

Implementation of International Financial Reporting Standards in Ukraine

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Abstract: Since Ukraine gained independence in 1991, the Ukrainian economy has been undergoing constant transformation. Legislative, institutional and structural reforms have been driven by the rapidly changing business environment and much progress towards a market economy has been made. The Ukrainian economy now comprises a spectrum of economic subjects, ranging from large financial-industrial groups (FIGs) and banking institutions to small, privately financed enterprises. One necessary precondition for access to such cheaper investment finance is reliable, high quality financial information; thus, the pace and extent of Ukraine's economic reform is being held back by the widespread lack of such information. In this article author describes the evolution of the implementation of International Financial Reporting Standards in Ukraine, makes an attempt to identify some problems of methodological, organizational and practical nature. In this article author describes the evolution of the implementation of International Financial Reporting Standards in Ukraine, makes an attempt to identify some problems of methodological, organizational and practical nature.

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1. Introduction

In Ukraine, the process of harmonization of financial reporting is carried out by the introduction of IFRS to socially significant enterprises – joint-stock companies, insurance companies, banks, pawn shops and so on. However, the process of transition of the Ukrainian enterprises to IFRS reporting has its specific features related first of all to the occurrence in nineties of joint-stock companies. Usually, they were formed by reorganizing the state enterprises and are now in poor

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condition – suffer losses, have multimillion salary debts, etc. But Joint Stock Companies Law assumes a transition of all the JSCs to international standards, regardless of whether the enterprise is listed or is not. Thus, the accountants faced an urgent issue: how to make the transition to IFRS reporting, how much does it cost and what are the consequences for business?

The need for high quality “global GAAP” (Ampofo & Sellani, 2005: 228) was officially recognized in 1966, when professional accounting bodies first began working towards a set of international accounting standards (IASB/IASB Chronology, 2006). Since then world capital markets have become increasingly tied to one another (Turner, 2001: 1), and so “integrated and interdependent” that “the stability of one market affects others” (UNCTAD, 2005: 5). As the barriers between nations have become more “porous” (Harris, 2002: 417-418), domestic economies have become increasingly vulnerable to the “external shocks” caused by an “expanding world economy”, necessitating the adoption of globalized practices if they are to function effectively (Lehman, 2005). The development of IFRS is one manifestation of that institutional logic, with the globalization of IFRS described as “part of a general wave of standardization that has taken place in broader, non-accounting contexts over the last 150 years” (Rodrigues and Craig, 2007: 740).

In this study, we tried to examine the main stages of development of legal provision introduction of international financial reporting standards, assess the level of convergence of IFRS and national standards.

2. Financial reporting in Ukraine: convergence process to IFRS

Since it gained independence in 1991, Ukraine has adopted a civil law system based on codes and acts. The Law on Companies (1992), and the Civil and Commercial Codes (2004) define various legal structures which can be used by businesses operating in Ukraine. The most commonly used types of legal entities include joint-stock companies, (which can be open joint-stock companies or closed joint-stock companies), limited liability companies, additional liability companies, general and limited partnerships¹⁰. The most common are limited liability companies and joint-stock companies. Enterprises with foreign capital are generally established in the form of joint-stock companies or limited liability companies, or operated through representative offices.

Responsibility for financial reporting at limited liability companies and joint-stock companies is set out in the Law on Companies. In both, the Management Board and/or the General Directorate are responsible for the day-to-day activities of the company, including accounting and financial reporting. In addition there is a Supervisory Board, which is roughly equivalent to a Board of Directors in Anglo-Saxon jurisdictions. For joint-stock companies, there is a legal requirement for a

Revision Commission, a body with certain oversight responsibilities. However, the Revision Commission does not fulfill many of the necessary functions of an „Audit Committee”, such as the approval of the appointment of independent auditors and the review of the audit report. Company legislation should be amended to either replace the Revision Committee, or significantly amend its structure, composition, role and responsibilities, to require that companies have an audit committee in accordance with international best practice. Banking legislation already requires this for banks; the requirement should be extended to all joint-stock companies.

Securities Market in Ukraine began its formation in 1991 after the Law of Ukraine "On Securities and the Stock Market." Then Ukraine in law got the tools and the professional securities market participants who actively participated in the creation of the domestic financial sector.

In recent years the trend of increasing in trading volume on the stock market continues. Thus, this figure in 2012 was 2 530 870 000 000 UAH, which is more than the volume of executed contracts in 2011 on 359 770 000 000 UAH. At the same time, the growth of the stock market was accelerated compared to GDP - volume of trading on the stock market exceeded GDP almost doubled. It shows the development of the state economy in general and the development of the stock market in particular, as well as the rapid pace of development.

The ratio of the share capitalization of listed companies to GDP is an important indicator of the stock market and the financial system in general. If we trace the dynamics of this figure in Ukraine since 2008, when it was 9.0%, it should be noted that the figure rose to 13.7%. At the end of 2012 it was 19.66%. In 2012, the capitalization was moderately increasing, which is primarily due to the increasing of number of issuers who have been listed. Such index as the volume of investments in the economy of Ukraine through the stock market instruments on the results of 2012 totaled 67 230 000 000 UAH. It may be noted the stability of this index in recent years. As for the certain indexes of performance of the stock market, as the results of trading on the stock exchanges, the volume of exchange contracts on securities in 2012 was 263 670 000 000 UAH, an increase of 11.99% compared to 2011 year.

Over the past three years, the total number of issues of shares that are traded on stock exchanges was also increasing. By the end of 2012, 1731 shares were included to exchange lists of trade organizers, up almost 40% in comparison with the end of 2011. If we talk about the bond market, in 2012 there were registered 332 bonds in the amount of 51 390 000 000 UAH. Comparing with 2011, the volume of registered bonds rose to 15 480 000 000 UAH or by 43.11%.

