obligation under UAS.

– do not recognize assets and liabilities for UAS all that was legally recognized as a part of assets or liabilities for UAS.

– update the classification of all financial statements according to IFRS requirements.

– evaluate assets and liabilities in accordance with IFRS requirements, etc.[10]

Each of these methods has a number of advantages and disadvantages. We briefly describe them.

National and international accounting data reporting capabilities. Not all software products that offer parallel accounting are able to provide the accuracy of the national and international accounting data. At the same time, the possibilities of transformation also have certain technical limits, connected with the imperfect instruments used, in particular, Excel tables instead of accounting programs.

Efficiency of reporting. One of the main drawbacks of the transformation is the lack of parallel accounting and provision of necessary information to the management of the company, as well as to other interested persons on an operational basis, that is, in the interval between the reporting dates.

Availability of estimates. Due to the fact that the transformation is a simplified process, another drawback of using this method of reporting according to IFRS is the availability of a considerable

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[10] Salova N. (20.04.2022). *Parallel accounting, translation and transformation.* ACCOUNTANT&LAW, 50-51. Retrieved from: https://bz.ligazakon.ua/ua/magazine_article/BZ010494 [in Ukrainian].

number of estimates and, therefore, higher information risk. The extent of this risk depends on the skills of the performers.

Data granularity and accuracy. The transformation applies exclusively to accounting records, and parallel accounting ensures that IFRS financial statements are prepared on the basis of the respective accounting records made during the reporting period.

Implementation costs. Organization of parallel accounting for IFRS requires significant additional costs from companies (expenses for personnel, software, reorganization of company subdivisions, etc.). In addition, this process requires a long period of time, as it concerns different areas of the company's financial and economic activities. If you choose the method of transformation of the reporting to advantages in comparison with parallel accounting, you can carry low financial and time expenses[11].

Sometimes the software implements a so-called mixed approach, which is characterized by attributes of all the above methods of obtaining IFRS reporting. At the same time:

– the facts of economic activity are recorded by documents of operational accounting, according to which in financial accounting the postings are shown on principles of both UAS, and IFRS, and, consequently, there is no need for double input of information;

– the transaction turnover for UAS and IFRS is calculated using a special report and a table of account matching between IFRS and UAS account plans;

– if necessary, it is possible to form IFRS reporting articles in the way of transformation of the UAS-methods.

From the above it becomes clear that accounting for IFRS can be realized using powerful information systems of management of the enterprise. The modern concept of enterprise management is represented by ERP solutions, usually called ERP-systems.

The purpose of ERP-system is integration of all spheres of enterprise activity into a single information model of data and processes that provides continuous optimization of resources of specific departments and services separately and the whole enterprise together.

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[11] Kamynska Y. *Methods of financial reporting for IFRS: what is better to choose in practice* (20.04.2022). Retrieved from: i.factor.ua/ukr/journals/bk/2012/january/issue-1/article-101700.html [in Ukrainian].

On the software market they are represented with application solutions: SAP S/4HANA, BAS ERP, Microsoft Dynamics 365 for Finance and Operations (AX), it-Enterprise and others.

ERP-systems are oriented on large enterprises, provide automation of management of technological processes and personnel, support work of users, including accountants, through the Internet, in particular, with the use of cloud remote technologies[12]. Quite often ERP-systems are used by international companies, therefore contain accounting tools for IFRS.

Thus, the use of ERP-systems allows to provide efficient operation of accounting service of large enterprises with the possibility of preparing reports according to international standards of financial reporting. At the same time, enterprises can choose the optimal method of forming IFRS reporting, reduce the probability of mistakes in accounting and reporting, reduce labor costs, and thus financial expenses for accounting and reporting, increase business attractiveness for international investors, improve information support of enterprise management.

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[12] *BAS ERP is an innovative solution for building complex information systems of management of the activity of multi-profile enterprises* (20.04.2022). Retrieved from: https://www.bas-soft.eu/soft/bas-corp/bas-erp [in Ukrainian].

SECTION 4
DISCLOSURE OF ACCOUNTING DATA IN FINANCIAL STATEMENTS ACCORDANCE TO THE REQUIREMENTS OF IFRS

4.1. Impact of exchange rate movements on financial reporting

The appropriateness of applying international standards in the system of national accounts and financial reporting remains highly controversial. However, in today's realities, with the clear objective of increasing transparency and clarity in the preparation of financial statements of all domestic economic entities, effectively ensure its comparison with the financial statements of foreign companies, systematic assistance in attracting foreign investment, application of international accounting and reporting standards is important for domestic enterprises engaged in foreign economic activities[1].

During foreign economic activity, in particular, export-import economic operations, each without an exception to this is a mandatory requirement display in the account of exchange differences, which usually arise in as a result of certain discrepancies in exchange rates on the respective date of implementation economic transaction and actual transfer of funds. Today, for a significant strengthening of Ukraine's positions on the modern one there is a clear need for international markets standards of accounting and proper preparation of financial statements, but as to information that should be systematically provided for different potential investors by Ukrainian enterprises as well as other foreign economic entities.

The problem of management of the currency exchange rate directly is rather urgent for many societies, since its corresponding quantitative level and dynamics clearly affect all the economic processes in the country without any significant changes. The study of the issues related to accounting of the influence of constant

[1] Galashchuk S.M. Application of international accounting standards in foreign currencies in the context of reforming the domestic economy. Zbirnyk tez Desyatoyi Vseukrayins′koyi naukovoyi Internetkonferentsiyi studentiv i molodykh vchenykh, prysvyachenoyi vydatnym vchenym v haluzi bukhhalters′koho obliku, finansovoho analizu ta kontrolyu I.V. Malyshevu, P.P. Nimchynovu. Retrieved from http: // eztuir.zdu.edu.ua/id/eprint/3330 [in Ukrainian]

changes in currency rates on financial reporting has been a long-standing and acute discussion among domestic and foreign scientists and practitioners. This issue is devoted to scientific work of many leading foreign scientists, in particular R. Aliber, F. Choy, J. Flayer, L. Lorens, K. Noubs, R. Parker H. Muller. Problems of accounting of economic transactions in foreign currency are devoted to the work of a number of leading domestic scientists – F. Butynets, S. Golub, O. Kolesnikova, R. Tsyhan, T. Demchuk, I. Zhigley, and many others.

The components of the general problem remain unresolved. However, despite on the importance of the results obtained, quite a large part of the questions concerning the method of displaying received information about transactions in foreign currency directly in the financial statements for today remain unresolved and require further research[2].

In its economic essence, all currency transactions in the majority are rather complex, with a rather high risk level and a variety of forms of implementation.

It should be noted that referring to the norms of legislation in the field of currency regulation and control should be allocated the concept of currency transactions, while the normative documents used for accounting of such term do not apply at all.

In Ukraine in economic literature, if you take currency transactions, they are quite often related to transactions in foreign currency, and as a result, the rules of Ukrainian Accounting standards 21 of such transactions apply as a rule 21 “Influence of currency rates change”.

The problem of currency exchange rate management is rather urgent for many societies, because its quantitative level and its dynamics significantly affect all economic processes in the country without exception. Over the years, there have been lively discussions among leading foreign scientists and practitioners around these important issues, which are related to accounting of the impact of exchange rate alterations on financial reporting.

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[2] Demchuk T.P. Accounting of currency differences at the enterprise in carrying out operations with foreign currency. *Visnyk Chernivetskoho torhovelno ekonomichnoho instytutu. Ekonomichni nauky*. Retrieved from http://nbuv.gov.ua/UJRN/Vchtei_2009_4_42 [in Ukrainian]

It is quite important today to highlight various problems related to the accounting of the influence of alterations of the currency exchange, effective ways of their solution in international practice, and detailed analysis of the respective methods of currency conversion of the main indicators of financial statements of the business units into the reporting currency of the leading company[3].

In international accounting practice, such a process, in which the relevant financial data, usually expressed in one currency, should be transferred to another currency, is considered to be a currency conversion or translation. The need for such a currency translation is caused by different reasons, in particular:

– a significant need for registration of the respective currency transactions to the accounting records and their constant reflection in the financial statements of a certain business entity;

– the considerable necessity of compiling corresponding consolidated financial reports by the main company, which includes foreign economic units, which carry out accounting processes and make reports in monetary currencies, which are somewhat different from the reporting currency of the leading company;

– timely submission of financial statements in the respective currency, which is somewhat different from the corresponding currency of the reporting, for greater convenience of foreign users of information.

