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FINANCIAL REPORTING AS INFORMATION SUPPORT FOR MONITORING THE FINANCIAL STATE OF THE ENTERPRISE

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Financial reporting is a mandatory component of the reporting of any modern enterprise, and its formation is a certain logical conclusion of accounting. It is established that “the main requirement for the information presented in the statements is that it should be informative for users, that is, that the information contained in the financial statements can be used to make informed decisions. The main criteria that information must meet are: relevance, comparability, reliability, comprehensibility, truthfulness, neutrality” [2]. It has been proven that the formation of financial statements based on accounting data is carried out to meet the information needs of users. The main indicators of financial reporting are compiled in accordance with the norms of NP(S)BO 1 “General requirements for financial reporting” [2]. It was concluded that the domestic reporting practice provides for the formation of financial statements both according to national provisions (standards) of accounting and according to international standards of financial statements. The main forms of financial reporting, which are the information support for the analysis of the financial state of the enterprise, are recognized as the Balance Sheet (Report on the financial state) and the Report on the financial results.

ФІНАНСОВА ЗВІТНІСТЬ ЯК ІНФОРМАЦІЙНЕ ЗАБЕЗПЕЧЕННЯ МОНІТОРИНГУ ФІНАНСОВОГО СТАНУ ПІДПРИЄМСТВА

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НП(С)БО, МСФЗ, облік

Фінансова звітність є обов'язковою складовою звітності будь-якого сучасного підприємства, а її формування є певним логічним підсумком ведення бухгалтерського обліку. Встановлено, що «основна вимога до інформації, представленій у звітності полягає в тому, щоб вона була інформативною для користувачів, тобто, щоб відомості, що містяться у фінансовій звітності, можна було використати для прийняття обґрунтованих рішень. Основні критерії, яким повинна відповідати інформація, це: доречність, порівнянність, вірогідність, зрозумілість, правдивість, нейтральність» [2]. Доведено, що формування фінансової звітності на підставі даних бухгалтерського обліку здійснюється для задоволення інформаційних потреб користувачів. Основні показники фінансової звітності складаються відповідно до норм НП(С)БО 1 «Загальні вимоги до фінансової звітності» [2]. Зроблено висновок, що вітчизняна звітна практика передбачає формування фінансової звітності як за національними положеннями (стандартами) бухгалтерського обліку, так і за міжнародними стандартами фінансової звітності. Основними формами фінансової звітності, що є інформаційним забезпеченням аналізу фінансового стану підприємства, визнано Баланс (Звіт про фінансовий стан) і Звіт про фінансові результати.

Introduction

Assessment and analysis of the financial state of the enterprise require high-quality and unbiased information support, the source of which in modern conditions is the so-called financial reporting of enterprises, which is formed according to certain rules on the basis of accounting data.

Financial reporting is a mandatory component of the reporting of any modern enterprise, and its formation is a certain logical conclusion of accounting. On this issue, it is worth noting that the Law of Ukraine dated 07.16.1999. No. 996-XIV “On accounting and financial reporting in Ukraine” [1] actually perceives the formation of financial reporting in combination with accounting. Thus, according

to Article 3 of this regulatory document, “the purpose of accounting and financial reporting is to provide users with complete, true and unbiased information about the financial condition and results of the enterprise’s activities for decision-making” [4]. It is indicative that already at this stage of regulatory regulation, the purpose of both accounting and financial reporting is to provide users with high-quality information about the company’s financial condition.

Analysis of recent research and publications

The concept of financial reporting is an important element of the organization and management of modern accounting. The study of the economic and accounting essence of the “financial reporting” category is relevant for many scientists. Thus, Table 1 systematizes the definitions presented in various scientific works.

Setting objectives

The purpose of the article is to display financial statements as information support for monitoring the financial state of the enterprise.

Presentation of the main research material

Considering the question of the place of international financial reporting standards in the genesis of financial reporting as such, it is also worth noting that “international financial reporting standards belong to the Anglo-Saxon tradition of financial accounting and are characterized as standards based on principles (principles based standards), unlike, for example, from the GAAP system adopted in the USA – rules-based standards. This means that IFRS do not detail all procedures and stages of financial accounting, preferring trust in the professional independence of accountants, official conscience and personal professional judgment” [4].

Standard financial reporting is almost the only source of information about the economic and financial activities of the enterprise for users who do not have access to other accounting information and internal reporting of the enterprise. That is why “financial reporting should satisfy the needs of those users who cannot require reports

compiled taking into account their specific informational requirements” [4].

It is worth noting that “in a market economy, all business entities are interested in receiving full and open information about each other’s actions. Market relations give rise to the interest of borrowers and creditors, issuers and investors, banks and depositors, directors and shareholders, the state in transparent financial reporting, where it is possible to reveal the effectiveness of decisions and determine the responsibility of those who make them” [4].

A mandatory condition for the formation of financial reporting is the provision of an adequate quality level, because otherwise the generated reporting will not be able to provide users with quality information for making informed and effective management decisions. “The main requirements for reporting are reality, clarity, timeliness, unity of methodology of reporting indicators, comparability of reporting indicators with past ones. The qualitative characteristics of financial reporting are as follows: the information provided in financial reports must be understandable and calculated for unambiguous interpretation by its users, provided that they have sufficient knowledge and are interested in perceiving this information” [3].

Chapter III “Qualitative characteristics of financial reporting and principles of its preparation” of the National regulation (standard) of accounting 1 “General requirements for financial reporting” [2] is devoted to the issue of ensuring a high-quality level of financial reporting. Figure 1 schematically presents the main qualitative requirements for financial reporting.

First of all, “the main requirement for the information presented in the statements is that it should be informative for users, that is, that the information contained in the financial statements can be used to make informed decisions. The main criteria that information must meet are: relevance, comparability, reliability, comprehensibility, truthfulness, neutrality” [2].

In accordance with the norms of NP(S)BO 1 “General requirements for financial reporting”, the financial reporting of the enterprise “is formed in compliance with

Table 1 – Identification of the category “financial reporting” in scientific research

Definition	Author and source
Financial reporting is a system of “generalized accounting indicators, structured in the form of reports, which provide users with information about the financial condition, results of operations, cash flows and changes in the company's equity during the reporting period for these users to make appropriate decisions” [3]	O.M. Andrienko
Financial reporting is a system of tables and indicators of reports that reflect the financial and property situation of the organization, the results of its economic activity for a certain period	A.K. Borisov, B.A. Reisberg
Financial reporting is a way of summarizing the monetary assessment of the state of economic assets, financial resources and the sources of their formation on a certain date in the form of reporting tables compiled for internal and external users with the aim of making managerial and investment decisions.	V.V. Kyrychenko, V.I. Safonova
Financial reporting – reporting based on the results of the enterprise's activities, which enables users of financial reporting to familiarize themselves with its property and financial condition.; financial reporting is a kind of information model of a business entity	A.I. Malyshkin
Financial reporting - “a set of registers of generalized (consolidated, grouped, generalized) indicators for a certain period, characterizing the statics and dynamics” of accounting objects [4]	M.S. Pushkar
Financial reporting – a collection of reporting forms compiled on the basis of accounting data with the aim of providing the user with generalized information about the enterprise	N.M. Tkachenko
Financial reporting is an independent system of presenting data necessary for information support of management, which is not a constituent element of accounting	P.Ya. Homin