The process of reorganization of open and closed joint stock companies into public and private companies in accordance with the Law of Ukraine "On Joint Stock

Companies" continued for last 3 years (2011-2013). According to the National Commission on Securities and Stock Market as of December 31, 2011 registered as legal entities are 26 631 joint-stock companies, of which open – 5 761 (public – 2 161), closed – 15 798 (private – 2 911). The vast majority of corporations is concentrated in Kiev and Kiev region – 9 197 (or 34, 53% of the total), Kharkov – 2 371 (or 8.90%), Dnepropetrovsk – 2 059 (or 7.73%), Donetsk – 1 887 (7.08%) and Zaporozhye – 971 (or 3.65%) regions.

Given a number of joint stock companies (5 761) which are required to file IFRS financial statements, it is worthy of note that only 773 companies are listed, i.e. only 12.68% of joint stock companies demonstrate direct interest in attracting investments. As we can see the vast majority of shares listed on the domestic market, so in our study we turn our attention to the similarity of Ukrainian and international accounting standards.

The formation of new economic relations between business entities, processes of integration into the world economy, the need to remove economic and trade barriers, to energize foreign investments, to access the world capital markets, the formation of a competitive market environment stipulated the reform of accounting and reporting in Ukraine.

The process was initiated in May of 1992 by Ukrainian President Leonid Kravchuk signing the Decree on Ukraine's transition to the common practice in international accounting and statistics (Decree on Ukraine's transition to the common practice in international accounting and statistics, 1992). Basing on this Decree the Cabinet of Ministers by its Regulation no. 326 of May 4, 1993 approved the Concept of building a Ukrainian national statistics system and the State program of transition to international system of accounting and statistics. This program included the creation of normative-methodological basis of accounting in next three years.

By the Decree of the Cabinet of Ministers of Ukraine issued February 27, 1993 the function of regulating through the development, implementation of common methodological bases of accounting and reporting for enterprises, organizations and institutions (excluding banks) was reserved for the Ministry of Finance of Ukraine, in which a Board of accounting methodology was established. The Board has developed various Guidelines and instructions regarding the operations, relatively new for Ukrainian enterprises. Enterprises received the right to establish an internal system of accounting and control, to introduce the necessary sub-accounts, to create reserves for future expenses and payments. Small businesses were allowed to keep simplified accounting.

However, some authors considered (Pushkar, 1999) that the accounting remained socialistic in Ukraine, which was focused on monitoring the accomplishment of plans and not providing the necessary information to managers. Soon, by the Decree of Parliament, the Audit Law was adopted in Ukraine.

The important factors of accounting reforming in Ukraine in 1996-99 were the requirements of the World Bank regarding loans to Ukraine, tax reform and professional accounting organizations (UFPAA) activity.

Hallmark of Ukrainian accounting in those years was the focus on the needs of tax accounting. Because of the rule of law of the relative tax accounting over the statutory accounting any changes in tax laws caused the relative changes in accounting methodology. Thus, accounting in Ukraine did not provide information about the financial position of the companies needed to attract investment, that's why one of the conditions of the obtaining of the World Bank loans was the transition of the National Bank of Ukraine and commercial banks in 1998 to the International Accounting Standards, as well as the implementation of IAS by the stock market traders.

Given the experience of accounting reforming in banks and in order to make the national accounting system to meet the requirements of the market economy and the IAS a program of reforming the accounting system using international standards was approved by the Regulation № 1706 of the Cabinet of Ministers of Ukraine on October 28, 1998. Hence, Ukraine has made the strategic choice in the orientation of accounting to IFRS. Reform program contained an action plan, according to which in 1998-2001 the development of the Regulations (standards) of accounting, chart of accounts, revision of the universities curricula, development and publication of a new training-methodical literature was provided.

The first step in the implementation of this program was the adoption of the Law on Accounting and Financial Reporting in Ukraine, dated July 16, 1999. This Law:

- legislated rights of all user groups to obtain reliable information on business activities by implementation of accounting and reporting, according to national regulations (standards) of accounting, which are not inconsistent with international standards;
- determined the subjects of accounting rulemaking;
- established the basic requirements for accounting and reporting.

Table 1. The evolution of the development of national standards in Ukraine

| Period | Adoption | Results |
|---------------|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1999-2003 | 24 accounting and reporting standards were approved | Government activities in the field of accounting and reporting were aimed at further rapprochement of Ukrainian laws to the European Union's legislation and International Financial Reporting Standards, as well as stepping up the accountants' proficiency requirements |

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| Period | Adoption | Results |
|-----------|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2004-2007 | 6 accounting and reporting standards were approved | Period is characterized by the inconsistent steps in reforming the accounting and reporting, approved by the IFRS Methodology council in May 2004, declared N(S)BU (Ukrainian accounting standards) improvement considering the current Ukrainian legislation and the Provisions of IFRS, which led to the diversity of the accounting reform directions. The issue of harmonization of accounting was actualized also in connection with the uncovering of prospects of partnership, economic integration and cooperation due to the expansion of the European Union in 2004. This caused the signing on the February 12 2005 of the "Ukraine - EU" Action Plan, which envisaged the need to adapt and to ensure effective implementation of the basic principles of relevant international rules and standards, as well as the rules and standards of the EU. |
| 2007-2011 | 4 accounting and reporting standards were approved | Period is characterized by significant efforts and achievements in reforming the Ukrainian accounting system. During this period the transition of state-financed organizations to IFRS was started. Although, of course, the process of full transition to international accounting standards is still far from complete. |
| 2012-2014 | 2 accounting and reporting standards were approved | National N(S)BU and international standards will co-exist in Ukraine. |

However, in the 2001-2003 period the criticism continued from scientists who considered the main cause of the shortcomings of accounting reform the lack of scientific justification and adequate funding. For example, according to Kuzhelnny and Parkhomenko (2001) the funds should have been allocated and international aid targeted funds should have been directed since 1992 to the important accounting reform. This work, on self-financing conditions, should have been done by academic scientists.