All assets and liabilities of any enterprise are always transferred to the reporting currency using the direct current exchange rate (i.e. the corresponding rate on the balance sheet date). Also, monetary articles concerning the section "own capital" must be transferred. Historical exchange rates are applied to other important indices of own capital except for undistributed profit, for example, for registered capital – a rate is taken on the date of formation (subscription to shares), for withdrawn capital – a rate is taken on the date of redemption of shares of own emission, for reserve capital – a

[3] The Law of Ukraine "On Accounting and Financial Reporting in Ukraine". Retrieved from http://zakon2.rada.gov.ua/laws/show/996-14 [in Ukrainian]

rate is taken on the date of payment to it[4].

IAS 21 allows to apply a course that is as close as possible to the actual currency exchange on the immediate date of the economic operation, for example, where the medium one is ahead of it. However, as the practice of applying the average rate shows, it is not acceptable in certain cases of its significant fluctuation during the analysed period or some small number of irregular economic operations.

Articles on the foreign currency balance sheet may be transferred to the currency of the company's accounts, depending on whether this article is monetary or non-monetary (Table 4.1).

Table 4.1

Recounting of certain balance articles in foreign currency

Articles in foreign currency	Currency exchange rate used for recalculation
Monetary articles of balance	The currency exchange rate on a certain balance sheet date (course closed) – or spot-course
Non-monetary balance sheets, reflected in their historical cost	Course on the respective transaction date (historical course)
Non-monetary articles of the balance are reflected on their fair value	Currency exchange rate at the time of determining its fair value

The exchange rate difference can be calculated in practice according to the following formula:

$$P_X = C_M \cdot (K_t - K_{t-1}), \qquad (4.1)$$

where: C_M – the corresponding amount of monetary item in foreign currency;

K_t – currency of exchange rate on a certain date of assessment of the monetary article;

[4] Lukashova I.O., Bogoduch O.G. Influence of currency rates changes on financial reporting: accounting problems and ways of solving them in international practice. Retrieved from http: // rusnauka. com/8_DNI_2009/Economics/43206.doc.htm [in Ukrainian]

K_{t-1} – the rate on the relevant date of the preliminary critical assessment of the monetary article[5].

The amount and the corresponding frequency of occurrence of certain exchange rate differences on the economic operation in the foreign currency depends on the fluctuation of the rate and duration of the period of time between a certain date of the economic operation and the final date of calculation on this operation.

There are four common cases of exchange rate differences.

1. An economic transaction in an accepted foreign currency is completed during one reporting period. The exchange rate difference in this case is determined by the difference between the rates on the respective date of the economic transaction and the date of the settlement (i.e. repayment of the debt):

$$P_K = C_M \cdot (K_2 - K_1) \tag{4.2}$$

2. An economic transaction in the corresponding foreign currency, which is carried out in the current reporting period, and a timely calculation of this transaction will be in the next period. The exchange rate difference is due to the difference between the established rates on the respective date of the economic transaction and the balance sheet date (i.e. end of the reporting period):

$$P_K = C_M \cdot (K_3 - K_1) \tag{4.3}$$

3. In this case, the exchange rate is determined by the difference between the currency exchange rate at the beginning of the current reporting period and the corresponding calculation date:

$$P_K = C_M \cdot (K_2 - K_0) \tag{4.4}$$

4. An economic transaction in the respective foreign currency was performed in the previous reporting period, and the proper calculation for this transaction will be in the next reporting period. The exchange rate difference in this case is determined as the difference between the currency exchange rate at the beginning and the end of the current reporting period:

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[5] International Accounting Standard 21 “Influence of currency rates change”. Retrieved from https://zakon.rada.gov.ua/laws/show/929_022 [in Ukrainian]

$$P_K = C_M \cdot (K_3 - K_0) \tag{4.5}$$

According to the generally accepted basic approaches to IAS 21 exchange rate differences related to the monetary articles should be reflected in accounting as income or expenses of the corresponding period in which they occur.

The interpretation of the exchange rate difference clearly depends on the trend of the corresponding currency rate change and the nature of the monetary article (Table 4.2).

Table 4.2

Interpretation of course differences

Change of currency rate	Monetary assets	Obligations
$K_t > K_{t-1}$	Enterprise income	Expenses
$K_t < K_{t-1}$	Expenses	Enterprise income

IAS does not determine in what monetary items of income and expenses should include exchange rate differences. As a rule, there are two generally accepted approaches to a covering the received exchange rate differences in the report on the received profits and the losses incurred[6].

The first such approach is that the respective exchange rate differences are clearly reflected depending on the direct sources of their occurrence, in particular:

– the received exchange rate differences, which are closely related to the operational activity, are included in the corresponding financial results of the operational activity;

– the corresponding exchange rate differences, which are connected with different loans, should be reflected in the composition of financial expenses;

– received exchange rate differences related to income tax are considered as an important component of income tax.

[6] Pomulyaeva V.M. Course differences in accounting and reflected in the reporting. Retrieved from http://eir.zntu.edu.ua/bitstream/ 123456789/1897/1[in Ukrainian]

The second such approach requires that all exchange rate differences be included in the core operational activities or related net financial expenses, without exception. The direct approach chosen by any enterprise to the appropriate reflection of exchange rate differences must be applied consistently.

It is desirable to note that in the process of currency recalculation as a rule three generally accepted types of currency rates are applied on: historical currency rate, exchange rate “closing”, or on other current rate. The use of different exchange rates and their respective combinations in the recalculation of the basic indicators of financial reporting led to the emergence in modern international practice of various methods of currency transmission, which can be classified into two types now[7].

The first very important type of currency transmission according to the generally accepted method is the method of a single rate, or the rate of “closing”. For example, talking about the US, this method is still accepted to be called the current exchange rate method. The essence of this method is that all relevant assets and liabilities of a foreign enterprise are usually transferred to the reporting currency at the rate of “closure”. The received revenues and expenses are transferred at the appropriate rate of “closure” or the average rate for the appropriate period.

The second very important type of currency transmission covers generally accepted methods of several rates according to which different combinations concerning the historical rate and the rate of “closure” are used in the respective currency recalculation. This type combines three main methods: accurate, monetary, non-monetary and time-based.

However, it should be noted that the use of each of these methods of currency recalculation can lead to different exchange rates differences, since these methods are based on different assumptions about what types of relevant assets and liabilities expressed in foreign currencies, influence certain changes in the exchange rate, and on which – not at all. None of these methods of currency recalculation of financial statements is absolutely perfect and has

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[7] Ukrainian Accounting Standard 21 “Influence of currency rates changes”. Nakaz Ministerstva finansiv Ukrayiny No. 193 vid 10.08.2000 r. Retrieved from https://zakon.rada.gov.ua/laws/show/z0515-00 [in Ukrainian]

some drawbacks. So, if we take the exact-not-precise and monetary-non-monetary methods, they have absolutely identical drawbacks.

Firstly, both methods are based on the classification of accounting objects according to certain criteria. At the same time, it remains ungrounded question why such a division with regard to financial reporting articles should determine which rate should be applied at the recalculation, because the currency recalculation is directly related to the valuation, not to the corresponding classification. Characteristics of available assets and liabilities, which determine their direct classification in financial statements, do not necessarily have to be suitable for a certain choice of appropriate fixed rates for currency transmission.

Secondly, it is in the monetary and non-monetary method that the monetary revaluation of non-monetary relevant articles of the balance sheet at the historical rate will have some meaning only if they are reflected in the balance sheet at historic cost, not at justice one.

The main disadvantage with regard to the method of "the closing rate" is that the use of the exchange rate at the appropriate date of the financial reporting when translating assets of a certain foreign unit, clearly estimated at historical cost, may result in the receipt of unsubstantial values that do not reflect historical, as well as the current value of these assets. At the same time, some advantages of this method are its accessibility and simplicity, as well as the fact that at its clear application there are no violations of the initial financial results and corresponding relationships between economic indicators recorded in the financial statements of the foreign economic unit[8].

The effective Ukrainian Accounting standards 21 clearly provides for the use for currency recalculation of financial statements concerning foreign economic units of the defined method of the rate of "closure" and according to the time method, and the current instruction on the procedure of drawing up and publishing financial statements of banks of Ukraine – only the method of exchange rate "closure".

[8] Strategy of application of international financial reporting standards in Ukraine. Retrieved from http: //minfin.gov.ua. [in Ukrainian]

Currently existing differences between certain requirements of domestic normative acts and IAS 21 require immediate carrying out of further researches of important issues, which are connected with currency revaluation, with a clear purpose of thorough scientific substantiation in the part of expediency of introduction of changes in Ukrainian Accounting Standards 21.

Clearly, the undervalued exchange rate does not contribute to economic growth at all. Favorable and stable for economic growth the level of the real exchange rate should be estimated at the deviation of its actual received values from the values that correspond to the real level of economic development of the country, and its constant growth is economically justified and will not, as a rule, have negative consequences only if the country is when it clearly corresponds on the one hand, the corresponding change in the ratio of real inflation rates in countries, and on the other hand, the corresponding dynamics of economic indicators of the real modern economy, in particular, the current rates of growth of labor productivity. The issue is topical and connected with the influence of the exchange rate on the financial statements of the enterprise, cannot be considered completely solved. This can be evidenced by the corresponding shortcomings, which are peculiar only to the methods of currency recalculation.

If you talk about international practice, there is no difference between currency transactions and transactions in foreign currency, as the generally accepted term "Foreign Currency Transactions" clearly combines these two concepts.

Therefore, it is absolutely possible to apply the international standard IAS 21 "Influence of changes in currency rates", on the direct basis of which was developed by the domestic Ukrainian Accounting Standards, it is for accounting of currency transactions of enterprises.

An operation in foreign currency is such an operation, a certain amount of which is marked in foreign currency or which requires settlements only in foreign currency. In particular, economic transactions in foreign currencies exist when the enterprise:

– buys or sells its goods (products, works, services), the price of which is specified exclusively in foreign currency;

– provides or receives a loan under which a certain amount, which is subject to timely receipt or payment, is also marked in foreign currency;

– becomes such a party to the unfulfilled currency contract;

– otherwise, when it buys or sells the relevant assets or accepts or repays its obligations, which are indicated by foreign currency.

The accounting of foreign currency transactions, both in Ukraine and abroad, contains four key aspects:

– initial display of economic operation (debt occurrence);

– display of relevant articles in foreign currency in the balance sheet of the enterprise at the reporting date;

– recognition of relevant exchange rate differences;

– timely display of payments in foreign currency on the date of repayment of debts.

Taking into account the history of the creation of IAS 21, it takes its beginning in 1977, when the preliminary corresponding draft E11 "Accounting of currency operations and transfer (translation) of foreign financial statements" was approved[9].

The document was carefully considered and approved in July 1983 in the form of the standard, and the last revision of it took place already in 2003 and from 01.01.05 in the new edition of International Accounting Standards 21 entered into force.

The change in the part of the revision of the standard has caused certain changes in its terminology. First of all, this standard operates with such a concept as "functional currency", i.e. as the currency of the main, important economic environment, in which the business entity carries out its production activity – in which it basically generates and spends money on purpose.

In addition, the term "filing currency" practically replaced such term as "reporting currency".

By international standards, it is the functional currency that does not necessarily have to be the currency of submission, and thus the business entity can afford to submit its financial statements in any currency. Foreign currency is a currency other than the functional currency of any business entity.

As a result, the translation of various currency transactions takes

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[9] Tymchyna L.I., Sybirova A.J. Impact of currency rates change on financial reporting. Retrieved from http: rusnauka.com/8_NND_2011/Economics/7_81538.doc.htm [in Ukrainian]

place exactly with the transition of foreign currency into a functional currency, and not in the currency of the submission. Despite on the fact that the current Ukrainian Accounting Standards 21 has been developed clearly according to international standards, however, there are still some differences between it and IAS 21 in the respective approaches, which are rather relevant for certain researches in view of significant changes in the law of Ukraine "On accounting and financial reporting in Ukraine", which provide for gradual transition to international standards of accounting, namely public joint stock companies, banks, insurers, as well as relevant enterprises. The list of which is regulated and defined by the Ukrainian Cabinet of Ministers.

According to the current IAS 21, each enterprise has an exclusive right to use its functional currency to simplify the direct accounting and analysis process for international transactions.

However, the international standard practically does not use the term "reporting currency", replacing it with such definition as "presentation currency".

In international accounting practice, such a process whereby the relevant financial data expressed in one currency are transferred to another currency is called a currency conversion (translation). The necessity of currency translation is conditioned by nothing else as different reasons, such as:

– the need to register various currency transactions to the account of accounting and timely and full reflection of them in the financial statements of the subject of economic activity;

– the necessity of compiling the corresponding consolidated financial reports by the parent company, which includes some foreign economic units, which clearly maintain accounting and compile financial reports in currencies that differ somewhat from the reporting currency of the parent company;

– timely submission of financial statements in the respective currency, which is somewhat different from the reporting currency, but for greater convenience of available foreign users of information.

It should also be noted that although the above reasons are common for domestic practice, such a useful term as "broadcasting" is practically not used. The process of transmitting foreign currency transactions in the current international practice is being transformed into:

– the corresponding translation of currency transactions is the transfer of operations expressed in foreign currency into the direct functional currency of the business entity;

– the corresponding translation of the currency statements is the transfer into the direct functional currency or into a certain currency of submission of the articles of the financial statements of the enterprise on the balance sheet date.

The main instrument, which is often used to recalculate all financial data directly from one currency to another, is a fixed exchange rate, which is often viewed in international practice simply as an average exchange rate of two different currencies. If the established exchange rate was basically always stable, the direct translation process would always be reduced to elementary simple mathematical action without unnecessary accompanying procedures. However, the current exchange rate is constantly fluctuating, and this definitely causes significant accounting problems, which are connected with the corresponding peculiarities of application of a given rate namely (market or officially established; as well as the spot rate or, respectively, the "closing" or middle rate, etc.) to directly assess the transaction and to establish a problem with clear indication on the respective accounts and in the financial statements of the results of the corresponding fluctuations of the exchange rate (exchange rate differences) [10].

The process of currency transmission is usually necessarily accompanied by an important question, how to reflect the received profit and losses directly from the currency recalculation (exchange rate differences) in the reporting. The corresponding recounting of all assets and liabilities of the respective enterprise in the established currency of accounts should be carried out exactly with the help of the established current exchange rate (i.e. exchange rate on the balance sheet date). It is also necessary to list the relevant monetary articles in the section "own capital". All other indicators concerning own capital only with the exception of undistributed profit should

[10] Cherednyk T. Impact of currency rates changes in the international accounting system. Retrieved from http://konf.amsfo.com.ua/vpliv-zmin-valyutnix-kursiv-v-mizhnarodnijsistemi-obliku-msbo-21 [in Ukrainian]

apply historical exchange rates, for example, with respect to authorised capital – take the exchange rate as of the date of formation (namely subscription to shares), with respect to withdrawn capital – take the rate as of the date of redemption of shares of their own emission, as for reserve capital – take the course on the date of direct payments to it.

According to IAS 21, it is allowed to apply a rate that is almost close to the actual exchange rate at the date of the economic transaction, for example, the average rate. However, if the average exchange rate is applied, it is unacceptable in direct cases of its substantial fluctuations during a certain period or a rather small number of irregular economic operations.

The articles of the given balance sheet in foreign currency are necessarily and timely transferred to the corresponding currency of the enterprise's accounts, but depending on whether this item is monetary or non-monetary.

It is clear that one of the basic principles regarding the full reflection of economic transactions in foreign currency remains the rule of the corresponding recalculation of such economic transactions in hryvnias at the established rate of the NBU. It means, at the initial recognition of the performed economic operation in a foreign currency, to reflect this operation in the accounting. This foreign currency must be transferred immediately in UAH at the established rate of NBU on the appropriate date of such operation.

At the same time, it is very important to remember that the fixed exchange rate, at which a certain amount in foreign currency is transferred to the hryvnia, is nothing more than the NBU rate. According to paragraph 4 current Ukrainian Accounting Standards 21, "the currency exchange rate is set by the National Bank of Ukraine the rate of the national currency unit of Ukraine to the currency unit of another country". Thus, it is possible to say that transactions in another currency should be transferred to the hryvnia only at the established rate of the NBU.

The use of the interbank fixed exchange rate of Ukraine is possible only for the clear calculation of the corresponding income or expenses from purchase or sale of a certain currency. The direct measurement and accounting of the established exchange rate differences, which can occur during each transaction without removal of the currency transaction, are rather complicated and require a clear registration and a significant number of relevant accounting transactions.

The exchange rate differences that arise directly from the respective results of the activity of the interconnected economic entities can also be formed at the expense of the following: the exchange rate differences from the performed intra-group operations, as well as exchange rate differences from the performed independent operations of the connected and related enterprise.

According to the article 137, paragraph 137,5 of the current Tax Code of Ukraine (thereafter referred to TCU) is required to establish an annual tax (reporting) period. For tax payers, this reporting period is a calendar year for the systematic preparation of financial statements. If we take interim financial statements, it can also be made quarterly, namely, by an increased result: that is, by the results of the first quarter passed in the first half, or nine months.

Recently, a rather active modern implementation of foreign economic activity of economic entities is being monitored, which can definitely lead to exchange rate differences very quickly. In order to maintain timely and correct accounting and to accurately reflect in financial statements the results of their active influence on the respective position of the business entity, it is necessary to define in the accounting policy of the enterprise all possible nuances in accounting of exchange rate differences in order to avoid so-called “underwater stones” during the preparation of reports. In order to properly form an integral idea of the active influence of exchange rate differences on certain articles of financial statements, the accounting service of the business entity should be clearly defined with the direction of exchange rate differences and the appropriate method of their clear reflection in financial statements (by each business transaction, or systematic accumulation during a certain reporting period).

4.2. Notes to the financial reporting in accordance with IFRS

The issue of providing users of different groups with quality financial reporting is relevant for both the scientific community and practitioners (international and national professional organisations of auditors and accountants). The basic component of the process of ensuring the quality of financial reporting is compliance with the requirements of international accounting and financial statement standards.

Reporting is the final stage of data processing in the accounting system and their presentation to a wide range of users. The whole complex of reporting indicators is the basis for making appropriate management decisions and allows to determine the strategy, goals and results of the enterprise performance, assess existing and potential opportunities.

Among all types of reporting, the most interesting for users in terms of meeting information needs is financial statement – "accounting statements containing information on the financial condition, performance and cash flow of the enterprise in the accounting period".

Financial statement reflects the significant aspects of the financial and operating activities of the enterprise, provides objective, reliable and relevant information to users for making effective management decisions.

Increasing the role of financial statement is the result of expanding the scope of subjects of enterprise management, that is, subjects having the right to make investment and other business decisions based on financial statement data. The very motivation to attract foreign investment caused at one time the need to introduce international standards. Alternatively, modern conditions for the development of economic relations require an increase in the role of financial statement in enterprise management, and accordingly, the requirements for the quality of reporting information are increasing.

IFRS financial statement includes a different number of reports regulated by the rules or standards of the respective countries. In different countries, the structure of reporting forms is different even within the same country (Table 4.3).

Table 4.3

Composition of financial reporting forms in foreign countries

Country	Financial statement forms
USA	balance sheet, income statement, cash flow statement, retained earnings statement, capital statement and notes to the financial statements.
Germany	balance sheet, income statement, cash flow statement, owner's equity statement, notes to them.
The UK	balance sheet, income statement, cash flow statement, notes.
Canada	balance sheet, income statement, cash flow statement, retained earnings statement, capital statement and notes to the financial statements.
Italy	balance sheet, income statement, cash flow statement, capital flow statement, company president's report, comments on the reports (notes), etc.
Japan	balance sheet, income statement, notes.
France	balance sheet, income statement, notes
Portugal	balance sheet, income statement, cash flow statement, notes.

Source: based on[1]

Therefore, according to the table, it can be concluded that there is a single set of mandatory reports that include a balance sheet, a consolidated income statement and notes. in substantiation of whereof, foreign scientists V. Fenyves, Z. Bashcha, Z. Zéman, E. Böcskei and T. Tarnóczi noted the following: so that companies can grow steadily and create value in conditions of sustainable economic growth and, thus, increase wealth. It is important for them to know the key features and performance of partner companies. The main sources of information about the activities of partner companies are the financial statement and notes to the financial statement[2]. The researchers emphasise the role of the notes to the annual financial statements in managing the enterprise value, since they reveal the defining features of the accounting organisation system, allowing to

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[1] Normatyvno-metodychne zabezpechennia bukhhalterskoho obliku v umovakh zastosuvannia mizhnarodnykh standartiv finansovoi zvitnosti / za zah. red. L. H. Lovinskoi.. / Kyiv: DNNU “Akad. fin. Upravlinnia”, 2013. / 294 p. (in Ukrainian).

[2] The role of the notes to the financial statements in corporate decision making / [V. Fenyves, Z. Bács, Z. Zéman та ін.] .//Corporate Ownership & Control./2018./Pp. 138–148. (in Ukrainian).

understand the initiatives and plans of the company on the main factors of formation and reduction of its value and liquidity.

In accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" Notes to financial statements are considered as a set of indicators and explanations that provide detail and validity of financial statements, as well as other information, the disclosure of which is provided for by the relevant national accounting regulations (standards) or international financial reporting standards.

According to IAS 1 "Presentation of Financial Statements" The notes contain information in addition to that presented in the statement of financial position, consolidated income statement, separate income statement (if presented), statement of changes in owner's equity and cash flows statement. The notes provide descriptive explanations or a more detailed analysis of items presented in these financial statements, as well as information about items that do not qualify for recognition in these statements.

The notes are the main source of information about the companies for external users, which disclose all material information that affected the current financial condition and financial results for the reporting period, and is also expected to affect future events. The historical aspects of the origin of the notes to the financial statements and their content were studied by A. V. Ozeran[3], T. H. Marenych[4]. Considering the basic requirements for the preparation of notes to the annual financial statement, the authors indicated that the notes are both, a full-fledged form of financial statements and an appendix to it. Moreover, the main criterion for the quality of notes should be to achieve a balance between their complexity, brevity and broad disclosure requirements.

Notes are a full-fledged form of financial statements, but in fact they are of an auxiliary nature, since they provide users with additional data. Hlav S. claims that "such uncertainty in the legislation allows for the possibility of drawing up notes to the notes

[3] Ozeran A. V. Rol ta zmistovne napovnennia prymitok do finansovoi zvitnosti. SWorld: sb. nauch [Elektronnyi resurs] / A. V. Ozeran // SWorld: sb. nauch. tr.. / 2012. / Rezhym dostupu do resursu: URL:http://www.sworld.com.ua/konfer27/538.pdf. (in Ukrainian).

[4] Marenych T. H. Problemy rozkryttia informatsii u prymitkakh do finansovoi zvitnosti. / T. H. Marenych. // Aktualni problemy innovatsiinoi ekonomiky.. / 2016. / Pp. 54–59. (in Ukrainian).

to the financial statements”.[5]

Disclosures in the notes are provided for in IAS 1 Presentation of Financial Statements. In accordance with the Conceptual Framework, financial statements, together with the notes, prepared in accordance with IFRS, should have fundamental and qualitatively improving characteristics.

The fundamental qualitative characteristics include: relevance; true representation. Quality enhancing characteristics include: comparability; the possibility of verification; expediency; comprehensibility. Fundamental characteristics are mandatory characteristics of high-quality financial reporting information. If the company’s financial statement does not satisfy at least one of them, it cannot be of high quality. Comparability, verifiability, expediency and comprehensibility are designed to enhance the quality of relevant, truthfully represented information.

According to the principle of full coverage, financial statements should contain all information about the actual and potential consequences of transactions and events that may affect decisions taken on their basis.

The information to be disclosed is given directly in the financial statements and notes to them, the mandatory preparation of which as an integral part of the annual financial statements is determined by para. 10 of IAS 1 “Presentation of Financial Statements” and Art. 11 of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”.

Notes to the financial statements, formed in accordance with the main IFRS, should include the following components:

- Basis for the preparation, approval and presentation of financial statements (para. 112 a of IAS 1);
- Specific provisions of the accounting policy (para. 117-121 of IAS 1);
- Significant accounting judgments, estimates and assumptions (para. 122-124 of IAS 1);
- Sources of estimation uncertainty (para. 125-133 of IAS 1);
- New standards (para. 30 of IAS 8);

[5] Holov S. MSFO u formati Minfinu / S. Holov. // Bukhhalterskyi oblik i audyt. / 2013 / No. 4./13 PP. 3-7. (in Ukrainian).

