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FINANCIAL REPORTING OF BUSINESS ENTITIES TO NATIONAL AND INTERNATIONAL ACCORDING STANDARDS: A COMPARATIVE ASPECT

ФІНАНСОВА ЗВІТНІСТЬ СУБ'ЄКТІВ ПРИВАТНОГО СЕКТОРУ ЗА НАЦІОНАЛЬНИМИ ТА МІЖНАРОДНИМИ СТАНДАРТАМИ: ПОРІВНЯЛЬНИЙ АСПЕКТ

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Шацкова Л.П., Новак Н.Г., Григор'єва А.В., Сімова А.О. Фінансова звітність суб'єктів приватного сектору за національними та міжнародними стандартами: порівняльний аспект. Оглядова стаття.

Стаття присвячена порівнянню складу та структури форм фінансової звітності суб'єктів приватного сектору за національними та міжнародними стандартами. Розглянуто перелік суб'єктів господарювання, які зобов'язані подавати звітність за МСФЗ, та інформація, яка повинна бути розкрита при наданні фінансової звітності. Розглянуто комплект фінансової звітності за національними та міжнародними стандартами. Зроблено порівняння положень національного та міжнародних стандартів стосовно звіту про фінансовий стан та звіту про фінансові результати.

Ключові слова: фінансова звітність, звіт, національні стандарти, міжнародні стандарти

Shatskova, L.P., Novak, N.G., Grigoryeva, A.V., Simova, A.O. Financial Reporting of Private Sector Entities According to National and International Standards: a Comparative Aspect. Review article.

The article is devoted to comparing the composition and structure of financial statement forms of private sector entities according to national and international standards. It examines the list of economic entities obliged to submit reports according to IFRS, along with the information that must be disclosed in providing financial statements. The set of financial statements under national and international standards are revised, comparing the provisions of national and international standards regarding the statement of financial position and the statement of comprehensive income.

Keywords: financial statement, financial report, national standards, international standards

In the conditions of business internationalization, an increasing number of economic entities are turning to international financial reporting standards to ensure standardized and understandable reporting. At the same time, many countries have their own national financial reporting standards, which may differ from international standards. These national standards might be more adapted to local conditions and legislation but less standardized and more complex to compare with the financial reporting of other countries. This situation can create certain challenges for economic entities involved in business relations across countries. Comparing financial statements based on national and international standards can reveal the advantages and disadvantages of each standard help improve national standards, ensure their compliance with international standards, and enhance their quality, what has determined the relevance of the chosen topic.

Analysis of recent research and publications

The issues concerning the theoretical aspects of formation and preparation of financial statements according to international and national standards have been extensively studied by domestic scholars. This subject has been investigated by O.M. Bradul, S.F. Holov, L.V. Hutsalenko, Ya.V. Lebedzevych, N.M. Maliuha, V.M. Parkhomenko, M.V. Patarydze-Vyshynska, R.V. Skaliuk, S.B. Shypina, and many others. Despite increased attention from scholars, some aspects of forming financial statements according to international standards remain insufficiently explored in domestic literature and therefore require further study and synthesis.

The aim of the article is to investigate and compare the peculiarities of forming and presenting financial statements by entities under national and international standards.

The main part

Financial reporting is an essential tool for assessing the financial position, performance, and efficiency of economic entities. In the modern world, most countries have their own national financial reporting standards, the provisions of which may vary across different countries. One of the main advantages of international financial reporting standards is their ability to ensure standardization of financial reporting across different countries. This enables the comparison of financial statements of companies from different countries, allowing for the assessment of their efficiency and performance on a global scale.

International Financial Reporting Standards, established by the International Accounting Standards Board, define the procedures for preparing financial statements. According to amendments made by the Verkhovna Rada of Ukraine on October 5, 2017, No. 2164-VIII to the Law "On Accounting and Financial Reporting in Ukraine", let’s take a more detailed look at the enterprises that must provide financial statements according to international standards in Figure 1. This was done to make business activities more transparent and to create a unified reporting standard for all enterprises regardless of their location. Financial statements prepared according to international standards are considered a "quaity standard" and are more trusted in international markets.

According to the Law "On Accounting and Financial Reporting in Ukraine", Figure 2 depicts enterprises that are of public interest and include.

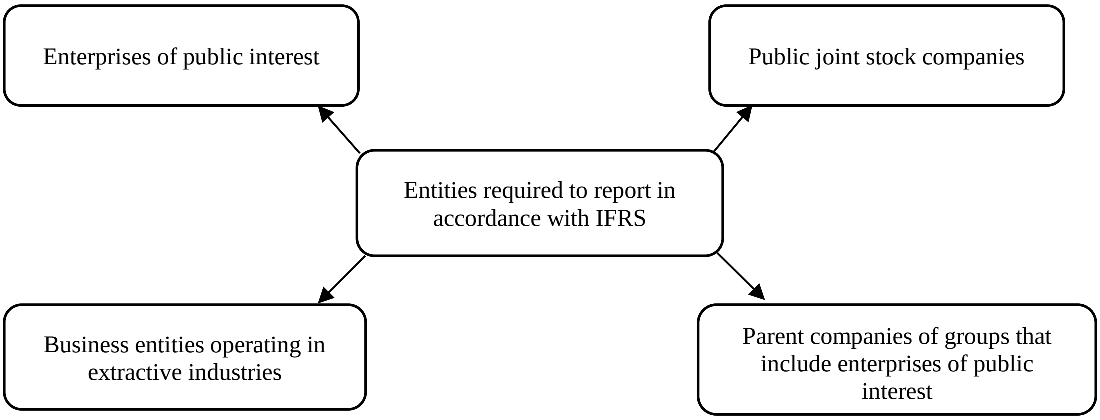

Figure 1. List of enterprises required to submit reports according to IFRS
Source: compiled by authors on materials [1]

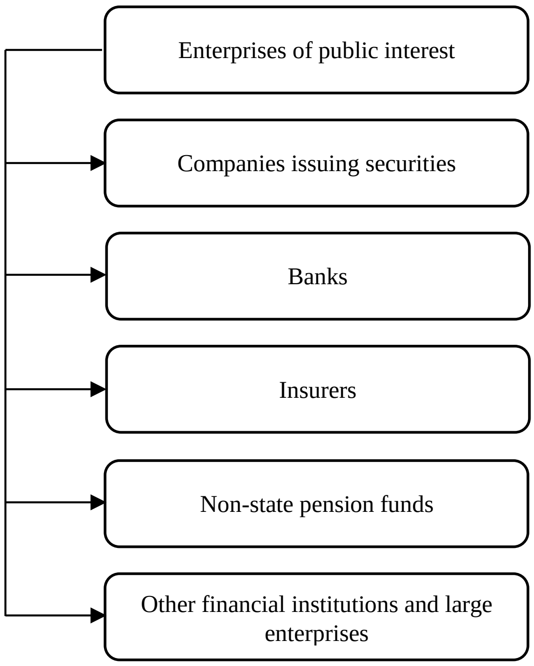

Figure 2. Enterprises of Public Interest
Source: compiled by authors on materials [5]

Table 1. Criteria that determine which group an enterprise belongs to

Criteria	Microenterprises	Large enterprises
Carrying amount of assets	Up to 350 thousand euros inclusive	More than 20 million euros
Net income from sales of products (goods, works, services)	Up to 700 thousand euros inclusive	More than 40 million euros
The average number of employees	Up to 10 people inclusive	More than 250 people

Source: compiled by authors on materials [5]

Criteria determining the group classification of enterprises are provided in Table 1.

According to the Cabinet of Ministers Resolution No. 419, enterprises obligated to provide reports under international standards include business entities engaged in the following activities:

- providing financial services, excluding insurance and pension provision.
- non-state pension provision.
- auxiliary activities in the financial services and insurance sectors, excluding auxiliary activities in insurance and pension provision [3].

If an enterprise does not fall within the list of entities obliged to provide financial reports under international standards, according to legislation, it can independently decide which standards to operate under and submit reports. Transitioning to international standards offers several advantages for the enterprise:

- enables listing securities on the stock market.
- simplifies relationships with foreign creditors, investors, insurers, and leasing companies.
- eases monitoring and control over overseas subsidiaries, if present.

In any case, such a step leads to economic and reputational growth. Figure 3 depicts the information that should be disclosed when providing financial reports under international standards by business entities, as per IFRS 1.

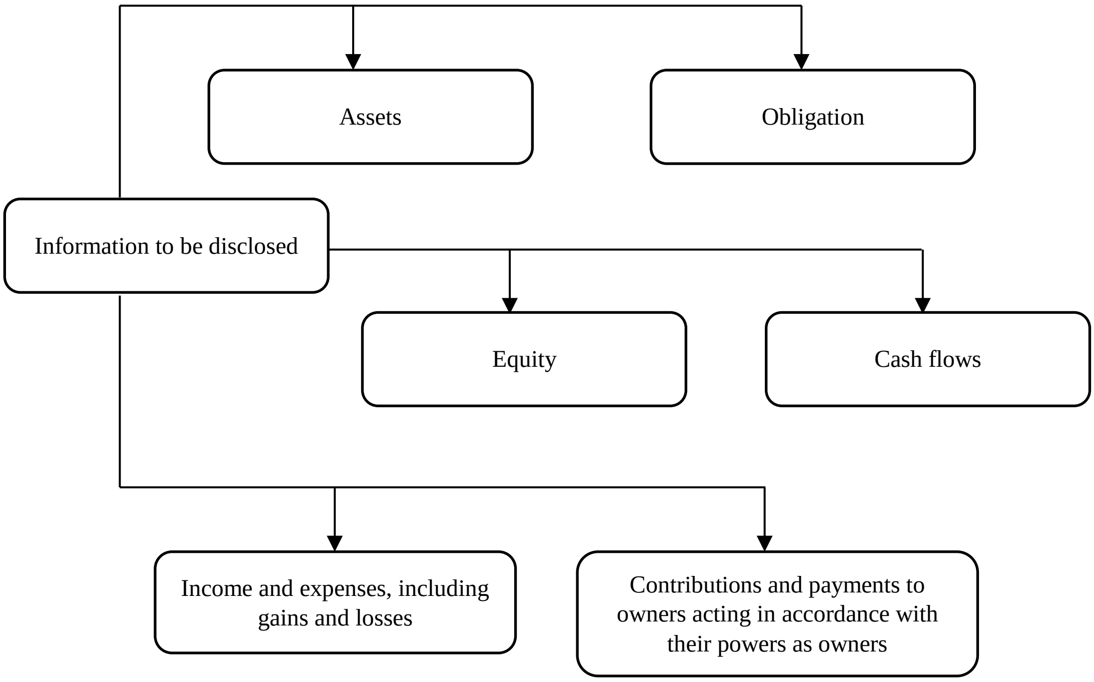

Figure 3. Information to be disclosed when providing financial reports under international standards by business entities, according to IFRS
Source: compiled by authors on materials [3]

The information mentioned above is provided by business entities in reports, the details of which are further examined in more detail in Figure 4.

One of the major differences is the set of financial statements. More detailed differences in the set of financial statements are considered in Table 2. This difference in the reporting set is associated with a different approach to financial reporting: under national standards, the financial reporting of the Ukrainian Accounting Standards Board (UASB) is more focused on current indicators, whereas under International Financial Reporting Standards (IFRS), it focuses more on long-term aspects.

There are significant differences between national and international reporting standards, particularly regarding Form №1 – Balance Sheet (Statement of Financial Position) and the Statement of Comprehensive Income (Form №2), as some of the most crucial financial reporting forms. Financial statements under national standards are presented in accordance with the National Accounting Regulation 1 "General Requirements for Financial Reporting".