It can be concluded that the system of national accounting in Ukraine has been radically reformed since 2000. Ukrainian Provisions (standards) of accounting – N(S)BU – are generally agreed upon, and are largely based on the general provisions of IFRS – International Financial Reporting Standards.

The process of implementation of IFRS in Ukraine passed synchronously with the reform of the accounting and auditing system and with the formation of state regulators, that are part of the institutional economic environment of the country: Ministry of Finance, the National Bank of Ukraine, State Commission on

Securities and Stock Market of Ukraine, the Audit Chamber of Ukraine, National Commission on Financial Services, public organizations (ACS, UFPAA).

In 10 years (2000-2010) several attempts of IFRS implementation were undertaken in Ukraine, but the actual date of transfer was continually delayed and postponed. 2010 can be considered the starting point of joint-stock enterprises transition to IFRS, when the Procedure of filling forms of disclosure and amendments thereto by listed issuers of stocks and bonds came into effect (Decision of the State Commission on Securities and Stock Market no. 981 of July 22, 2010) in which the following requirement appeared: public joint-stock companies disclose further information about their activities on the basis of international accounting standards.

In accordance with the action plan to implement the strategy of application of International financial reporting standards in Ukraine (Decree of the Cabinet of Ministers of Ukraine on the adoption of the Strategy implementation of international financial reporting standards in Ukraine, 2007), changes were made to the Law on accounting and financial reporting in Ukraine, with effect from January 1, 2012. Recent changes assert that to prepare financial statements the international standards should be used if they are officially published on the Ministry of Finance website. While public joint-stock companies, banks, insurance companies, and enterprises engaged in various activities in accordance with the list of the Cabinet, prepare financial statements and consolidated financial statements according to international standards. Yet other companies independently determine the appropriateness of the application of international standards for financial reporting.

Thus, since 2012, national N(S)BU and international standards will co-exist in Ukraine. Let's mention one important fact – following the adoption of the Tax Code, which entered into force on January 1, 2011, quite serious changes in the N(S)BU were made (Tax Code of Ukraine, 2010). Obviously, such a situation cannot have a positive impact on the organization of accounting of economic entities. Attempts to adapt the accounting under the requirements of the taxation management will not succeed, because the existing differences are objectively conditioned by the various purposes, principles laid in their base, by the mismatch of accounting objects, methods of tax base calculation, etc.

The opinions of scientists on the evaluation of accounting reform in Ukraine are often opposing. Some scientists interpreted reform processes negatively: Borodkin (1997) believed that radical reform in accounting is premature and inappropriate since neither companies, nor authorities are not ready for it, and personnel training and retraining require significant investments. According to Butinetz (2003), during a lasting accounting pseudo-reform Ukraine has almost lost the former accounting, human resources, who understood the importance and role of theory and practice of accounting, its essence and function. There is generally no need in accounting reform, because the accounting system already provides all market participants with relevant accounting information, says Ohychuk (1997). This

conclusion was based on the assertion of full Convergence of Ukrainian accounting regulations with the international accounting standards.

Opposite point of view is shared by Kuz'minskii (2006), Sopko (2006), Gutsaylyuk (2006) and others. In particular, Lastovetskiy (2002) believes that national standards are not IFRS copies but consider specific and positive heritage of the Soviet period, to be the main positive trait. Mossakovskii (2003) wrote that regarding the accounting system that develops in Ukraine in recent years, it should be noted that it used to a certain extent the foundations that have been used in the USSR, in conjunction with those that are inherent to the international practices. And thereby create conditions for successful development in Ukraine of accounting system that would match the highest international standards.

Debatable is also a question – which accounting model accounting in Ukraine belongs to. According to some scholars (Pushkar, 1999) basing on the characteristics of the main accounting schools, accounting in Ukraine belongs to the continental model. Other opinions are more radical (Golov, 2007) such as that Ukrainian system did not share any of the approaches and did not have any construction concept before year 2000. Moreover, after July 1, 1997 Ukrainian accounting system has become a tax-accounting surrogate because, unlike income and expenses, fixed assets accounting was bound tightly to the tax laws. Meanwhile, the system of accounts and the financial reporting format in Ukraine is more close to the Anglo-Saxon model.

3. Status and prospects of IFRS implementation in Ukraine

The legislative basis for the implementation of IFRS in Ukraine is the Law on Accounting and Financial Reporting in Ukraine, which provides for the IFRS application:

- Public stock companies, banks, insurance companies prepare financial statements and consolidated financial statements according to international standards since 2012;
- Businesses providing financial services, except insurance and pension funding since 2013;
- Companies performing support activities in the financial services and insurance since 2014;
- All other companies determine the appropriateness of the use of international standards for financial reporting independently.

3.1 The use of international standards

The international standards are used for financial reporting if they do not contradict the Law and are officially published on the website of the central executive body of

the state financial policy. The main condition of IFRS use for the financial reporting in Ukraine is "non-contradiction" to the Ukrainian Law on Accounting and Financial Reporting in Ukraine, namely:

- Objectives of accounting and financial reporting, according to the law are to provide users with full, truthful and impartial information about the financial position, operations results and cash flows of the enterprise for decision-making;
- Essential principles accounting and financial reporting are based on.

