

Transposition of International Standards for Small and Medium-sized Entities in Ukraine

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Abstract: *The current state of the national accounting system necessitates the introduction of International Financial Reporting Standards in the practice of small and medium-sized business enterprises. The transition of Ukrainian small and medium enterprises to IFRS is a requirement of time, introduction of market relations and is due to the need to fulfill Ukraine's contractual obligations for further integration into the European Union. The analysis of the practice of accounting by small and medium enterprises conducted in the article revealed a number of problematic aspects and outlined the directions of their improvement in accordance with the conditions of the Ukrainian present.*

Keywords: *financial statement, International financial reporting standards, transformation, small and medium business enterprises.*

JEL codes: M41, M48

1 Introduction

The signing of an agreement with the European Union and the creation of a free trade zone has become a significant challenge for Ukrainian enterprises, in particular for small businesses, which are currently an important element of economic development. Reducing customs tariffs, opening new capital markets, facilitating access of Ukrainian goods to EU markets, using EU tools and mechanisms for small and medium business development (COSME) are just a few of the benefits of signing this agreement. The implementation of the relevant points stands at the time of transposition of international standards and requirements of the European Union, equalization of business conditions between Ukraine and EU member states through harmonization of legislation.

Well-known foreign and domestic scientists have made an important contribution to the study of the transition of small and medium-sized enterprises to IFRS, improving the existing accounting system and bringing it closer to international requirements.

The results of the study by M. Pasekova, L. Mullerova, J. Strouhal, L. Chyzhevskaya (2010) are interesting. They explore the advantages and limitations of applying International Financial Reporting Standards to small and medium-sized enterprises in the Czech Republic and Ukraine. K. