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**COMPARATIVE ANALYSIS OF ACCOUNTING OF GOVERNMENT ENTITIES OF UKRAINE AND INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

*The paper discusses the basics of financial reporting by government entities of Ukraine. The comparative analysis of the financial reporting of domestic enterprises and operating international standards of record-keeping is conducted for state to the sector.*

**Keywords:** *accounting, report, reporting, government entity, accrual method of accounting, international accounting standards.*

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**ПОРІВНЯЛЬНИЙ АНАЛІЗ ЗВІТНОСТІ ДЕРЖАВНИХ ПІДПРИЄМСТВ УКРАЇНИ ТА МІЖНАРОДНИХ СТАНДАРТІВ БУХГАЛТЕРСЬКОГО ОБЛІКУ ДЛЯ ДЕРЖАВНОГО СЕКТОРУ**

*У статті розглянуто основи фінансової звітності державних підприємств України. Проведено порівняльний аналіз фінансової звітності вітчизняних підприємств та діючих міжнародних стандартів бухгалтерського обліку для державного сектору.*

**Ключові слова:** *бухгалтерський облік, звіт, звітність, державне підприємство, облік за методом нарахування, міжнародні стандарти бухгалтерського обліку.*

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**СРАВНИТЕЛЬНЫЙ АНАЛИЗ ОТЧЕТНОСТИ ГОСУДАРСТВЕННЫХ ПРЕДПРИЯТИЙ УКРАИНЫ И МЕЖДУНАРОДНЫХ СТАНДАРТОВ БУХГАЛТЕРСКОГО УЧЕТА ДЛЯ ГОСУДАРСТВЕННОГО СЕКТОРА**

*В статье рассматриваются основы финансовой отчетности государственных предприятий Украины. Проведен сравнительный анализ финансовой отчетности отечественных предприятий и действующих международных стандартов бухгалтерского учета для государственного сектору.*

**Ключевые слова:** *бухгалтерский учет, отчет, отчетность, государственное предприятие, учет по методу начисления, международные стандарты бухгалтерского учета.*

**Formulation of the problem.** The current state of the development of the economy of Ukraine, collaboration of with international organizations, financial institutions, monetary funds and stock markets require higher level of transparency of accounting reporting in accordance with international standards.

**Review of the recent publications.** Number of outstanding Ukrainian scientists studied the process of introduction of international accounting standards in Ukraine, in particular F.F. Butinets, L.V. Gizatulina, R.T. Dzhoga, T.I Efimenko, O.O. Kantsurova, L.G. Lovins'ka, V.M. Parkhomenko, S.V. Svirko, N.I. Sushko, O.O. Chechulina and some others. Analysis of these publications shows that there is a spectrum of assessments of the duration of the process of introducing these reforms for the complete approval of the innovations by the government till the complete introduction of the international accounting standards in Ukraine.

**The purpose of the article** is to research the process of reforming of the accounting and reporting system of government entities of Ukraine through comparison of the articles of the report on financial situation (balance sheet) concluded according to the Ukrainian regulations and international standards.

**The major results of the research.** Transition of Ukraine to the market economy requires the accounting system to provide the market participants with the necessary accounting information, allow a company's manager or owner to have reliable data on the company's and financial situation in accordance with international standards. Beside the internal needs of a company, a lot of accounting, statistical and tax reports for other institutions is created. This information is used by the current and potential investors of the business, suppliers, number of government institutions and others. All these users need transparent and reliable information.

Managing finances in government sector is based on the information on income and spending of by the organization during a certain accounting period. Accounting reports are the major source of financial information for managing the government sector.

The definition of financial reporting is given in the Law of Ukraine "On Accounting and Financial reporting in Ukraine" dated July 16, 1999 [1]. According to this law, a financial report is accounting report that contains information on the activity and financial situation, and cash-flow of the organization or enterprise during accounting period. Wide range of users should be able to have access to financial reports. This important principle defines structure of the reports, the way they are prepared and submitted.

Financial reports contain important information and timely information for the users that is based on the principles of continuity, predominance of the essence over the form and other principles of international accounting standards. The information given in financial reports must be clear, reliable and comparable.

The procedure of preparing of financial reports is defined by the "Order of the Ministry of Finances of Ukraine No. 44 dated January 01, 2012 "On approving of the procedure of preparing of financial reports by the government entities." [4].

The major types of financial reports according to the Regulation on using of the budget are defined in the Regulation on accounting and reports on using the government and local budgets. These reports are: Balance sheet, Report on using the budget, Cash-flow statement and Notes to the reports. The compound of the financial reports is defined in the Regulation on the procedure of preparing of annual financial reports.