- Reclassification of financial statements and elimination of errors (para. 29.49 of IAS 8);
- Disclosure of information confirming the items presented in the financial statements (para. 112 b of IAS 1);
- Disclosure of other information (para. 112 v of IAS 1).

Notes in accordance with IFRS should be based on facts and the actual state of affairs, and not be an “automatic” consequence of accounting procedures and transactions. The national accounting mindset has left the imprint of “strict documentary” on the entire accounting process, including the preparation of financial reports. This obstacle can be overcome only by changing the role of the accountant at the enterprise, as well as their status and skill level.

The current edition of IAS 1 does not provide for a “summary” statement of significant accounting policies, that is, they must now be disclosed in full rather than briefly. Unfortunately, many accounting policies contain redundant and irrelevant information, as a result, full disclosure of accounting policies in financial statements may look inappropriate. Accordingly, it will objectively disclose at least significant provisions of accounting policies.

In accordance with para. 122 of IAS 1, in the presented significant accounting policies or in other notes, business entities are required to disclose information about the judgments (other than those related to preliminary estimates) that management personnel used in the process of applying the entity’s accounting policies and that have the most significant influence the amounts recognised in the financial statements.

In accordance with para. 125 of IAS 1, disclosures are required about management’s assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period that pose a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year. Assumptions and other sources of estimation uncertainty disclosed relate to preliminary estimates that require the most difficult, subjective or complex management judgments.

Disclosure in the Notes to the Financial Statements of accounting policies, estimates, judgments and assumptions is required by almost all existing IASs and IFRSs.

According to IAS 1 Presentation of Financial Statements, the notes should: provide information about the basis for the preparation of the financial statements and about the specific accounting policies applied in the preparation of the financial statements and are relevant to an understanding of the financial statements; disclose information required by IFRS that is not presented in the financial statements; provide information that is not presented in the financial statements but is relevant to understanding them.

IAS 1 requires the formation of the Notes in the appropriate order (para. 114) to help users understand the financial statements and compare them with those of other entities.

Considering that some Ukrainian enterprises submit statements in accordance with IAS 1, making them public, the Notes require formalisation in a consistent tabular form for the purpose of its comparability and the possibility of processing by users using computer programs.

The current information needs of users follow the need to establish boundaries for the information that should be included in the notes to the financial statements:

1) the information disclosed in the notes should be linked to the primary financial statements;

2) the information in the notes should focus on past transactions and other events that existed at the reporting date; forward-looking information that is not related to the reflection of elements in the primary financial statements is not included in the notes;

3) information presented in the notes to the financial statements should relate to a specific reporting entity.

The data presented in the Statement of Financial Position at the end of the reporting period, Income Statement and Other Consolidated Income for the period (or separate Income Statement and Statement of Other Consolidated Income if two separate statements are required by Accounting Policy), Statements of changes in equity for the period, Cash flow statements for the period must be cross-referenced to any related information in the Notes to the financial statements prepared in accordance with International Financial Reporting Standards.

Information that is not required by accounting and financial reporting standards is not subject to disclosure in the notes to the financial statements.

We support the viewpoint of A.V. Ozeran, that all relevant information that may appear in the notes to the financial statements should be grouped by type of user needs:

1. Detailing the items of primary financial statements in order to make them more informative.
2. Description of the essence of items of primary financial statements.
3. Explanation of the conformity of the items of the main activity of the enterprise given in the main financial statements and its financial structure.
4. Information on accounting methods and accounting estimates used[6].

As Marenych T.H. notes[7] there are cases when the notes are very short, formulaic, uninformative, contradictory, not meaningful. We agree with the opinion that information essential for understanding and evaluating performance is sometimes not disclosed at all in the text part of the notes to the annual financial statements. Of course, the quality and informational value of such notes is not very high. This is the result of the accountant's formal approach to the performance of his duties and negatively characterises the management of the enterprise.

Among the main reasons for the reluctance of Ukrainian enterprises to more fully disclose information about their activities in reporting, including in the notes: competitive activity, high costs of reporting, as well as a low culture in matters of corporate ethics. Most economic entities do not pay due attention to information disclosure issues and do not consider this practice as an important component of communication with stakeholders. In particular, stakeholders interested in using international standards, that is the basis for the quality level of economic transformations in the field of financial, accounting and auditing development prospects, which is a simultaneous improvement in reporting in accordance with transparent terms of cooperation.

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[6] Ozeran A. V. Kontseptsiia rozkryttia informatsii u prymitkakh do finansovykh zvitiv / A. V. Ozeran. // Visnyk ZhDTU. // 2015. / No. 4 (74). / PP. 35–42. (in Ukrainian).

[7] Marenych T. H. Problemy rozkryttia informatsii u prymitkakh do finansovoi zvitnosti. / T. H. Marenych. // Aktualni problemy innovatsiinoi ekonomiky.. / 2016. PP. 54–59. (in Ukrainian).

The study of the norms of national and international legislation regarding the regulation of the formation and presentation of financial statements made it possible to conclude that the main reasons that led to the difficulties in the formation of notes to financial statements, reducing their relevance and comprehensibility, include:

– increasing disclosure requirements by standard setters to increase transparency in financial reporting, as it is believed that more information will prevent financial crises. Notes are considered as a means of compensating for non-compliance with the principles of recognition and measurement, and not a footnote to the original financial statements;

– the complication of business transactions, which entailed an increase in the requirements for financial reporting and guidance in it of a wider amount of information;

– the complexity of the practical application of professional judgment regarding the materiality of the information to be disclosed;

– choice by compilers and auditors of reporting and regulatory bodies of the approach "checklist" of requirements, etc.[8]

The forms of financial statements are the Standard Form of Financial Statements No. 5 "Notes to the Annual Financial Statements", approved by Order of the Ministry of Finance dated November 29, 2000 No. 302. Notes are submitted in accordance with para. 7 of Order No. 302 by all enterprises, except for banks, budgetary institutions, representative offices of foreign business entities, legal entities that, in accordance with Law No. 996, are recognised as micro-enterprises, small enterprises, non-entrepreneurial societies, enterprises that maintain simplified income accounting and expenses in accordance with tax legislation, and enterprises that, in accordance with the legislation, prepare financial statements in accordance with international financial reporting standards. Standard form of financial statements No. 5-ds "Notes to the annual financial statements", approved by order of the Ministry

[8] EFRAG, FRC та ANC. Towards a Disclosure Framework for the Notes: Discussion paper [Electronic resource]. – Access mode: http://www.efrag.org/files/ProjectDocuments/PAAinE%20Disclosure%20Framework/121015_Disclosure_Framework_-_FINAL1.pdf. (in Ukrainian).

of Finance dated November 29, 2017 No. 977, is used by accounting entities in the public sector, which, in accordance with the law, prepare financial statements in accordance with national regulations (standards) public sector accounting.

For enterprises that prepare financial statements in accordance with international financial reporting standards, separate forms of notes to financial statements are not established.

In accordance with paragraph 7 of IAS 1 "Presentation of Financial Statements", the notes to the financial statements contain information in addition to that presented in the statement of financial position, income statement(s) and other consolidated income, statement of changes in equity and cash flow statement. The notes provide descriptive explanations or a more detailed analysis of items presented in these financial statements, as well as information about items that do not qualify for recognition in these statements. Applicants of IFRS use a self-developed form, taking into account the requirements of IAS 1 "Presentation of Financial Statements".

In due course NKCPFR provided a Certificate on the preparation of notes to financial statements prepared in accordance with IFRS. It can be used by participants in the paper market.

Therefore, if the financial statements are prepared in accordance with international standards, then the notes to the financial statements may be presented as part of the financial statements as an appendix in an independently chosen form (written explanation, table, graph, etc.).

In international practice, the Notes to the financial statements are the most important component of the reporting information of any enterprise. Indeed, it is by virtue of them users can obtain detailed information about the results of the enterprise's management and determine the level of investment attractiveness of the latter.

At the same time, international financial reporting (accounting) standards do not formalise the Notes in any way, but only fix the general requirements for the information that should be disclosed in them.

The dynamics of changes in the requirements for domestic forms of financial reporting in recent years demonstrates a tendency to adapt them to IFRS regulations. The most characteristic features of financial statements according to international standards are the focus on accounting for resources rather than property, the use of net estimates instead of gross estimates, the departure from the concept of historical cost and the active use of fair market value, etc. This approach creates the opportunities for more adequate disclosure in the notes to the financial statements of an enterprise of information about assets, equity and liabilities. The information disclosed in the notes should be related to the primary forms of financial statements and focused on past transactions (other events) that existed at the reporting date. Forecasting information that is not related to the display of elements in the main financial statements is not displayed in the notes.

Disclosure issue in the IFRS Notes emerges globally. A kind of conflict of interest takes place here: standardisers seek to meet the growing information needs of users and detail the requirements for information disclosure, and accountants form an unreasonably large volume of notes that users almost professionally cannot understand. When forming reporting information in the Notes, it is advisable to disclose it in such a way as to achieve maximum comprehensibility (appendix such as graphs and tables that enhance the perception of information in financial statements). The quality criterion for the notes to the financial statements should be a balance between their brevity and excessively detailed data to be disclosed. In addition, information disclosure in the Notes to the financial statements under IFRS directly at the enterprises is possible only if there are specialists with relevant knowledge. This also applies to specialists working for state and independent regulatory bodies, who will be entrusted with monitoring the correct application of standards and the reliability of financial statements data.

4.3. Events after the reporting period and their impact on reliability of information

The activity of the economic entities are carried out nowadays in difficult and unpredictable crisis conditions. However international financial and commodity markets continue their functioning in Ukraine and the activity of economic entities becomes more focused on attracting of investments. And the key to success, probably one of the most important, is the reliable financial statements. Financial reporting according to international standards (IFRS) for the most of companies are today the commonplace. IFRS-reporting is focused on disclosure of the real state of affairs of the enterprise on the relevant reporting date, which will improve the quality of business management and protection of interests of owners, investors and creditors. However, the key users need not only to receive the information about the current state of affairs of the economic entity. Information included in the financial statements should represent the nearest perspectives and reduce certain uncertainties for users (for example, for investors – concerning the expediency of fund investing in development and growth of the enterprise – object of investment, for potential creditors – concerning making a positive decision to grant the loans or credits, etc.). Usefulness and value of financial data consist in providing the users, who make economic decisions, with opportunities to assess not only the past and current events, but also the future events or events that have already occurred after the end of the reporting period. Practice of preparation of financial statements confirms that a lot of time passes between the reporting date (31 December) and the date on which the reporting is completed. For example, according to the legislation of Ukraine, all the companies, regardless of their classification group (micro, small, medium, large) and regardless of whether the conducting of audit of financial statements is required, submit the financial statements for the year 2021 to the State Statistics Service Of Ukraine not later than 28 February 2022 (paragraph 16, point 2 of Resolution of the Cabinet of Ministers of Ukraine dated February 28, 2000 No. 419 “On approval of The Procedure for submitting of financial statements” (hereinafter – Resolution No. 419[1]). In this period all the companies without exception submit two forms – Statement of Financial Position and Profit and Loss Statement. The large companies, non-issuers, which prepare their financial statements according to IFRS, submit them no later than on 1 June, and PJSC – no later than on 30 April. So of course, during this period of time between the date of the end of reporting period and the date of submission of reporting (as well as the date of its publication on websites, when the most of users get free access) in the activity of enterprises occur many events that can affect the financial and property position and often lead to revaluation of the facts of economic activity, which are disclosed in the financial statements for the reporting period. If such events are not disclosed or described in financial reporting, information loses its relevance. It leads, as we mentioned above, to the fact that users will not be able to make reasonable (adequate) conclusions and forecasts for further development of companies.

Some events, including uncertainty and challenges, caused by the COVID-19 pandemic and the general situation in the country in wartime may be extremely significant. However, there are some events, which due to their content and valuable or quantitative characteristics will have limited impact. That is why it is necessary to disclose the information about the most significant events, which occurred after the reporting period. Some of these events may require the adjustments of indicators in not yet approved financial statements.

Realities of practical activity of managers, accountants of companies, particularly in Ukraine, confirm the facts of ignoring of the necessity to disclose the events in the financial statements (as noted above, it is just about the significant ones) that occurred after the reporting date. Some scientists, in particular Serhii Rohoznyi[2], explain this by the absence of separate national accounting standard. So indeed among the Standards of Accounting of Ukraine a few

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[1] Cabinet of Ministers of Ukraine (2000). Pro zatverdzhennja porjadku podannja finansovoji zvitnosti [On approval of the procedure for submission of financial statements]. Retrieved from: https://zakon.rada.gov.ua/laws/show/419-2000-%D0%BF#Text (in Ukrainian).

[2] Rohoznyi S. Koryhuiuchi podii finansovoi zvitnosti pislia zakinchennia zvitnoho period. [Adjusting events of the financial statements after the end of the reporting period]. *Visnyk IFRS*. Retrieved from: https://msfz.ligazakon.ua/ua/magazine_article/fz000627. (in Ukrainian).

paragraphs in UAS 6 “Corrections of Errors and Changes in Financial Statements“[3] are devoted to regulation of this issue. However, there is the separate IAS 10 “Events after the Reporting Period” (hereinafter IAS 10)[4] in the list of international accounting standards. In addition, the accountant of the company, in which the accounting is conducted in accordance with UAS, by disclosing of information in the form 5 “Notes to the Annual Financial Statements” in approved form will not be able to disclose information about subsequent events in a separate special section because of its absence.

IAS 10 defines the conditions under which an economic entity should adjust the financial statements in connection with significant events that occurred after the end of the reporting period. The standard also defines the content of information about such events and approaches to its disclosure in the financial statements before their approval and publication. IAS 10 defines the essence of events after the reporting date as facts of economic activities that affect or may affect financial position, cash flows or results of activities of the company and took place during the period between reporting date and the date of signing of the accounting reports for the reporting period. As follows from this definition, the period in which events may occur after the reporting date, is limited by two dates: the reporting date (last day of the reporting period: 31 December) and the date when financial statements are considered as complete and there is already an intention to submit them to the appropriate authority. Reporting date is traditionally considered the day as of which the company prepares its reports. In Ukrainian accounting, as in the west one, the reporting date is the last day of the reporting period. So, if the reporting year covers the time from 1 January to 31 December, the reporting date should be 31 December of each year.

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[3] Polozhennya (standart) buhalterskoho obliku 6 “Vypravlennia pomylok i zminy u fi nansovyh zvitax”. Zatv. nakazom Ministerstva fi nansiv Ukrainy vid 28.05.1999 No. 137 (zi zminamy ta dopovnenniamy) [Accounting Provision (Standard) 6 “Correction of errors and changes in fi nancial reports. Approved by the Directive of the Ministry of Finance of Ukraine from 28.05.1999 No. 137 (with amendments and additions)]. Retrieved from http://zakon3.rada.gov.ua/laws/show/z0392-99. (in Ukrainian).

[4] Mizhnarodnyi standart buhalterskoho obliku (IAS) 10 “Podii pislia zvitnoho periodu” [International Accounting Standard (IAS) 10 “Events after the Reporting Period”]. Retrieved from https://zakon.rada.gov.ua/laws/show/929_024#Text. (in Ukrainian).

It is worth to note that among the International Standard on Auditing (ISA) there is ISA 560 “Subsequent Events”[5] (hereinafter – ISA 560). In this standard, subsequent events are defined as events that occur between the reporting date and the date of the audit report and the facts that become known for the auditor after the date of the audit report. Thus, the auditors unlike accountants focus on events occurring between the date of the financial statements and the date of audit report and their impact on the financial statements, if any. Given that the date of the auditor’s report fixes the time when the auditor assures the users of the audit report that he has considered the impact of events and transactions about which he knew and which occurred before this date. However, after the date of the auditor’s report before the date of publication of financial statements may also take place the events which the accountant of the company will disclose properly, if necessary, in the financial statements. It means that the time frames within which the auditor and the accountant consider the impact of subsequent events on the financial statements are slightly different, for the latest one they are wider. ISA 560[6] gives recommendations to the auditor regarding the cases when after signing of the auditor’s report and before the official publication of financial statements some fact becomes known that can significantly affect the financial statements of the client company, the auditor determines if there is a necessity of amending of the financial statements and auditor’s report and discusses this issue with management of the client company. If the management of the company makes changes in the financial statements, the auditor will make adjustments to the results of the audit in accordance with the requirements of ISA 560. If the management of the client’s company doesn’t make changes in the financial statements, but the auditor considers that it is necessary, then the auditor will modify his opinion in the auditor’s report. In the case that the auditor’s report has

[5] Mizhnarodni standarty kontroliu yakosti, audytu, ogliadu, inshoho nadannia vpevnenosti ta suputnih posluh: chastyna 1 [International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services: Part 1]. Kyiv: International Federation of Accountants; Auditor Chamber of Ukraine, 2016-2017. (in Ukrainian).