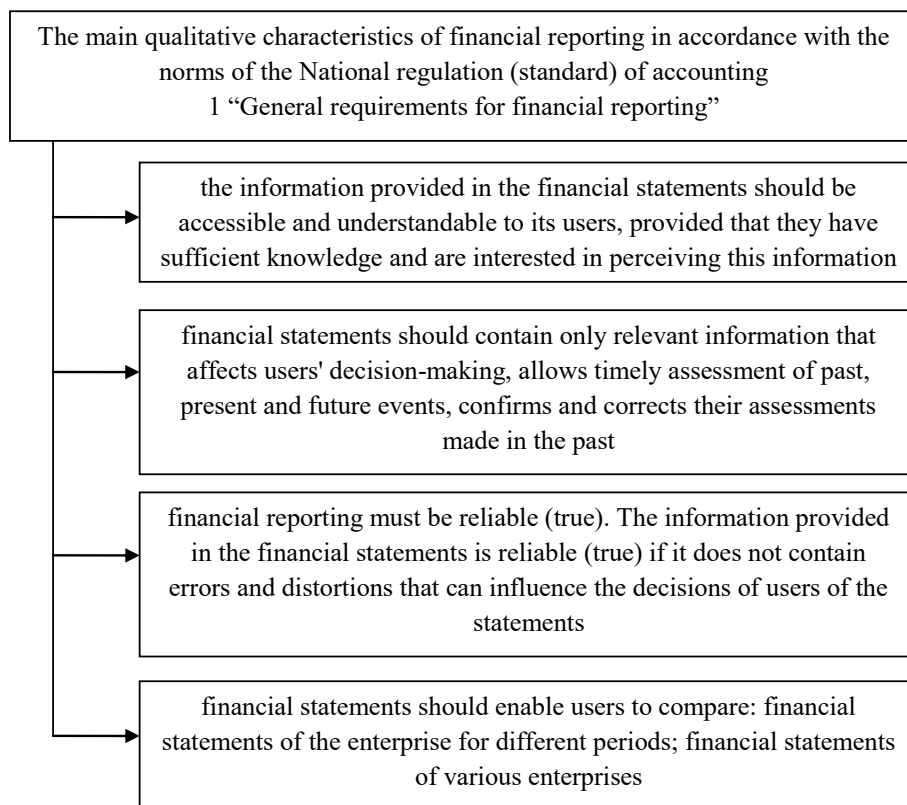


Fig. 1 – Basic qualitative requirements for financial reporting

the following principles: “autonomy of the enterprise; business continuity; periodicity; historical (actual) cost price; accrual, according to which income and expenses are reflected in accounting and financial reporting at the time of their occurrence, regardless of the time of receipt or payment of funds (money); full coverage; sequences; prudence; the predominance of essence over form; of a single monetary measure” [2].

Forming financial statements based on accounting data according to generally accepted practice is carried out

to meet the information needs of users, i. e. “natural or legal persons who need information about the company’s activities to make decisions” [4]. Understanding the composition of users – internal and external – of financial reporting data is important for the characterization of financial reporting as such. Table 2 presents the main groups of users of financial statements with an indication of their main information needs.

The formation of financial statements in domestic accounting practice is standardized by national accounting

Table 2 – Characteristics of the main users of financial statements

Users financial reporting	Characteristics of basic information needs
Existing owners (participants, shareholders) of the enterprise	Making decisions regarding the further ownership of property, making decisions regarding the payment of dividends (if there is a profit), evaluating the quality of management and, if necessary, making decisions about changing the management of the enterprise, making other strategic management decisions
Potential owners, investors	Making decisions about the expediency of acquiring shares or the share of the enterprise, making decisions about the expediency of investments
Enterprise management	Adoption of various operational and tactical management decisions to ensure the company's activities
State Tax Service	Verification of compliance of the recognized tax obligations of the enterprise with the results of its work, assessment of the prospects of the enterprise for the needs of tax forecasting and planning
State Statistics Service	Further systematization of information on the activities of enterprises at the branch, regional and national level
Private creditors – banks, suppliers, etc	Assessment of the company's ability to fulfill its obligations in a timely manner and in full
Buyers (customers)	Assessment of the company's ability to fulfill its obligations (including guarantees) in a timely manner and in full
Employees, trade union organizations	Assessment of the company's ability to timely and fully fulfill its obligations regarding labor remuneration; assessment of the stability of the employer from the point of view of further employment

regulations (standards), but it is worth paying attention to the fact that the composition and order of formation of financial statements depends on the size of the legal entity.

Thus, in accordance with the norms of Article 2 of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” for the settlement of issues related to the organization and maintenance of accounting and the formation of financial reporting, “enterprises (except budget institutions) may belong to micro-enterprises, small, medium or large enterprises” [1]. Table 3 presents the criteria for identifying enterprises by size in accordance with the specified law.