Practically Ukrainian enterprises frequently undermined those accounting rules. The most serious IFRS system deviations are usually included in the regulations that are not called "standard". It gives the Ministry of Finance a formal excuse to use the regulation not named "standard" and not warranted by the Law on Accounting and Financial Reporting in Ukraine, or state regulators, defending their requirements, began to refer to the IFRS conceptual framework which allegedly allows expressing their professional opinion (Ministry of Finance letter of May 11, 2011). Mentioned in the introduction to IFRS Conceptual Framework, the opportunity to nominate "other or additional" reporting requirements for governments does not mean a possibility to violate the norm of the Accounting Law, which states that national standards cannot contradict IFRS.

Many Ukrainian accountants confuse "does not contradict IFRS" with the term "comply with IFRS." A promising disclaimer appears in reports: "Financial report is prepared in accordance with IFRS, enterprise accounting realized according to the current Ukrainian legislation" (Financial Statements SATP 0904). Thus, regardless of the package of standards, business entities required to comply with provisions of the Law on Accounting and Financial Reporting in Ukraine, the Procedure for filing financial statements, as well as normative-legal acts concerning accounting records, inventory, etc.

Accountants experience certain difficulties filling accounting reporting forms and handing it to the regulator. The problem is that informing about the selected standards package is made by checking the relevant box in financial report and no additional information is required by the state statistical agencies. Enterprises preparing consolidated financial reports under IFRS send information to the statistics authorities by mail. But reports prepared in accordance with IFRS do not comply with the approved Ukrainian reporting format.

Ukrainian Ministry of Finance is working with the IASB on a regular basis. Agreements were concluded on getting:

- IFRS texts for translation into Ukrainian and publishing;
- IFRS for SMEs texts for translation into Ukrainian and publishing;
- IFRS projects and its discussion.

But the Ministry of Finance did not pay for the translation of standards texts – Ukrainian translation was made by a public organization – the Ukrainian Federation of Professional Accountants and Auditors (UFPAA), and then posted on the Ministry of Finance website. Significant part of the information – samples, decision-making basis, etc. – is an IASB intellectual property and may be published for extra charge only.

In order to coordinate IFRS implementation activities and understanding the complexity of using, as well as referring to the need for joint efforts of all participants in this process the Ministry of Finance and the National Bank of Ukraine initiated the association of the professional community to solve the task, which is formalized by relevant Memorandums. Parties to the Memorandum were: Ministry of Finance, the National Bank, the National Commission on Securities and Stock Market, the National Commission for state regulation of the financial services markets, the State Tax Service of Ukraine, the State Statistics Service, the Financial Sector Development Project (FINREP), non-governmental organizations. Parties to the Memorandum agreed to coordinate activities in the field of IFRS use in Ukraine to form common approaches to IFRS application, translation, information support, dealing with issues and building effective relationships in this area. The coordinator is Ukrainian Ministry of Finance.

The first step in the IFRS implementation was to create a special website by the Ministry of Finance together with the FINREP. Website msfz.minfin.gov.ua was presented in February 2012. The aim of the site is gratuitous and free access of business entities, accounting practitioners and students to the best IFRS application practices.

Many businesses that conducted revaluation of fixed assets at the time the letter appeared faced with a choice – when to submit the final package and, in order to save funds for the transformation, filed financial position report for 2 years, and the statement of comprehensive income in one year. The final package under IFRS will be report for 2013. Then the fixed assets revaluation was held not by the date of transition.

Situation with IFRS basics training for JSC accountants was also sad. Accountants certification was not conditioned by and the state regulator believe that to be a definite plus, but not during the transition to IFRS. Due to national peculiarities, accountants were generally nowhere near the statutory accounting and most companies had to use the third-party organizations services for consultation on transition to IFRS. The cost of the auditor's report on IFRS compatibility was significantly increased with no effect for the enterprise – accountants have not received enough experience of IFRS accountancy, moreover significant expenses incurred for the transition and reporting confirmation.

Consider a few more reasons of Ukrainian enterprises formal attitude to the transition to IFRS.

- Accounting in Ukraine is focused primarily on tax accounting, statutory accounting is secondary. Accountants are trying to harmonize the tax and statutory accounting, giving preference to the correct taxation. Another reason for this situation was low over time demand for financial reporting in Ukraine. High corruption level and the shadow turnover do not allow investors to base their decisions on the official set of financial statements. Public authorities represented by the State Statistics Committee established dirt-cheap penalties for failing reports. A whole generation of bookkeepers grew, who consider themselves accountants without even knowing the depreciation methods. According to Kirsch (2007): “Except for accounting services in couple of dozens of large JSC, the vast majority of Ukrainian accountants express extremely formal attitude to the accounting standards. Everybody ceased their serious engagement in accounting, and, in fact, have switched to a tax accounting – undated and penalty-threatening”.
- Accounting reporting in Ukraine was traditionally based on the legal form, not on the economic content. Moreover, in fact managers can manually adjust the "book profit" figure. Auditors warn investors about such approach because it can lead to abuse: “Problem of juridically detailed, based on the law standards, determining the exact legal bound, is that they encourage to operate in close proximity of this bound, or even test it for strength. They encourage the search for holes in the legislation and devalue professional judgment” (Levitsky, 2002).
- Ukrainian analysts estimate the national standards to be 65% compliant with international standards. This suggests that businesses that keep accounts properly will face minimal adjusting entry under IFRS. However reality is far from it. Accountants of Ukrainian companies often ignore the requirements of national standards due to the fact that non-Convergence is not punished either at the corporate level or at the level of state regulators.