[6] Mizhnarodni standarty kontroliu yakosti, audytu, ogliadu, inshoho nadannia vpevnenosti ta suputnih posluh: chastyna 1 [International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services: Part 1]. Kyiv: International Federation of Accountants; Auditor Chamber of Ukraine, 2016-2017. (in Ukrainian).

already been submitted to the client, but the auditor gets to know the facts of significant subsequent events, he must inform the management of the client's company, which is responsible for publication of financial statements, about the inadmissibility of publication without adjusting of financial statements. If the financial statements are published nevertheless unchanged, the auditor should take measures and inform their users about it in accordance with the requirements of ISA 560. So, in accordance with the requirements of IAS 10 the accountant or managerial staff of the economic entity becomes the task to adjust the financial statements concerning the events after the reporting period (if necessary) and determine which information should be disclosed by the economic entity on the date of approval of the financial statements before the issue and about the events after the reporting period. Consequently, the auditor has slightly other purposes other than the company's accountant concerning assessment of the subsequent events: to check the disclosure of events after the reporting period exactly on the date of issue of the report (Fig. 4.1).

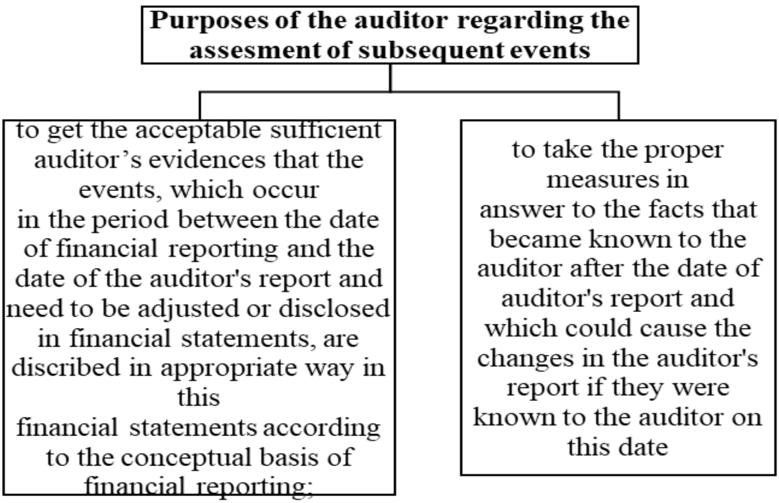

Fig. 4.1. Purposes of the auditor regarding the assessment of subsequent events

Source: built on the basis of p. 5, 6 of IAS 10

Management staff is responsible for making the adjustments or preparing of the appropriate disclosure in the financial statements, if it is necessary. In IAS 10 there are two types of events after the reporting date depending on the impact on the financial statements: adjusting events and non-adjusting events (Table 4.4).

Table 4.4

Types of events after the reporting period

Types of events	Content	Impact on the financial statements after the reporting period
Adjusting events	Events, which reflect the conditions that existed at the end of reporting period	Adjustments: - Amounts reflected in financial statements (these events should be disclosed in financial statements so as if they have been as of 31.12, that is, adjusting events require a return on reporting date and reflecting of their impact in the financial statements as if these events occurred during the reporting year. Result of such events should affect the financial result of the reporting year, but not the following one); - Information described in notes to the financial statements.
Non-adjusting events	Events, which indicate the conditions that occurred after the reporting period	Significant events: need to be disclosed in notes to the financial statements. Insignificant events: don't need to be disclosed in notes to the financial statements.

Source: formed on the basis of p.3 of IAS 10[7]

Examples of adjusting and non-adjusting events after the end of reporting period are given in p. 9, 11 of IAS 10[7], some of them are given in the Table 4.5.

[7] Mizhnarodnyi standart buhalterskoho obliku (IAS) 10 "Podii pislia zvitnoho periodu" [International Accounting Standard (IAS) 10 "Events after the Reporting Period"]. Retrieved from https://zakon.rada.gov.ua/laws/show/929_024#Text. (in Ukrainian).

Table 4.5

Examples of adjusting and non-adjusting events

Types of events	Examples
Adjusting events	- a court decision which confirms that the company had an existing obligation at the end of the reporting period; - obtaining of information indicating the decrease in the usefulness of the asset at the end of the reporting period (for example bankruptcy of a debtor, sale of inventories at a price that is lower than the book value, etc.); - obtaining of information about the cost of acquired assets or earnings from sold assets by the end of the reporting period; - clarification of the amount of insurance compensation from the insurance company; - detection of frauds and abuses while preparing of the financial statements; - appointment of bonus payments to employees, if the company had a real legal or constructive obligation at the end of the reporting period to do such payments as a result of events after this date; - sale of inventories, which evidence the unfoundedness of the assessment of net cost of their sale on the balance sheet date; - detection of errors while preparing of the financial statements, which led to loss of its quality characteristics, etc.
Non-adjusting events	- decrease in the value of investment from the end of the reporting period to the date of approval of financial statements; - reduction in the fair value caused by events that occurred after the reporting date; - making a decision about reorganization of the company, additional emission after the reporting date; - destruction of assets as a result of major circumstances; - changes in exchange rates; - concluding of large contracts, etc.

However, the above list is not exhaustive. Considering the specifics of the business, the scale and type of activity, the list of such events can be significantly different for every business entity depending on the content, quantitative and cost characteristics. Moreover, impact even of, at first sight, the same events on the financial statements of each single enterprises should be evaluated individually. In addition, examples of such events may be changed under the influence of external factors of the environment in which a business entity conducts its financial and economic activities. The realities of modern practice show that because of the impact of the COVID-19 pandemic on the financial and economic activity occurred the events or conditions after the end of the reporting period, which, if necessary, should be properly reflected in the financial statements. For example, the impact of the COVID-19 pandemic in different business entities caused a variety of events, which occurred often after the reporting date. The most common of them are: impairment of non-current assets; significant change in their fair value; changes in expected credit losses concerning financial assets; impairment of receivables; availability of significant payments of aid or economic incentives; reduction or deferral of lease payments provided by the lessor to tenant, changes in debt terms, changes in agreements by buyers or suppliers, which can lead to decrease in revenues or increase in costs, arising of new liabilities, loans; increase in capital or issue of debt instruments; concluding of agreements on merger or liquidation; events relating to the valuation of estimates or reserves, presented in the financial statements, etc.

Nowadays there are many discussions about whether the events that occurred because of the COVID-19 pandemic are adjusting or non-adjusting. International audit firm PwC provided recommendations for business regarding the peculiarities of accounting in the conditions of the spread of coronavirus infection, noting that assets and liabilities of the company should be assessed at fair value and management and accountants of the companies need to look after company’s ability to continue its activity as a going concern. Therefore, the COVID-19 event itself is not the adjusting one, but the events caused by an outbreak of the virus, require to do assumptions (if possible) by the management of company about growing uncertainty. Because uncertainty and unpredictability can cause risks of significant misstatements that either increase or appear the new ones. Uncertainty is usually connected with a change in economic situation on both national and international levels[8]. In general, one of the fundamental principles of preparation of the financial statements of the operating company are going concern assumptions. That is, the economic entity assumes that it has neither the intention nor the need for the beginning of the liquidation procedure or the termination of activities in the nearest future. If the financial statements are prepared not on the going concern basis or the management staff is aware of the essential uncertainty related to events or conditions that occur usually after the end of reporting period and which raise significant doubts about the ability of the company to proceed the operating activity continuously, then information about such events or circumstances is the subject for disclosure in the financial statements.

Ability of the company to continue the activity as a going concern is influenced by various factors. In our opinion, the most important factor is the features of an industry. We constantly pay attention in our research to the necessity to identify the risks of specific industry direction (in particular, agrarian enterprises). Risks as well as events after reporting date are caused by: the variety of objects of accounting, which are typical only for agricultural sector (for example, biological assets of livestock and crop production, change in their value; using of industry intangible assets, in particular, animal breeds and plant varieties); specificity of economic processes and impact on them of biological cycles of production; existence of time gap between periods of execution of technological process and getting of finished products, that cause the remnants of work in progress, which are transferred to next year (expenses on sowing of winter cereals, cultivating of the land, applying of organic fertilizers, sowing of perennial grasses, cultivated pastures, etc.). The most influential factors on going concern concept of the enterprise are financial position of buyers and suppliers, financial liquidity and the solvency of the company, current and expected profitability, etc.