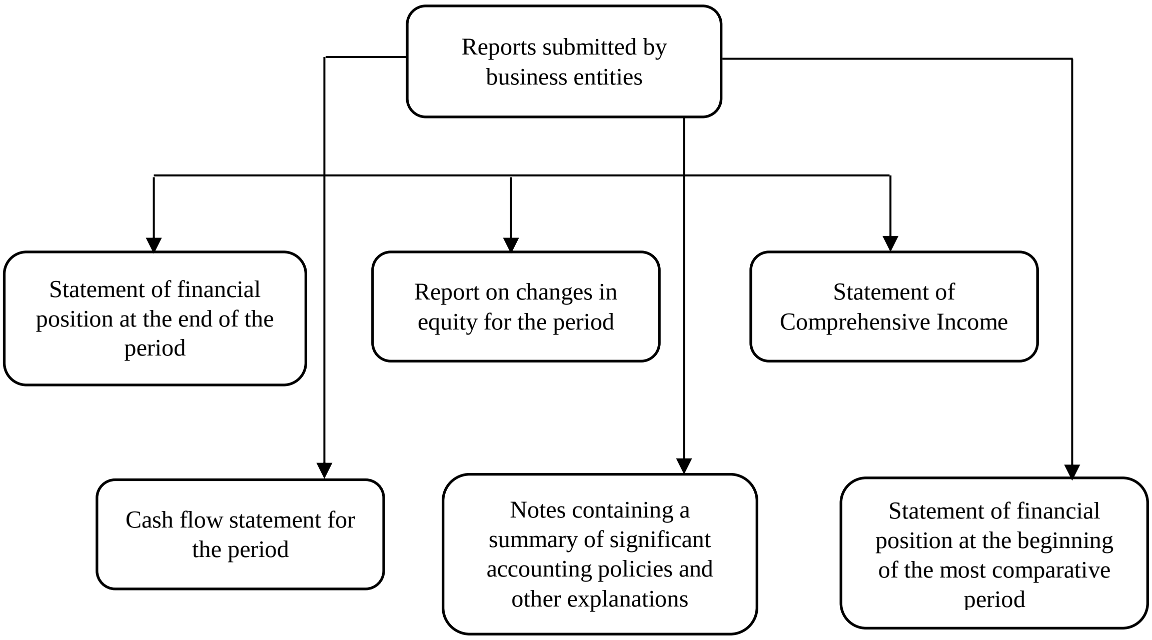

Figure 4. Reports provided by business entities
Source: compiled by authors on materials [3]

Table 2. Differences in the set of financial statements

IFRS	UASB
Statement of financial position	Balance sheet (Statement of financial position) - form 1
Statement of profit and loss and other comprehensive income	Report on financial results - form 2
Cash flow report	Cash flow report - form 3
Report on changes in equity	Statement of equity - form 4
Notes to the financial statements	Notes to the financial statements, including segment information

Source: compiled by authors on materials [1, 4]

According to this standard, the Balance Sheet reflects the assets, liabilities, and equity of the enterprise. The standard defines the form in which enterprises must provide the Balance Sheet. The main elements of the Balance Sheet include assets, liabilities, and equity.

Distinctive features of the Balance Sheet under national standards are:

- data presentation at the beginning and end of the reporting period.
- grouping of Balance sheet items by their economic substance.
- absence of offsetting assets and liabilities.
- confirmation of Balance sheet data through inventory results.
- valuation of Balance sheet items according to The Ukrainian Accounting Standards Board (UASB) [4]

Typically, information about assets is disclosed in order of increasing liquidity, while liabilities are presented in the order of their maturity. The asset section of the balance sheet includes information about non-current and current assets. Non-current assets include intangible assets, property, plant and equipment, long-term investments, and other long-term assets. Current assets consist of current assets: inventories, receivables, cash, and future period expenses.

The Balance Sheet assesses the autonomy, solvency, and creditworthiness of the enterprise, among other things. The presence of a timely and accurately prepared Balance Sheet enables every manager to consciously conduct business operations, analyze both positive and negative aspects of the enterprise's activities, identify internal reserves, and implement them effectively. Under international standards, this report has only one name - Statement of Financial Position. All aspects regarding the format, content, etc., are regulated by International Financial Reporting Standard 1 (IFRS 1) "Presentation of Financial Statements".

This standard provides a list of eighteen items that a business entity must provide information about. Figure 5 shows some of these items.