Outstanding issues are:

- *Submission of quarterly reports*: interim reporting is provided by IFRS. The law requires filing quarterly financial statements – accordingly business entities that use IFRS are required to file quarterly financial reports. The law establishes a minimum amount of quarterly reports which may be required by government users of financial statements.
- *Financial reporting forms* – based on the state statistics bodies needs and the conditions of the transition period by order of the Ministry of Finance the standard financial reporting forms are approved. Before compiling the first annual financial statements that fully comply with IFRS, issues of reporting form filing will be resolved based on alternative approaches. Here are some of them:
 - improvement of standard financial reporting forms in respect of the IFRS mandatory requirements;

- approval of the financial statements items nomenclature with possibility for economic entities to choose the form of financial statements;
- implementation of electronically filed financial reports.

While using improved standard forms of financial reporting, information about filing in a different form is disclosed at the request of the investor in the Annotations to the financial statements. Based on the foregoing, it can be concluded that the transition to IFRS, declared by the Government of Ukraine took place in the year 2012-2013. But is it possible for investors to fully base their decision on public financial statements prepared by the Ukrainian enterprises and what are the consequences of IFRS implementation?

It should be noted that the informal, unofficial or shadow economy in Ukraine exceeds the official and is the largest among the CIS countries and other countries of the near abroad. This condition is confirmed by the data of the Sociology Institute of the Academy of Sciences of Ukraine project "Monitoring of social change", presented August 18, 2011 (Yurchenko, 2011). In addition, the experts noted that "the Austrian economist Schneider, who over 30 years has been studying the informal economy in the world, defines the 56% of Ukrainian economy as informal. Certainly "informal sector exists in any economy, and is usually 12% to 15%". So Ukraine has exceeded the normal level of shady business by more than four times. Under such conditions is simply senseless to speak about the completeness and truthfulness of the financial statements. Thereby one of the main qualitative characteristics of IFRS reporting – truthful representation – is violated. The author believes, the introduction of IFRS for all companies was premature, only some companies that listing or plan to attract loans from foreign banks have actually benefited from the introduction of IFRS, other companies have approached this issue formally, as evidenced by the following facts.

We studied 30 Ukrainian companies at the date of transition to IFRS which were divided within samples into profitable, average and unprofitable. Performance evaluation was based on circumstantial evidence: increase in the fixed assets value (analyzed the facts of revaluation), items of additional capital - should be minimized to retained earnings, items of deferred taxes, the doubtful debt reserve and provision for holidays.

Sample shows that only 3 of large companies (Azovsteel, Arselormital, Steel Works of Mariupol) have indirect signs of IFRS 1 "First-time IFRS Application", namely: passed fixed assets revaluation, deferred taxes were calculated, items of additional capital were folded. Situation with medium-sized enterprises is much worse – only two enterprises Dobropolskaya CPP plant and Donetsk electrical plant meet the requirements of IFRS, when it comes to the small businesses it's obvious that no Convergence with IFRS can be traced - no deferred taxes or vacation reserves were calculated, fixed asset revaluation wasn't conducted.

3.2 Level of convergence Ukrainian standards with the international standards

Ukrainian provisions (standards) of accounting (*here in after P(S)BU*) cover the majority of IAS but do not copy it. Some national standards (e. g. P(S)BU 12 "Financial investments", P(S)BU 16 "Expenses", etc.) combine principles of several IAS, on the other hand, there are national standards not corresponding to the international standards.

In contrast to the IAS, Ukrainian standards do not provide for alternative approaches in determining accounting policies, in particular with respect to:

- correction of fundamental errors and changes in accounting policies (IAS 8);
- goodwill and fair value adjustments after the acquisition of a foreign operation (IAS 21);
- borrowing costs (IAS 23);
- investments in subsidiaries (IAS 27);
- investments in associates (IAS 28);
- display in the consolidated statements of equity in a jointly controlled entity (IAS 31).

There are significant differences between the IFRS and Ukrainian accounting standards. P(S)BUs are developed and approved by the Ministry of Finance, the accounting law require that they do not contradict the IFRS. Comparative analysis suggests that there are some differences between the two standards systems (see Table 1), and it should be noted that a number of IFRS doesn't exist in the national system. In particular P(S)BU does not cover:

- IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance";
- IAS 26 "Accounting and Reporting by Retirement Benefit Plans";
- IAS 34 "Interim Financial Reporting";
- IFRS 1 "First-Time Application of International Financial Reporting Standards";
- IFRS 2 "Share-Based Payments";
- IFRS 3 "Business Combinations";
- IFRS 4 "Insurance Contracts".

Table 2. Comparative analysis of the P(S)BU and IFRS

| IFRS | P(S)BU |
|------------------------------------------------------------------------------------|------------------------------------------|
| IFRS 1 "First-time Adoption of International Financial Reporting Standards" (2008) | none |
| IFRS 2 "Share-based Payment" (2005) | P(S)BU 34 "Share-based payment" |
| IFRS 3 "Business Combinations" (2008) | P(S)BU 19 "Business Combinations" (2012) |
| IFRS 4 "Insurance Contracts" (2005) | none |