To justify the steps on improving reporting of government entities, it is important to compare the requirements to accounting reports of state institutions of Ukraine with International Public Sector Accounting Standards 1 (IPSAS-1) [2]. The current changes in the accounting Ukraine, that are currently taking place, are foremost connected with the need to have reliable information on the way a government entity used the budget and achieving the situation when comparable financial indicators are used for the government sector, other sectors and also other countries. "The strategy of modernization of accounting system in the government sector from 2007 to 2015" [6] was approved by the Decree No. 34 of the Cabinet of Ministers of Ukraine dated January 16, 2007. The major task of the "Strategy" is to improve the accounting methodology, transition to the single methodological basis and creating a unified accounting approach and information support.

The Committee of International Federation of Accountants (the Committee on the government sector issues) is developing the International Public Sector Accounting Standards (IPSAS-1) – a series of recommended accounting standards for government entities. The recommendations on government financial reporting based on accrual accounting method were developed in 1998. The Committee admitted considerable advantages of consistent and comparable financial information and that the IPSAS-1 will have positive effect on the economy.

To improve the accounting system in the state sector taking into account the requirements of international standards, the Ministry of Finances of Ukraine and the International Federation of Accountants signed a Memorandum on mutual understanding. According to the Memorandum, Ministry of Finances of Ukraine received permission for translation, publishing and distributing of international accounting standards for government entities, which was published by the International Federation of Accountants as on January 1, 2003 [7].

The IPSAS-1 are not designed to regulate reporting in any country; they are recommendations. The approaches to resolving accounting problems suggested in the Standards become obligatory only through regulations adopted in the country. There is a trend of convergence of the requirements to financial reports in different sectors of the economy, especially in the way the information is presented.

The IPSAS-1 define the minimum amount of information that must be disclosed. The list of financial indicators and articles of financial reports that must be disclosed can be provided with additional information to specify their meaning.

The IPSAS-1 set accrual accounting method as a major principle. Financial reports concluded on the basis of the IPSAS-1 contain the information about companies' financial obligations that will have to be addressed in the future and amounts that companies are going to receive in the future as a result of their activity in the past, not only the information about the companies' activity in the past and their current financial situation. In such a way, the IPSAS-1 reporting contain more detailed financial information for making decisions by the companies' managers and members of public.

To better understand the differences between the IPSAS-1 recommendations and accounting practice in Ukraine, let's compare the list of the required reports according with the IPSAS-1 recommendations and accounting practice in Ukraine.

*Table 1*

**Comparison of financial reporting in the government sector**

Financial reports according to the IPSAS-1	Financial reports of the government entities of Ukraine
Report on financial situation	Balance sheet
Report of financial results	Report of the results of financial activity
Cash-flow Statement	Cash-flow Statement
Report on changes in net assets / owner's equity	-
Reporting policy and Notes to financial reports	-

The "Submitting of financial reports" chapter of the IPSAS-1 describes the basics of the preparing and submitting of the report on the financial results, which contains information on the state-run company's assets, liabilities and net assets (equity). It provides a list of useful accounting terms that are used in the document, such as:

Assets – resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Liabilities – present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

The definitions of these financial indicators of the Balance sheet of the government sector are different from the definitions of there terms in accounting standards for commercial organizations. It reflects the nature of government entities (educational, health care institutions etc), which can also carry out contracted projects.

There are no definitions of assets and liabilities in the State Treasury regulations for the government sector (there is only a list of what these elements consist of). The definitions given in IPSAS-1 are completely appropriate to be given in our national regulations for government entities.

The Decree “On approving national regulations for the state sector” of the Ministry of Finances of Ukraine, dated December, 24, 2012 was going to come into effect on January 01, 2013, but it was amended by the Decree of the Ministry of Finances of Ukraine, dated December 17, 2013 and it should come into effect before January 01, 2015.

The mentioned above decree enacted national accounting standards for government entities, in particular: 102 “Consolidated financial reports”, 103 “Financial reports on segments”, 124 “Income”, 125 “Amending reported estimates and correcting mistakes”, 126 “Rent”, 127 “Assets depreciation”, 128 “Provisions, unforeseen liabilities and assets”, 129 “Real estate”. This Decree also amended the Regulations on accounting in the government sector, in particular: 101 “Submitting financial reports”, adopted by the Decree of the Ministry of Finances No. 1541 and dated December 28, 2009. The Decree of the Ministry of Finances of Ukraine No. 1202 and dated October 12, 2010 enacted national regulations on accounting in the government sector, in particular: 121 “Fixed assets”, 122 “Intangible assets” and 123 “Reserves”.