Legal entities belonging to large and medium-sized enterprises according to the above criteria, during the formation and submission of financial statements, are guided by the norms of the National Regulation (standard) of accounting 1 “General requirements for financial reporting” and prepare a complete package of financial reporting accordingly.

– The financial statements of large and medium-sized enterprises or the so-called complete package of financial statements, which is formed in accordance with the norms of NP(C)BO 1, consists of:

- balance sheet (financial statement);
- report on financial results (report on total income);
- cash flow report;
- report on equity;
- note to financial statements” [2].

The main indicators of the financial statements prepared in accordance with the norms of NP(S)BO 1 “General requirements for financial statements” are expressed in thousands of UAH without a decimal point. It is believed that in reporting as a source of aggregated information, users’ attention should not be drawn to small insignificant amounts.

Financial statements of micro-enterprises and small enterprises are formed according to separate rules as so-called simplified financial statements. Such simplified financial reporting is prepared in accordance with the norms of the National accounting regulation (standard) 25 “Simplified financial reporting”. This regulatory document provides for the formation of financial statements in the form of Financial Statements of a small enterprise (Forms 1, 2) and Financial Statements of a microenterprise (Forms 1, 2). Simplified financial statements are drawn up in thousands of UAH with one decimal place.

According to Art. 13 of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” “the reporting period for preparing financial statements is the calendar year” [1]. In addition, such a concept as interim financial reporting is provided, which “is compiled based

on the results of the first quarter, first half of the year, nine months” [1]. Interim financial statements are formed by large and medium-sized enterprises as part of the balance sheet (statement of financial position) and the statement of financial results (statement of total income).

Important users of financial reporting are state authorities, primarily the State Statistics Service and the State Tax Service.

In accordance with Clause 5 of the Resolution of the Cabinet of Ministers of Ukraine dated February 28, 2000. No. 419 “On approval of the procedure for submitting financial statements” to the authorities of the State Statistics Service, interim financial statements (I quarter, first half of the year, nine months) are submitted no later than the 30th of the month following the reporting quarter, and annual financial statements – no later than February 28 following the reporting year [1]. Only corporate income tax payers submit financial statements to the State Tax Service. Financial reporting in such cases is recognized as a mandatory appendix to the Tax Declaration on corporate income tax.

Regulation of confidentiality or publicity of financial reporting deserves special attention. Yes, Art. 14 of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” defines that “financial statements of enterprises do not constitute commercial secrets, are not confidential information and do not belong to information with limited access, except in cases provided for by law. The ban on the distribution of statistical information does not apply to financial reporting. Enterprises are obliged to provide copies of financial statements and consolidated financial statements at the request of legal entities and individuals in the manner prescribed by the Law of Ukraine “On Access to Public Information” [1].

The Law of Ukraine “On Accounting and Financial Reporting in Ukraine” provides that “enterprises of public interest (except for large enterprises that are not issuers of securities), public joint-stock companies, subjects of natural monopolies on the national market and subjects Business entities operating in extractive industries are required to publish annual financial statements and annual consolidated financial statements together with an audit report on their website (in full) no later than April 30 of the year following the reporting period and in another way in the cases specified by law. Large enterprises that are not issuers of securities and medium-sized enterprises are obliged to publish the annual financial statements together with the auditor’s report on their website (in full) no later than June 1 of the year following the reporting period” [11].

The domestic reporting practice provides for the formation of financial statements both according to national

Table 3 – Criteria for identification of enterprises by size according to the Law of Ukraine No. 996-XIV

Identification criteria		Types of enterprises			
		micro	small	average	big
indicators as of the date of drawing up the annual financial statements for the year preceding the reporting year must meet at least two of the specified criteria	book value of assets	up to 350.000 euros	up to 4 million euros	up to 20 million euros	more than 20 million euros
	net income from the sale of products (goods, works, services)	up to 700.000 euros	up to 8 million euros	up to 40 million euros	more than 40 million euros
	the average number of employees	up to 10 people	up to 50 people	up to 250 people	more than 250 people

provisions (standards) of accounting and according to international standards of financial reporting.

Yes, according to Art. 12 of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” “enterprises of public interest, public joint-stock companies, economic entities that carry out activities in the extractive industries, as well as enterprises that conduct economic activities by types, the list of which determined by the Cabinet of Ministers of Ukraine, prepare financial statements and consolidated financial statements according to international standards” [1]. It should be noted here that enterprises of public interest include, in particular, banks, insurers, non-state pension funds, other financial institutions (except for other financial institutions and non-state pension funds belonging to micro-enterprises and small enterprises) and enterprises belonging to large enterprises.

In accordance with Clause 5 of the Resolution of the Cabinet of Ministers of Ukraine dated February 28, 2000. No. 419 “On approval of the Procedure for submitting financial statements” “financial statements according to international standards of financial statements are formed by enterprises that conduct economic activities according to the following types:

- provision of financial services, except for insurance and pension provision (Chapter 64 SICDC009:2010);
- non-state pension provision (group 65.3 SICDC009:2010);
- auxiliary activities in the spheres of financial services and insurance (chapter 66 SICDC009:2010, with the exception of auxiliary activities in the field of insurance and pension provision (group 66.2009:2010)” [1].

It is also worth paying attention to the fact that enterprises, which are not subject to the requirement to prepare financial statements according to international standards, have the right to independently determine the

feasibility of applying international standards for the preparation of financial statements.

The main forms of financial reporting, which are the information support for the analysis of the financial condition of the enterprise, should be recognized as the Balance Sheet (Report on the financial condition) and the Report on the financial results.

The balance sheet of the enterprise traditionally displays information on the monetary valuation of the assets, equity and liabilities of the enterprise. It is the balance sheet that provides users with information and provides information on the property and financial condition of the enterprise.

According to the standard definition, the balance sheet is “the accounting method, which is a method of grouping and comparing the monetary value of economic assets and the sources of their formation on a certain date” [1]. By its accounting essence, the balance sheet is the result of observing the principle of double entry in accounting, and accordingly, the sum of the Assets of the balance sheet, where the monetary value of assets (business assets) is given, should be equal to the sum of the Liabilities of the balance sheet, where information is given about the company’s equity and liabilities.

As already noted above, according to domestic reporting practice, legal entities belonging to the category of large and medium-sized enterprises form a balance sheet as part of a complete package of financial reporting in accordance with the norms of the National Regulation (standard) of accounting 1 “General requirements for financial reporting”. Accordingly, we are talking about the so-called form 1 – Balance Sheet (Statement of Financial Status), the general structure of which, in accordance with the norms of NP(S)BO 1, is presented in Figure 2.

Next to the balance sheet, an important source of information support for the analysis of the financial state of the enterprise is reporting on income, expenses and

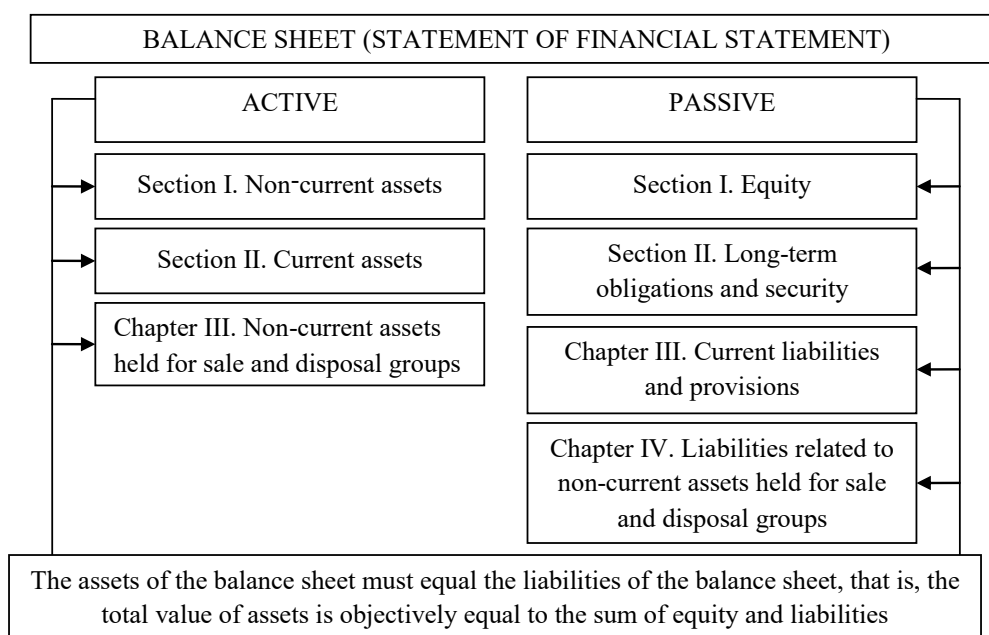


Fig. 2 – Structure of the Balance Sheet (Statement of Financial Status) according to the norms of NP(S)BO 1

financial results – the Report on financial results (Report on total income). It is about form 2 of the complete package of financial reporting, which is formed in accordance with the requirements of NP(S)BO 1 “General requirements for financial reporting” by large and medium-sized enterprises.

The report on financial results (Report on total income) consists of the following four information sections: “Financial results”, “Total income”, “Elements of operating expenses”, “Calculation of indicators of profitability of shares”.

The first section of the “Financial Results” report, the structure of which is presented in Figure 3, provides basic information about the company’s income, expenses, and financial results.

It is the information in the Report on financial results that allows you to assess the influence of such elements as profitability, profitability and the level of business activity on the formation of the financial result and to determine the trends of its change.

Summarizing, it should be noted that the information support for the analysis and, accordingly, monitoring of the financial state of the enterprise is not limited to financial reporting data, because separate accounting and statistical data are also involved for the analysis, but such data are available only to certain categories of users, in particular to the management and owners of the enterprise.

Conclusions

Assessment and analysis of the financial state of the enterprise require high-quality and unbiased information support, the source of which in modern conditions is financial reporting, which is formed according to clear standards on the basis of accounting data. Financial reporting makes it possible to assess profitability, profitability, development prospects and determine ways to coordinate management decisions.

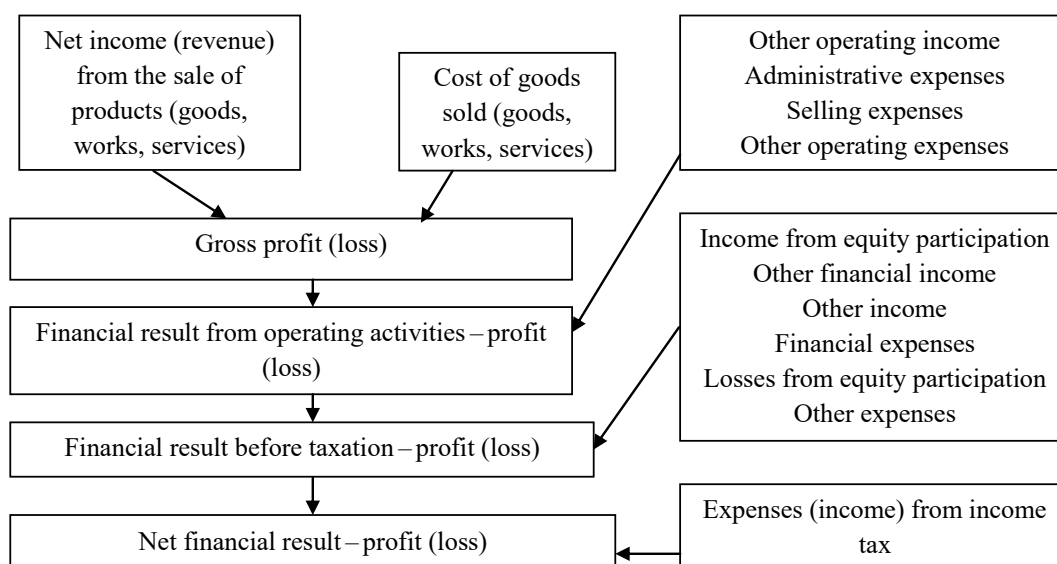


Fig. 3 – Scheme of Section I. “Report on financial results” in accordance with the norms of NP(S)BO 1 “General requirements for financial reporting”

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