

NATIONAL ECONOMY'S MARKET MECHANISMS OF ACCOUNTING, ANALYSIS AND AUDIT

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FORMATION OF THE ACCOUNTING POLICIES BASED ON IAS AND THEIR IMPACT ON FINANCIAL PERFORMANCE

Proskurina N.M., Plutytska K.M.*Zaporizhzhia National University
Ukraine, 69600, Zaporizhzhia, Zhukovsky str., 66*

profauditp@ukr.net

ORCID ID 0000-0001-8674-1720, 0000-0002-0280-0453

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This article highlights the reasons for the discrepancy in reported and real profit, which directly affects many important aspects of each entity's operations. These are important criteria to consider an entity as solvent, liquid and profitable market player for potential investors. The levels of influence on methods, principles and tools of accounting at each typical enterprise have been characterized. The concepts of "accounting policies" according to different regulatory documents have been defined, as well as differences between the named categories and the reasons for these discrepancies have been revealed. The features of the accountant's professional judgment impact on accounting policies have been designated; positive aspects of the opinions application for their formation have been defined. Benefits of International Accounting Standards implementation at Ukrainian enterprises during their long introduction process have been noted. Their influence on the level of country's economic integration to the international level has been indicated. The main problems of standards implementation and the reasons, which trigger them according to the national accounting features, have been highlighted. The approximate vectors for overcoming these problems have been described. The level of their solution and some steps to overcome accounting gaps caused by different standards have been focused on. One of the basic principles and methods of accounting, which affect entities' financial performance and are important for different types of enterprises have been pointed out. They will make business activity more investment attractive. The differences between the selected elements of accounting policies according to national and international standards have been characterized considerably.

ФОРМУВАННЯ ОБЛІКОВОЇ ПОЛІТИКИ ЗА МСБО ТА ЇЇ ВПЛИВ НА ФІНАНСОВІ РЕЗУЛЬТАТИ

Проскуріна Н.М., Плутницька К.М.*Запорізький національний університет
Україна, 69600, м. Запоріжжя, вул. Жуковського, 66***Ключові слова:**

облікова політика, фінансові результати, прибуток, Міжнародні стандарти бухгалтерського обліку, Положення (стандарти) бухгалтерського обліку.

У статті висвітлено причини розбіжності звітної та реальної величини прибутку, яка безпосередньо впливає на безліч важливих аспектів функціонування кожного підприємства, що є важливими критеріями для визнання підприємства платоспроможним, ліквідним та рентабельним на ринку та для потенційних інвесторів. Охарактеризовано рівні впливу на методи, принцип та способи ведення бухгалтерського обліку на кожному окремому підприємстві в умовах звичайного функціонування. Визначено поняття «облікової політики» за різними нормативно-правовими документами, а також зазначено відмінності між названими категоріями та розкриваються причини таких розбіжностей. Охарактеризовано особливості впливу професійного судження бухгалтера на облікову політику та зазначено позитивні аспекти використання цієї думки для її формування. Зазначено позитивні сторони впровадження Міжнародних стандартів бухгалтерського обліку на українських підприємствах під час їх тривалого запровадження. Указано їх вплив на рівень інтеграції економіки країни до міжнародного рівня. Виділено головні проблеми впровадження

стандартів та причини їх виникнення згідно з національними особливостями бухгалтерського обліку. Висвітлено приблизні вектори подолання зазначених проблем, указано рівень їх вирішення та деякі кроки для подолання розривів в обліку за різними стандартами. Зазначено основні принципи та методи ведення бухгалтерського обліку, які впливають на величину фінансового результату та мають важливе значення для різних видів підприємств, що дозволить зробити діяльність підприємств більш привабливою для інвестицій. Широко охарактеризовані відмінності виділених елементів облікової політики згідно з вітчизняними та міжнародними стандартами.

Statement of the problem

Company statute is its constitution, and accounting policies represent the constitution of accounting. Accounting policies are very controversial and undefined; since domestic enterprises do not fully involve necessary methodological support to form qualitative accounting policies that should reflect the entire alternative accounting options. Therefore, it is important to rely on International Accounting Standards (hereinafter - IAS). They do not only unify enterprise accounting, but also help to formulate better accounting policies. Another important aspect is accounting policies` impact on enterprise`s financial performance, which we aim to consider in the context of its formation. This is especially important for different types of businesses, since good accounting policies ensure a high quality disclosure of accounting information.