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[8] Karmazina, N. (2022). Koryhuiuchi podii finansovoi zvitnosti pislia zakinchennia zvitnoho period. [Audit procedures in assessing the impact of subsequent events in the audit of financial statements”]. *Ekonomika ta derzhava*, vol. 4, pp. 8–12. DOI: 10.32702/2306-6806.2022.4.8. (in Ukrainian).

In auditing practice, the types of events or conditions that alone or together may cause the doubts regarding the ability of a company to continue its activities on the going concern basis are classified as financial, operating and others (Table 4.6).

Table 4.6

Types of events or conditions for assessment the company's ability to continue as a going concern

Types	Conditions (indicators) of assessment
1	2
Financial	Excess of liabilities over assets or excess of current liabilities over current assets
	Loans with fixed term, repayment of which is coming in the absence of real prospects for prolongation or repayment; or excessive use of short-term loans for financing of long-term assets
	Signs of cancellation of financial support by creditors
	Negative cash flow from operating activity evidenced by the financial statements for previous periods or forecast financial statements
	Negative key financial coefficients
	Significant operating losses or significant decrease in the value of assets used for cash flow generation
	Debts or termination of dividend payments
	Inability to pay creditors on time
	Inability to fulfill the terms of loan agreements
	Replacement of the payment system on credit for delivered goods, received service with the payment systems at the moment of goods delivery or receiving of service
	Impossibility to get the financing for developing of new core products or for other significant investments
Operating	Intentions of management staff to liquidate the economic entity or terminate its activity
	Losing of key management staff without his replacement

Continuation of table 4.6

1	2
	Loss of the main market, key customer (customers), franchises, license or main supplier (suppliers)
	Difficulties with the workforce
	Lack of important resources
	The emergence of a very successful competitor
	Dependence of the enterprise on the main supplier, on the main buyer
	Decrease in the level of purchase of supplies
	Postponement of replacement of fixed assets
Other	Non-compliance with requirements for level of capital or other legal or regulatory requirements, such as requirements for solvency or liquidity for financial institutions
	Incomplete judicial or regulatory proceedings against an economic entity, which in case of their satisfaction can lead to claims that the company with a high probability will not be able to satisfy
	Changes in laws or legal acts or government policy, which as expected will have negative affect on the company
	Absence of insurance or insufficient insurance against catastrophes in case of their occurrence
	Existence of military conflicts or their threat
	The probability of incurring of liabilities because of violation of the law

Source: formed by the author based on ISA 570 "Going Concern"[9]

For example, the existence of outstanding accounts payable to key supplier as of 31 December of the reporting period. This calls into question the ability of the company to continue its activities on a going concern basis because there is a risk of termination of supply of basic raw materials by the absence of reliable alternatives to such

[9] Mizhnarodni standarty kontroliu yakosti, audytu, ogliadu, inshoho nadannia vpevnenosti ta suputnih posluh: chastyna 1 [International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services: Part 1]. Kyiv: International Federation of Accountants; Auditor Chamber of Ukraine, 2016-2017. (in Ukrainian).

a provider in the near future, which may result the stoppage of production process. Risk of insolvency is increased by existence of a significant part of overdue accounts payable in obligations for goods, works, services, which are subject to immediate repayment at the request of the creditor, current liabilities that are not covered by current assets, and therefore, it indicates a threat to continuous activity of the business entity.

Therefore, the auditor should determine whether the financial statements provide properly with disclosing of information about identified events or conditions regarding the activity of the company as a going concern and intentions or possible actions of management staff in this respect. Management staff should assess by preparing financial statements the ability of his company to continue its activities as a going concern, taking into account possible results of events and taking into account events and conditions after the end of the reporting period that occurred before the date approval of the financial statements before issue. Accordingly, it becomes obvious that the assessment of an event after the reporting date and of a going concern are interrelated and inseparable procedures.

It is necessary to pay attention to the requirements of the standard IAS 10, which prohibit the preparation of the financial statements based on the assumption of going concern if the events after the end of reporting period indicate the inadmissibility of such assumption.

The issue of assessment of the event after the reporting date and of the company's activity on the going concerns basis in wartime becomes especially relevant. Nowadays the companies have already faced with the increase in inflationary pressure, significant increase in prices for raw materials and, in particular, for energy resources. In addition, there are significant problems in logistics (supply chains), lack of workforce due to forced migration, also recently took place changes in sales markets and many other negative events and influential factors. Their list and consequences may continue to expand, become significantly worse and, obviously, have the negatively influence on the financial and economic activities of enterprises in the future. The events that arose because of the war in Ukraine for the financial statements for the period that ended 31 December 2021, at approval of the financial statements for 2021, as well as events caused by COVID-19 will be non-adjusting. This is due to the fact that significant adverse changes in financial and economic activities, in particular, and in society in general have become a direct consequence of events that occurred after the reporting date and is characterized as a specific event that occurred after the end of the reporting period. This is the extremely significant, though non-adjusting event and management of a company should disclose in the notes to the financial statements the information about the consequences, for example, about: suspension (if such took place) or breaks in activities; suspension of key operations; loss of production capacity or commercial facilities, decrease in sales volumes; inability to repay the accounts payable in time; delay in payments from debtors; restrictions on access to cash, increase or arising of new expenses associated with payments to the stuff; damage or destruction of property; non-fulfillment of conditions of agreements due to force majeures, other events that significantly affect the activities of the enterprise. It should be noted that the level of disclosed detail and analytical information will also depend on specific facts and circumstances of the business entity, including the nature and level of the war's impact on the operational, financial and other activities of a certain enterprise as well as on economic conditions of the country in general.

Regarding the audit practice, §§ 19 – 20 of ISA 570[10] "Going concern" (revised) require from the auditor to determine whether the financial statements provide the proper disclosure of information about events or conditions concerning a going concern concept. In addition, in accordance with the requirements of ISA 560[11] "Subsequent events" and ISA 570[11] "Going concern", the auditor should make a request to the client company (§ 15 ISA 570) and get the necessary evidence and make relevant conclusions regarding the existence or absence of significant misstatements connected with disclosure of information. It should be noted that the Board of the Audit Chamber of Ukraine recommends for Ukrainian auditors to disclose the information about war in the financial statements regardless of the availability of assessment of impact on going

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[10] Mizhnarodni standarty kontroliu yakosti, audytu, ogliadu, inshoho nadannia vpevnenosti ta suputnih posluh: chastyna 1 [International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services: Part 1]. Kyiv: International Federation of Accountants; Auditor Chamber of Ukraine, 2016-2017. (in Ukrainian).

concern issue that should be made by managerial staff of the client company. However, there can exist some issues that cause significant uncertainty about going concern issue and are the key audit issues by their nature as mentioned in ISA 701 “Communicating key audit matters in the independent auditor’s report”. In modern conditions it is also possible that some economic entities will need the significant judgments of the auditor while preparing of conclusions concerning the use by management staff the principle of going concern as the basis of accounting that can be considered as a key audit issue.

Consequently, it should be noted that the accountants, economists and executives of the companies should take into consideration modern conditions in the environment in which the activities of the enterprises (companies) take place, in particular the Ukrainian ones, and particular attention should be paid to the necessity of disclosure of significant events in the financial statements that occurred after the end of reporting period, that is those facts of economic activity that affect or may affect the financial position, cash flow or results of company’s activities. Significant events that occurred after the end of reporting period should be disclosed in the financial statements for the reporting period or information about them should to be disclosed by accountants in the notes to the statement of financial position (balance sheet) and the statement of comprehensive income. If insignificant subsequent events are not disclosed in the main forms of financial reporting, the accountant should assess the consequences of each event after the end of the reporting period and make appropriate cash recalculations. It is impossible to unify the list of possible events with definitions of their content and criteria for assessing of materiality and impact on the financial statements. Accountants, executives of the companies and auditors need to assess these issues individually, taking into account their purposes and tasks in accordance with the requirements of IFRS, IAS and ISA, as well as taking into account the industry characteristics of each specific enterprise, geography of activity, financial condition of buyers and suppliers, financial liquidity and solvency of the company, current and forecast (expected) profitability of its activities, potential sources of cash, etc.

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