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| IFRS | P(S)BU |
|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (2005) | P(S)BU 27 "Non-current Assets Held for Sale and Discontinued Operations" (2012) |
| IFRS 6 "Exploration for and Evaluation of Mineral Resources" (2006) | P(S)BU 33 "Mineral Resources exploration costs" |
| IFRS 7 "Financial Instruments: Disclosures" (2007) | P(S)BU 12 "Financial investments" (2012) |
| IFRS 8 "Operating Segments" (2009) | P(S)BU 29 "Financial Reporting by Segments" (2012) |
| IFRS 9 "Financial Instruments" | P(S)BU 12 "Financial investments" (2012) |
| IFRS 10 "Consolidated Financial Statements" (2013) | NP(S)BU 2 "Consolidated Financial Statements" (2013) |
| IFRS 11 "Joint Arrangements" (2013) | P(S)BU 20 "Consolidated Financial Statements" (2012) |
| IFRS 12 "Disclosure of Interests in Other Entities" (2013) | none |
| IFRS 13 "Fair Value Measurement" (2013) | none |
| IAS 1 "Presentation of Financial Statements" (2009) | NP(S)BU 1 "General Requirements for Financial Statements" (2013) |
| IAS 2 "Inventories" (2005) | P(S)BU 9 "Inventories" (2012) |
| IAS 7 "Cash Flow Statements" (1994) | NP(S)BU 1 "General Requirements for Financial Statements" (2013) |
| IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" (2005) | P(S)BU 6 "Correction of errors and changes in the financial statements" (2012) |
| IAS 10 "Events After the Balance Sheet Date" (2005) | P(S)BU 6 "Correction of errors and changes in the financial statements" (2012) |
| IAS 11 "Construction Contract" (1995) | P(S)BU 18 "Construction Contracts" (2012) |
| IAS 12 "Income Taxes" (1998) | P(S)BU 17 "Income Tax" (2012) |
| IAS 16 "Property, Plant and Equipment" (2005) | P(S)BU 7 "Fixed Assets" (2012) |
| IAS 17 "Leases" (2005) | P(S)BU 14 "Leases" (2012) |
| IAS 18 "Revenue" (1995) | P(S)BU 15 "Revenue" (2012) |
| IAS 19 "Employee Benefits" (1999) | P(S)BU 26 "Employees Compensation" (2012) |
| IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" (1984) | none |
| IAS 21 "The Effects of Changes in Foreign Exchange Rates" (2005) | P(S)BU 21 "Effects of Changes in Foreign Exchange Rates" (2012) |
| IAS 23 "Borrowing Costs" (2009) | P(S)BU 31 "Financial expenses" (2012) |
| IAS 24 "Related Party Disclosures" (2011) | P(S)BU 23 "Related Parties Disclosures" (2012) |
| IAS 26 "Accounting and Reporting by Retirement Benefit Plans" (1998) | None |

| IFRS | P(S)BU |
|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| IAS 27 "Consolidated and Separate Financial Statements" (2008) | NP(S)BU 2 "Consolidated Financial Statements" (2013) P(S)BU 20 "Consolidated Financial Statements" (2012) |
| IAS 28 "Investments in Associates and Joint Ventures" (2011) | P(S)BU 12 "Financial investments" (2012) |
| IAS 29 "Financial reporting in Hyperinflationary Economies" (1990) | P(S)BU 22 "Effect of inflation" (2012) |
| IAS 31 "Financial Reporting of Interests in Joint Ventures" (2005) | P(S)BU 12 "Financial investments" (2012) |
| IAS 32 "Financial Instruments: Disclosures and Presentation" (2005) | P(S)BU 13 "Financial Instruments" (2012) |
| IAS 33 "Earning Per Share" (2005) | P(S)BU 24 "Earnings per Share" (2012) |
| IAS 34 "Interim Financial Reporting" (1999) | P(S)BU 1 "General Requirements for Financial Statements" (2013) |
| IAS 36 "Impairment of Assets" (2004) | P(S)BU 28 "Impairment of Assets" (2012) |
| IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (1999) | none |
| IAS 38 "Intangible Assets" (2004) | P(S)BU 8 "Intangible Assets" (2012) |
| IAS 39 "Financial Instruments: Recognition and Measurement" (2005) | P(S)BU 10 "Receivables" |
| | P(S)BU 11 "Liabilities" (2012) |
| | P(S)BU 12 "Financial investments" (2012) |
| | P(S)BU 13 "Financial Instruments" (2012) |
| IAS 40 "Investment Property" (2005) | P(S)BU 32 "Investment Property" (2012) |
| IAS 41 "Agriculture" (2003) | P(S)BU 30 "Biological Assets" (2012) |
| IFRS FOR SME | P(S)BU 25 " Small Enterprise Financial Report" |
| none | P(S)BU 10 "Receivables" |
| none | P(S)BU 11 "Liabilities" |
| none | P(S)BU 16 "Expenses" |

The following are selected key differences between statutory accounting and IFRS, which may have a significant impact on the comparability of companies P(S)BU financial statements to those made in accordance with IFRS:

- some aspects of IFRS , in particular the requirement to disclose the ultimate owners and some of the requirements of IAS 24 "Related Party Disclosures", as well as methods of accounting for derivative financial instruments are not covered by the P(S)BU;
- according to the national standards the enterprise has to submit the consolidated financial statements, however, there is no regulatory support for adjusting the scope of consolidation, hence significant investments in subsidiaries, associated companies and mutual funds may remain beyond consolidation.
- P(S)BU do not cover accrual of unused leave allowance and other reserves accumulation, in accordance with IAS 37.

P(S)BU, although developed on the IFRS basis, however do not fully reflect recent changes in IFRS. For example, P(S)BU do not cover several latest standards (IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts"), as well as other standards approved some time ago (IAS 37 "Provisions, Contingent Liabilities and Contingent Assets ", IAS 34 "Interim Financial statements").

Disclosure requirements in the P(S)BU are not so strict; e. g. IFRS requires disclosure of payments to key employees of the enterprise, and P(S)BU do not. The impact of these differences on the usefulness of financial statements may in some cases be significant. Discrepancies may result in the impossibility to compare the financial statements prepared under P(S)BU to those prepared under IFRS, and limits the usefulness of the P(S)BU financial statements for users unfamiliar with the Ukrainian national accounting standards.