Analysis of recent studies and publications

S.F. Golova, F.F Butynets, V.S. Len`, L.G. Lovins`ka, M.S. Pushkar`, B.I. Stefanyuk, M.T. Schyrba and other scholars have studied theoretical and methodological foundations of the regulation of accounting policies formation and implementation focused on convergence with International Financial Reporting Standards (IFRS) as well as approaches to understanding the nature of accounting policies and their definition. M.M. Bulka, V.V. Kirsanova, M.O. Lisna, D.O. Pelipadchenko, N.M. Pirets and others emphasized in their studies the modelling of accounting policies to meet the goals of accounting and financial reporting, as well as clarifying the determinants of accounting policies to reduce accounting risks. Outstanding scholars like T.M. Aksyonova, T.B. Baranovska, Yu.A. Veryga, M.P. Voinarenko, T.B. Voitenko, T.A. Zalyshkina, T.A. Kulyk have analyzed issues of business` accounting policies improvement to get additional economic benefits. P.Ye. Zhytnij, V.M. Zhuk, M.V. Kuzhelnyj, V.G. Linnyk, S.M. Mischenko, V.G. Shvets have conducted

studies of the accounting policies` part in business activities in different fields of national economy.

At the same time, wide variety of scientific opinions and methodological approaches to accounting policies formation, external environment`s state being in flux, local business` transition to IFRS ignited the need to improve accounting policies taking into account the requirements of modern management under uncertainty and risk. This makes the problem solving of the accounting policies` impact on financial performance assessment sought by the scientific environment and practitioners.

Objectives of the article

The main objectives of the article is to consider the features and some problems of the accounting policies formation in accordance with IAS and to highlight the impact of its individual elements on enterprise`s financial performance.

The main material of the research

Profit, which an entity earns, is an important aspect of its performance. It affects many parts of entity's activity, namely, the possibilities of additional foreign and domestic funding, solvency ratio, profit margin, lending for business activity, enterprise`s place in a market segment and many other categories. The difference between real profit and the reported amount may be caused by the following reasons:

1. Peculiarities of economic, political and legal business environment, i.e. direct environmental impact on the accounting;
2. Implementation of accounting policies` regulation impact, i.e. particular features of the methodology, forms, tools of making and organizing business accounting [6, p. 322].

Accounting legal documents at each level of business functioning differently influence the performance and can substantially change terms of functioning.

Table 1 - Regulations which impact different levels of business functioning

Level of functioning	Documents, which impact
International	International Accounting Standards (IAS)
Macro-level	The Law of Ukraine "On Accounting and Financial Reporting in Ukraine", Statement of standard accounting practice (SSAP), Economic Code of Ukraine, Tax Code of Ukraine, etc.
Meso-level	Laws of Ukraine, which regulate every market segment in Ukraine
Micro-level	Accounting policies order of every single entity

The interpretation of the "accounting policies" concept both by IFRS and legislature of Ukraine shows that an enterprise, before the beginning of the reporting period, selects within the limits set by standards or other regulations, certain methods, methodologies, ways of evaluation, forms of accounting organization to maintain current accounting and prepare financial statements. On

the one hand, it provides clear interpretation of financial reporting indices and on the other - it creates conditions for financial management [2]. That is why, it becomes necessary to define the nature of the "accounting policy" concept from scientific standpoint of various Ukrainian scholars.

Table 2 - The definition of the "accounting policy" concept in the studies of Ukrainian scholars

Author	Definition
T.B. Baranovska [1, p. 10]	Accounting policies are actions to form a set of methodological tools, methods and procedures of an entity; accounting, which corresponds to business` peculiar features and interests of its owners.
F.F. Butynets [10, p. 51]	Accounting policies are not just accounting methods selected to fit business` economic environment, but also the choice in accounting methodology, which allows to use different options to reflect business activity. In the broad sense, accounting policies can be defined as accounting management, and in the narrow sense, as methods of accounting (the choice of specific methods of accounting made by an enterprise).
L. G. Lovins`ka, B. I. Stefanyuk [8, p. 63]	Accounting policies of an entity are principles, methods and procedures used for current accounting, preparation and financial reporting within the framework specified by the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", standards of accounting, other regulatory documents approved by the Ministry of Finance of Ukraine and other executive bodies after approval with the Ministry of Finance.
M. S. Pushkar`, M. T. Schyrba [16, p. 151]	Accounting policies act as the constitution of an enterprise, which provides rights and responsibilities of the accounting system to form information resources for managers.
V.A. Shpak [17, p. 204]	Accounting policies are purposeful organizational and managerial activities aimed at the formation of the accounting practice (clear organization of accounting in accordance with the established accounting rules).

According to the international and Ukrainian legal basis` analysis, it has been determined that there are the

discrepancies in "accounting policies" definitions [13, p.16].