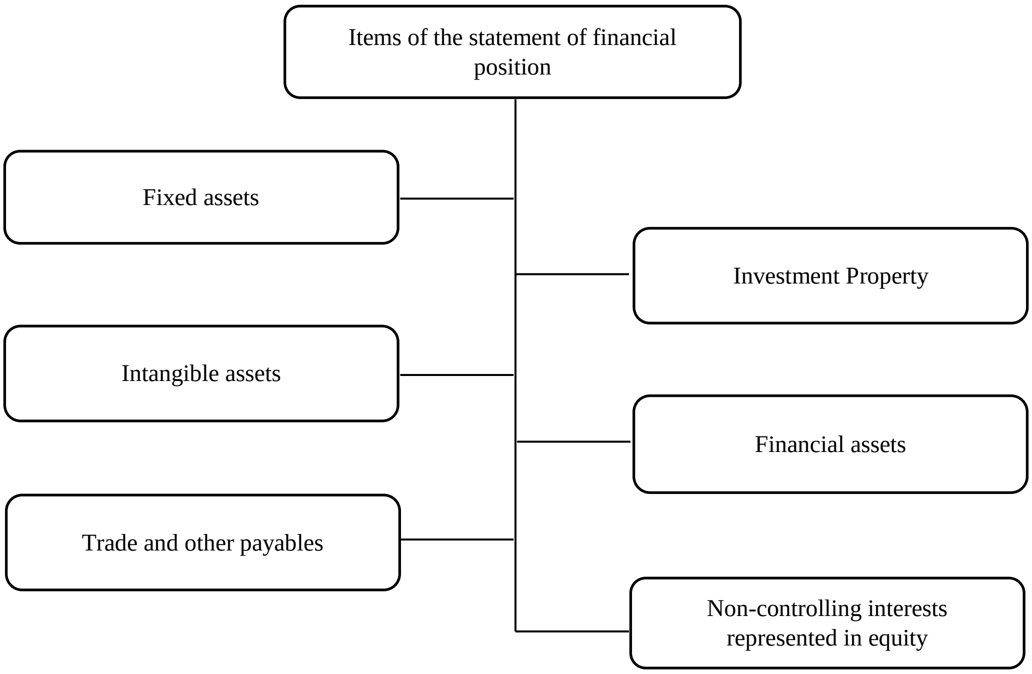

Figure 5. Articles of the Statement of Financial Position According to International Standards
Source: compiled by authors on materials [4]

Additional articles may be provided alongside the aforementioned items, as per National Standards. However, unlike National Standards, International Standards do not specify regulated additional items. Business entities, at their discretion, provide additional items based on assessments of:

— the nature and liquidity of assets.
— the function of assets within the business entity.
— the amounts, nature, and terms of liabilities.

Business entities present current and non-current assets and current and non-current liabilities as separate classifications in their Statement of Financial Position, except where liquidity-based presentation provides justified and more relevant information.

Moreover, unlike National Standards, the definitions of current and non-current assets and liabilities are explicitly defined.An asset is classified as current if it is an asset that:

— is expected to be realized or consumed in the normal operating cycle of the entity.
— is held primarily for the purpose of sale in the short term.
— is expected to be realized within twelve months after the reporting period.
— is cash or cash equivalents.

A liability is classified as current if:

— the business entity expects to settle the liability within its normal operating cycle.
— the liability is held primarily for sale.
— the liability is due to be settled within twelve months after the reporting period.
— there's no ability or right to defer settling the liability for at least twelve months after the reporting period [6].

A comparative summary of the Statement of Financial Position under National and International Standards is presented in Table 3.

Regarding the statement of financial performance or the statement of comprehensive income, according to National Provision 1, this report is provided in Form № 2, which is clearly regulated by this provision. This report discloses information about revenues, expenses, profits and losses, other comprehensive income, and the total income of the enterprise for the reporting period.

Form № 2 reflects the magnitude of the net income or loss and the individual components of this indicator:

— income/loss from product sales.
— operating income and expenses (positive and negative exchange differences).

Table 4 compares the provisions of the Ukrainian National Accounting Standards (UASB) and International Financial Reporting Standards (IFRS) for the preparation of the Statement of Financial Performance. According to the requirements of Ukrainian legislation, the Statement of Financial Performance (Statement of Comprehensive Income) has a regulated form. In most foreign countries, on the contrary, there is no standard form of the Statement of Profit and Loss and Other Comprehensive Income for the Period. These differences in the form of the Statement of Financial Performance make it difficult to compare financial statements prepared in accordance with the requirements of different regulatory documents.

Table 3. Comparison of the statement of financial position according to national and international standards

Criterion	UASB1	IFRS1
Reporting form	Form and structure are clearly regulated	The form is not regulated
Construction	Regulated. A clear list of asset and liability items is provided	Not regulated; an approximate list of balance sheet items is provided
Content of articles	Separate articles are provided for unfinished construction and to reflect the amounts from revaluation of non-current assets and valuable non-current assets received free of charge	There are many methods of accounting for long-term financial investments. Other additional paid-in capital includes amounts resulting from the revaluation of current financial investments carried at fair value
Ability to change the composition of articles	The composition of the articles is unchanged, but if necessary, additional lines are introduced to disclose information about investment real estate, non-current assets and liabilities related to them	In case of necessary disclosure of material information or for the purpose of ensuring the reliability and truthfulness of the information in the reporting
Valuation of assets and liabilities	Purchase cost, market value or net worth are used.	Market value or depreciated value should be used.
Classification of assets and liabilities	There are special approaches to the classification of assets and liabilities.	Clear classification of assets and liabilities
Disclosures about financial assets	Financial assets can be combined with non-financial assets	Information on financial assets is disclosed separately.
The order of presentation of information	The asset items are arranged in the order of increasing liquidity, the liability items - in the order of priority of their repayment.	Separation of assets and liabilities into current and non-current