The content and structure of financial reports of the government entities and the general requirements are specified in the “Regulations (Standards) on Accounting in State Sectors 101” (R(S)ASS 101) “Submitting financial reports”, which was adopted by the Board on Methodology in accounting at the Ministry of Finances of Ukraine.

According to the Regulation 101 the financial reports consist of the following documents: balance sheet, report on financial results, report on owner’s equity, cash-flow statement and notes to the reports.

Balance sheet (must be submitted according to the 1-st form) as the report on financial results of the government entity contains the information on a company’s assets, liabilities and owner’s equity and/or the budget at the beginning of the year and at the end of accounting period presented on the basis of the accounting reports.

The approved form of the balance sheet, as a report on financial results, includes the following financial indicators: assets, liabilities and owner’s equity at the beginning of the year and at the end of the accounting period presented on the basis of the accounting reports. The data of the balance sheet at the beginning of the next year should be equal to the correspondent figures at the end of the previous accounting period taking into account a reorganization (in case it took place at the beginning of the year). The IPSAS-1 provides a much broader list of useful terms in comparison with the R(S)ASS 101.

Let’s compare the articles of the balance sheet of a government sector entity using the given below table.

Table 2

**Comparing the balance sheet**

Report of financial results (Balance sheet) of a government sector entity (according to the IPSAS-1)	Balance sheet of a government sector entity (according to the R(S)ASS 101)
<b>Assets</b>	<b>Assets</b>
Current	Non-financial assets
Non-current	Financial assets
	Expenses of the future periods
<b>Liabilities</b>	<b>Liabilities</b>

Current	Owner's equity and financial results
Non-current	Liabilities
	Provisions
Net assets (or equity)	Earnings of the future periods

The IPSAS-1 divides the data on assets and liabilities into current and non-current. The division of the items depending on the period of time when they were consumed or covered looks reasonable. Current assets include money and their equivalents, accounts receivable, reserves, advanced payments and investments. Non-current assets include long-term accounts receivable, long-term investments, other financial assets, machines and equipment, land and buildings, non-material intangible assets and some others.

Comparing the provisions of the IPSAS-1 with the items of the Balance sheet of a government sector entity concluded according to the R(S)ASS 101 shows that assets are divided into financial assets and non-financial assets, and the item account payable is divided into current and long-term accounts payable in the balance sheet of government entities.

According to the IPSAS-1, liabilities include accounts payable, loans, provisions, outstanding wages and pensions. The listed above items are divided into current and non-current.

In Ukraine, a government entity's liabilities are reflected in its balance sheet in two different chapters, in particular: long-term and short-term, securities, loans and some others.

Let's compare the items of the balance sheet of a government entity concluded according to the Ukrainian and international standards. According to the Standards net assets (or equity) are included in the item "Capital", reserves (reassessments), results (surplus and deficiency) and part of the minority. Part of the minority is a part of the results of the activity and net assets of institutions of lower level in the hierarchy within jurisdiction of the considered government entity.

Let's note that there is no items "income" and "expenses" in the balance sheet concluded according to the IPSAS-1.

Comparison of the items of the balance sheet concluded according to the IPSAS-1 and R(S)ASS 101 demonstrates that not all of the IPSAS-1 recommendations were taken into account in the Ukrainian regulations, especially related to dividing items of the balance sheet into current and non-current.

The carried out analysis leads to a conclusion that introduction of the IPSAS-1 in Ukraine will close the gap between accounting standards for the government and corporate sectors, and will introduce number of corrections and improvements into accounting methodology in Ukraine. For example, the quarterly and annual reports for government entities have slightly different structures.

### Conclusions

1. Modernization of accounting system and standardization of financial reports will play a positive role in the improvement of financial management and will improve control over using means from the budget.

2. Comparing the compound and requirements to balance sheets of government entities concluded on the basis of the IPSAS-1 and the R(S)ASS 101 led the author to the conclusion that the proposed form of the report of financial situation (balance sheet) is completely acceptable and can be introduced in accounting practice in Ukraine, which will positively effect financial reporting and lead to better financial decisions made on the basis of the reports. It is necessary to point out that the importance of further development of theoretical and methodological provisions and improve the form of the report on financial situation (balance sheet) according to

the IPSAS-1, especially regarding the more detailed presentation of long-term (non-current) liabilities.

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