Another source of "gap in standards" are the cases of setting the accounting rules by the regulating authority such as the National Bank of Ukraine, which are different or inconsistent with the requirements of accounting standards. Usually, regulators require information, including financial information, from entities regulated by them on a larger scale than one contained in the of general purpose mandatory reporting. Regulatory reporting framework may be different from the existing accounting standards and regulated companies have to coordinate one with the other. Such "gap in standards" is evident in the Ukrainian banking sector; banks generate statutory financial statements according to P(S)BU and separate financial statements in accordance with National Bank of Ukraine accounting rules (based on IFRS) contained in the regulations of the NBU.

The result of such inconsistency is obvious complexity for companies to meet both – the requirements of IFRS and the accounting regulations of the NBU, so their financial statements may not comply with IFRS. So any request of IFRS implementation to the entities such as banks, other financial institutions and listed companies, as was recently suggested in Ukraine, should be accompanied by a revision of relevant legal documents for IFRS compatibility that apply to such entities.

3.3 Convergence with P(S)BU

Companies must submit annual financial information to the State Statistics Committee and the tax authorities with tax returns. Notable examples of non-Convergence with standards are:

- lack of related party transactions disclosure;
- lack of existing accounting policies disclosure;
- lack of charging provisions against liabilities, whose evaluation is not supported by third-party primary documentation; accrual of such provisions are not usually allowed by tax accounting rules, in particular, accrual of leave allowance and the reserve for losses on doubtful receivables;

- lack of accrual of deferred taxes;
- lack of disclosure of earnings per share;
- recording assets at cost if there is evidence of impairment, as well as
- non-inclusion of cash flow report to the statements.

The biggest problem in achieving Convergence with P(S)BU remain the differences in the assessment base between the key articles of general purpose financial statements prepared in accordance with P(S)BU, and the calculation of tax liabilities of the enterprise. In cases of differences between the tax accounting standards and P(S)BU, many preparers use tax rules. This leads to inconsistency in terms of accounting estimates (because the tax calculations, as a rule, do not allow the use of accounting estimates), the valuation of assets and liabilities (tax accounting often requires the use of formulas, but liabilities are recognized only if they are supported by primary paper documents) and misuse of accrual basis.

3.4 Convergence with IFRS

As noted above, the financial statements in accordance with IFRS are not required by law; such reports are prepared to meet the needs of investors and other stakeholders. It is usually prepared with the help of the international accounting firm and often audited by the same firm (which may lead to potential conflicts of interest); company financial statements in accordance with P(S)BU are usually prepared unassisted and audited by another, often domestic, firm. Examples of apparent non-Convergence with IFRS are:

- lack of disclosure of related party transactions and the real side carrying out control;
- that some consolidated financial statements do not include all controlled subsidiaries and special purpose entities;
- low level of Convergence to reporting requirements by business segments;
- that disclosure of revalued fixed assets was mainly weak even when there is evidence of significant revaluation;
- weakness of intangible assets disclosure, particularly in view of impairment;
- that disclosure of significant assumptions and estimates were obviously better in banks and worse in industrial plants;
- that in some cases, the fair value of financial instruments, assessed at amortized cost were not provided, and the explanation of considerable coincidence in the assessment of the fair value and the amortized cost were weak and
- the information about purchases and sales of subsidiaries is not always disclosed.

Preparers of the insurance companies reporting noted particular difficulties associated with lack of proper methodological support and support in matters

directly related to insurance. Calculation of required reserves ("reservation") is one of the biggest challenges for the insurance companies of Ukraine. Orientation of insurance operations (primarily in property damage insurance) and fixed rules applicable to certain passive operations, lead to the fact that the requirements of insurance claims are now more short-term than that is required by international standards; it simplifies the process of reservation. However, with the development of the insurance industry insurance procedures and policies will become more complex, the life insurance market will expand, prolonging the requirements term and complicating the process of reservation. Adherence to standards of accounting estimates is likely to become an even greater challenge. In addition, the project is being implemented by the IASB which concerns IFRS for insurance operations; authorities should monitor developments in this project.

With the publication of new and significant changes to existing international standards, discrepancies between national and international standards will deepen. Such a prospect is quite realistic, given the program of the Council on International Accounting Standards. This raises the problem of making the appropriate changes in the national provisions (standards) of accounting, according to the issue of new or replacement of existing international standards.

Golov (2007) shows that: "Implementation of the principles and methods of IAS by P(S)BU proves that IAS is not only the methods and approaches for accounting and reporting, but also, to a certain extent, an imprint of the ideology and democracy of the society, the ability of its institutions to adapt the norms of civilized relations. Consequently, the full implementation of IAS is impossible without appropriate political, economic and social changes in the environment in which they will be applied. It is clear that such changes cannot be instantaneous".

Building an effective regulatory and institutional framework at the national level is a challenging task. Under the terms of a practical guide for the development of the accounting system, during the evaluation of the process of development of the regulatory and institutional standards for high-quality corporate reporting the following aspects and related indicators should be considered (TD/B/C.II/ISAR/63):

- Auditing quality and cost – foreign and domestic auditing companies are presented at the audit services market in Ukraine. Most large manufacturing companies, as well as listed companies use the services of international companies and it's justified by their goals. All other companies, stock companies by configuration, use the services of local auditing firms. Fees for IFRS reporting confirmation have increased by 30-40%;
- Licensing of auditors in Ukraine is carried out since the adoption of the Law of Ukraine "On Auditing" in 1993. Moreover, each auditor must have a certificate and passes the annual advanced training.