Source: compiled by authors on materials [9]

Table 4. Comparison of the provisions of NP(S) A and IFRS regarding the formation of the Report on financial results

Provisions	NP(S)A	IFRS
Format	The regulated form and the standard procedure for filling out the articles of the Report on financial results are defined. Operating costs are reported by function and by element	It was determined that the Profit and Loss Statement does not have a regulated form. and the absence of a clear procedure for filling out the Report. The classification of operating costs occurs either by functions or by nature (elements)
Details of information	No additional line items, headings or subtotals are requiredNo additional line items, headings or subtotals are required	Additional lines, headings, and subtotals are permitted and should be presented if necessary to give a fair presentation of the financial results
Disclosure of information	Operating, financial, investment	Ordinary (core, operating, financial, other), extraordinary
On the types of activities	The distribution of income and expenses of ordinary activities is divided into operational, financial and non-profit.	Income and expenses of ordinary activities are divided into those related to: operations; financial investments and attracting financing.
Presentation of income and expenses	The item "Profit (loss) from discontinued operations after taxation" shows profit (loss) from discontinued operations after taxation and/or profit (loss) from revaluation of non-current assets and disposal groups.	Profit (loss) before taxation from discontinued operations should be reported directly in the report.

Source: compiled by authors on materials [9]

National regulations (standards) of accounting (NP(S)BO) and International Financial Reporting Standards (IFRS) have a number of differences, which are discussed in detail in Table 3 and Table 4. In the process of accounting reform in Ukraine, NP(S)BO are gradually approaching IFRS. This is manifested in the fact that NP(S)BO are revised and supplemented taking into account the requirements of IFRS.

Conclusions

The existence of national and international financial reporting standards allows ensuring the quality and comparability of financial information provided by economic entities. This contributes to understanding the financial position and results of enterprise activities, facilitating decision-making for stakeholders. National financial reporting standards are used in each country separately and may differ in their requirements and format. They take into account the specifics of the national economy and legislation. The application of such standards is convenient for internal use and communication with local stakeholders.

International financial reporting standards, particularly IFRS, are designed for global use. They promote standardization of reporting across countries and facilitate the comparison of financial results of enterprises operating in the international market. The comparative aspect of applying national and international financial reporting standards shows that they have their peculiarities and are aimed at different needs. National standards ensure the reflection of the internal situation and the requirements of the legislation of a specific country, while international standards create a unified standard for the global community.

In summary, using both national and international financial reporting standards has its advantages and limitations. The best approach lies in selecting standards that best suit the needs of a specific economic entity and its stakeholders. The comparative analysis of national and international financial reporting standards indicates the need for a gradual transition to international regulatory acts. This transition will help make financial reporting more transparent, comparable, and accessible to various stakeholders, including investors, creditors, and regulators.

Abstract

This article examines the differences in the composition and structure of financial statements of private companies prepared in accordance with national and international standards. The author analyzes the list of business entities that are required to report under IFRS, the information to be disclosed in financial statements, and compares the completeness of reports and legislative acts related to financial reporting under the two systems of standards. Financial statements are an important tool for measuring the financial condition of business entities, their performance and efficiency. Therefore, it is very important for companies today to be able to work in accordance with both national and international standards.

National standards are used within one country, so they have a variety of requirements and formats. For the convenience of domestic use, each country takes into account the specifics of the national economy and legislation when creating national standards. This ensures effective communication with local stakeholders. International standards are focused on a more global level. Their goal is to standardize reporting across countries, which results in easier comparison of financial results of international companies. The advantage of choosing to maintain financial statements in accordance with international standards is transparency and accessibility of information for foreign investors, as well as convenience for transnational activities.

In summary, there are advantages and limitations to using both national and international financial reporting standards. The best approach is to choose the standards that best meet the needs of a particular entity and its stakeholders.

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