Table 3 - Definition of the accounting policies by international and national legal basis

Regulations	Definition
IAS 8 "Accounting policies, accounting assessments` adjustment and errors" [9]	Accounting policies are specific principles, basis, arrangements, policies and procedures applied by an entity when preparing and providing financial statements.
The Law of Ukraine "On Accounting and Financial Reporting in Ukraine" [14]	Accounting policies are principles, methods and procedures used by an entity to prepare and submit financial statements.
NSAP 1 "General requirements for financial statements" [3]	Accounting policies are principles, methods and procedures that an entity uses to prepare and submit financial statements.
Guidelines for accounting policies of an enterprise [3]	... principles, methods and procedures used by an entity for accounting, financial statement preparation and reporting. Accounting regulations provide more than one option for them. Moreover, they are preliminary estimates used by an entity to allocate costs between relevant reporting periods. Accounting policies are the elements of business` accounting system.

According to the above-mentioned definitions of the accounting policies it is clear that International Financial Reporting Standards (IFRS) 8 emphasizing the reliability of the financial statements, assume that, in the absence of the applicable IFRS`s principles and requirements, arrangements, national rules and accounting practices can be used to evaluate accounting policies. Domestic accounting system is based on international standards, so

Ukrainian accountant when developing business accounting policies is guided not only by the principles of financial reporting and requirements, rigidly prescribed in the current accounting standards and other regulations, but also (in the absence thereof) by professional thoughts, focusing on similar operations, established in industry practice, and using specialized (professional) Accounting literature and own opinion [13, p. 16]. After all, professional judgment is a

reasonable opinion of a professional accountant about the ways to qualify and disclose reliable information concerning entity's financial position, financial performance and their changes. Accountant's opinion is consistent in professional auditors' opinion and has significant impact on the formation of accounting estimates.

Accountant's professional judgment is expressed through the elements of accounting policies. It should be designed as a system of documents included into the entity's accounting policies. It is a unique instrument by which:

- actual integration of the accounting system to business requirements is established;
- accounting and reporting regulatory system is improved by requests and assertions of each accounting policies' element towards regulatory authority;
- contradictions of current legislation are revealed, which allows to improve current laws;
- professional ethics of chief accountants is maintained as well as their proper protection.

It has been a lengthy process of IAS implementation. It is still being continued. The current period has the following positive characteristics [3, p. 69]:

- regulatory support at the state level and of individual regulatory authorities (National bank of Ukraine, National Securities and Stock Market Commission, etc.) has been proved;
- formal engagement with the IFRS Board (standards are translated into the state language and are freely available to anyone);
- web resource dedicated to the issues of IFRS implementation has been set up and posted on the website of the Ministry of Finance. It contains sufficient amount of useful information, tips for IFRS's practical application;
- broad public discussion of IFRS implementation processes has been organized; round tables, scientific and practical conferences are being held;
- submission of financial statements according to IFRS is being regulated; controlling bodies are in charge of this aspect's supervision.

Nevertheless, despite significant positive features, there are also some problems that can be divided into three groups [7, p. 69]:

1. Technical difficulties:

- present accounting system and financial reports preparation does not fully correspond with national Statement of standard accounting practice;
- problems in the assessment of certain positions at the date of transition;
- the necessity to apply accountant's professional judgment;
- tools of IFRS application;
- strong links with tax accounting.

This problem requires state intervention and top-level decision under the umbrella of the International

Standards Board to overcome quickly the gap between IAS and Statement of standard accounting practice. After all, international standards formed the basis of national standards in the past, but local standards have ceased to develop and have not changed over time. This led to the gap.

2. Organizational problems. Many national enterprises believe that accounting and reporting are at internal issue of accounting department. However, this is not the case. The procedure of information preparation and reporting that meets international standards requires the involvement of a wide range of technical, analytical, financial services, lawyers, appraisers, etc. This, in turn, requires top management's awareness of the responsibility at the moment of the reporting approval and as a result relevant framework's formation for timely collection and quality processing of the diverse information concerning enterprise performance, as well as of accurate financial reporting.

To solve the problem, it is necessary to establish governmental professional advisory services or independent trade unions of professionals to assist each business to set up accounting system to meet legal requirements or its own needs.

3. Pedagogical difficulties. Currently, there are no mandatory requirements in the legislative framework for accountants to confirm their knowledge of IFRS. There is a growing need to amend higher education institutions' curriculum and to improve the study program of "Financial statements by IFRS". Therefore, regulators should take into account specific industry characteristics to develop IFRS-based vocational training programs and to approve the list of the existing international diplomas, which certify IFRS knowledge.

Integration of the existing international certificates approving IAS and IFRS knowledge in Ukraine and the possibility to obtain them for students of higher education establishments are of great importance. Advanced level of experts' vocational training could be reached by setting up courses or schools in the regional cities of our country.