- Corporate governance quality – evaluation of the quality of corporate governance is stipulated by the Law of Ukraine "On Joint Stock Companies".
- Inspections, disciplinary measures and appeals – no body is inspecting the IFRS Convergence. Report with "IFRS Compliant" field is submitted to the State Statistics Service, audited report is submitted to the National Securities Commission, the experts of the National Commission does not have the right to inspect and make any decisions regarding the quality of submitted reports.
- Ethics – submitted IFRS reports are often inconsistent not only with the format, but also with the meaning of IFRS. All of them are certified by the auditing company. Often the level of audited reports is very low. This fact is explained by the ignorance of auditors who do not have even the most common international certification diplomas CAP, ACCA DipFR, and the acquisition of the auditor certificate in Ukraine is also highly criminalized.
- Clear institutional responsibilities – a major concern in Ukraine is the large number of state regulators, which are not connected with each other and do not coordinate their work with any higher authority. The situation is chaotic and confusing for all participants of the transition to IFRS reporting process.
- Efficiency of financing mechanisms – as we've mentioned earlier no financing mechanism of transition to IFRS is provided. According to the author this is nonsense, and points out a formal approach to the problem by the state.
- Professional accountancy bodies – today in Ukraine a large number of professional organizations is presented, one of which is a full member of IFAC - Federation of Professional Accountants and Auditors of Ukraine, as well as - the Union of Auditors of Ukraine; - Ukrainian Association of Accountants and Auditors and others. Professional organizations should increase certification of accountants and monitor quality of service. In fact, this is not happening.

The role of "Big 4" in the implementation of IFRS in Ukraine is difficult to estimate. Most of the major Ukrainian companies are audited just at them. The site <http://msfz.minfin.gov.ua/> presents instructional materials to facilitate understanding of IFRS, as well as business cases on the application of IFRS for the first implementation. In the period of 2005-2014, with the participation of specialists "Big 4" were held a series of round tables, conferences on IFRS implementation in Ukraine. So during a public discussion "Future of audit", which was organized by ACCA were discussed questions such as: The role of audit in society, lack of transparency, corruption, appeals for stricter adherence to existing laws and for more close cooperation with regulators, audit economy in crisis, proportional and fair limitation of liability of auditors.

In his speech, Gerry Parfitt (Parfitt, 2010), Audit Partner of KPMG in Ukraine, said that the profession had not done enough to reduce the level of corruption and ensure transparency. "What would I like to see in Ukraine is transparency, where society and businesses appoint auditors to ensure the transparency of the business. In the UK every single company has to provide their accounting annually to the State Registration Department of companies. This is a public document, which is easy to find on the Internet." Essentially, no discussion or implementation of IFRS for SME occurs at the state level. There were organized a series of activities and discussions by private entities and educational centers. For example, in 2012 the International Business Conference took place a presentation of the IFRS for SME, which was introduced by Michael Wells - Director of IFRS Education Initiative.

4. Conclusions

Based on the conducted study it can be concluded that the accounting system of Ukraine during its independence has undergone fundamental change. First of all a system of accounting regulation was created, Plan of National Accounts and accounting standards were developed, strategic choice in favor of the use of IFRS was made.

Attempts to apply the IFRS led on one hand to decrease in the number of rules, strict regulation of accounting due to the replacement of multipage instructions by the concise standards, on the other hand there are still the rules of reflecting the account transactions, regulated by chart of accounts, instructions for chart of accounts use, rules of drafting financial reporting, standardized financial reporting forms. Thus, a problem remains with accounting in Ukraine, which is based on rules rather than on principles.

Modern Ukrainian accounting system combines the features of several Western models. From the perspective of accounting regulation in Ukraine dominates continental model, which is characterized by government regulation, standardized reporting forms and centralized chart of accounts. On the other hand, an integrated system of accounts and functional approach based on the definition of a financial result is used, which is specific to the Anglo-Saxon system. Such mixed system of accounting is typical for most countries with economies in transition.

Financial reporting international standards are used if they do not contradict the local law and are officially published on the website of the central executive body providing the state financial policy. Ukrainian analysts estimate the national standards to be 65% compliant with international standards, so it may be concluded that Ukraine took the way of convergence of national and international standards.

The first step in the IFRS implementation was to create a special website by the Ministry of Finance together with the FINREP. The purpose of the site is easy and free access of business entities, accounting practitioners and students to the best IFRS application practices. Ministry of Finance declared that the transition to IFRS is implemented with minimal transaction costs. This applies to both business entities, which is not imposed neither mandatory training nor certification of professionals, who are provided with free training materials, and the state, which did not spend extra budgetary resources on the transition process.

The transition to IFRS, declared by the Government of Ukraine took place in 2012-2013. But, as a matter of fact, it is not possible for investors to fully base their judgments on Ukrainian enterprises public financial statements because of the distortion of primary information in the financial reporting. Ukraine has exceeded the common level of shadowization by more than four times. Under such conditions there's no completeness and truthfulness in financial reporting because of the violation of one of the main qualitative characteristics of IFRS reporting – truthful representation.

According to the author, the introduction of IFRS for all joint stock companies was precipitate, only few companies (12.68% of the total number of existing public companies) which were listed or planned to attract loans from foreign banks actually benefited from the introduction of IFRS, all other companies have approached this issue formally.

Indirect signs of transition to IFRS evidence the formal attitude: no change in the book value of fixed assets, items of added capital, deferred taxes are not taken into account; the doubtful debt reserve and provision for holidays are not assessed. Thus enterprises by marking "comply with IFRS," practically did not accomplish the transformation from national reporting standards to the IFRS financial statements. State regulators have failed to provide effective legal and institutional frameworks at the national level for the process of full implementation of IFRS.

Ukraine's experience in the implementation of IFRS shows that initially was elected approach adapting national accounting standards to the international standards. Further, this process has been refocused on the progressive convergence to IFRS. Convergence does not imply a direct transition to IFRS, limiting by practical aspects of IFRS convergence with national standards, providing for involvement in the development and improvement of IFRS professionals from around the world and thus the achievement of common approaches to deal with accounting and reporting at the national level.

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