Also, entity's choice in accounting policies, which reports in accordance with international standards, is not discretionary, but limited to the provisions of standards and their interpretation. Thus, according to paragraph 7 of IAS 8, if IFRS is specifically applied to an operation, other activity or condition, then the accounting policy or accounting policies applied to the component should be determined by using IFRS. In the absence of IFRS specifically applicable to an operation, other activity or condition, management should rely on assertions when developing and putting into use accounting policies so that the information is: (a) relevant; b) reliable [9].

It is also important to note that principles of reporting items' assessment and accounting methods for separate reporting items defined independently by an enterprise and set out in the accounting policy document, may affect its financial performance. Hence, directly on its investment attractiveness. Therefore, it is important to focus on the main ones [6, p. 322 - 323]:

1. The choice in fixed assets depreciation method. Accelerated depreciation of production fixed assets leads to the increase in the cost of production and decrease in profit, and consequently, the income tax. IAS 16 "Fixed assets" stipulates that depreciation method applied to an asset should be revised at least at the end of each financial year, and if there is a significant change in the expected consumption pattern of future economic benefits embodied in the asset, the method should be modified to reflect the modified form [11].

National standards do not require at least annual revision of depreciation method for fixed assets. In accordance with paragraph 28 of the Statement of standard accounting practice 7 "Fixed assets", depreciation method of fixed asset is revised, if the expected method of obtaining economic benefits is modified [12].

Revision of depreciation method allows to actively affect financial performance by depreciation adjustment. Besides, methods periodic review will encourage accountants to choose historical and situational methods, and thus cost-effective solution for an enterprise.

2. Change in fixed assets revaluation method: by historical cost indexation using average conversion index or by direct historical cost restatement into prices fixed at the restatement date for the related fixed assets. Fixed assets revaluation method affects depreciation charges and as a result profit and shareholders' equity [11].

According to international IAS standards, the fixed assets assessment is subject to IAS 16, which provides that an entity should choose as its accounting policies either the cost price model or the revaluation model. It should apply those policies to the entire class of fixed assets [11].

In accordance with paragraph 17 of the Statement of standard accounting practice 7, historical cost revaluation and fixed assets depreciation is determined by multiplying, respectively, the historical cost and fixed assets depreciation by the conversion index. However, it should be noted that national regulatory framework does not prohibit the revaluation based on direct restatement into prices fixed at the restatement date for the related fixed assets [12].

3. The choice in consumed inventories estimation method. An enterprise when determining accounting policies under IFRS or Statement of standard accounting practice, may choose one of the following methods to calculate the cost of inventories (cost price formulas):

- 1) specific identification of their individual cost price (for non-substitutable inventory units and project-specific goods or services);
- 2) "first-in-first-out" (FIFO);
- 3) weighted average cost;
- 4) standard costing method;
- 5) retail method can be used for convenience if their results are approximately equal to the cost price [4; 5].

These methods directly affect the profit and income tax.

4. Choice in sales revenue recognition method. The current sales revenue recognition method means that accrued income is not supported by the real cash inflow to an enterprise, as this method initiates cash outflow by accelerating payments into the budget by income tax. Buyers' short payment delay may cause a deterioration in business' financial position. Therefore, this method makes enterprises to switch to prepayment, which does not meet market economy standards.

5. Choice in the method of indirect costs allocation between individual accounting and calculation entities. The allocation of indirect costs to accounting and costing objects may be in proportion to the basic wages of production workers, in proportion to production cost, or by other methods that reflect the characteristics of that production. The method of allocating indirect costs significantly affects the accuracy of calculating the cost and profitability of certain types of products, works and services.

Classification of indirect costs according to accounting and costing objects may be set in proportion to the basic wage of production workers, in proportion to cost price or by application of other methods reflecting characteristics of the production. The method of indirect costs classification significantly affects the accuracy of cost price and certain types of products', works' and services' profitability calculating.

Moreover, businesses select methods of intangible assets evaluation and ways of calculating depreciation for them, prepaid expenses and payment reserves, methods of determining allowance for doubtful accounts and other, which affect the financial performance.

Conclusions

The above list of the main ways of accounting policies impact on profit of enterprise (which is not exhaustive) confirms the conclusion that building of accounting policies is an important activity of managers and accountants practices. This allows not only to obtain complete and objective information about financial performance, but also to choose the optimal procedure of profit taxation and to avoid unreasonable overestimation or underestimation of profit indicators based on the principle of objectivity. It is especially relevant to the prospects of profit application.

Ukrainian enterprises transition to International Financial Reporting Standards requires amendments to its accounting policies, which primarily has to be based on principles, bases and rules provided by international standards in accounting and financial reporting business practices. This will enable businesses not only to become members of international relations, but also to create their own quality accounting policies which will fully reflect the enterprise's real position and support the principle of continuity which will change only by the law.

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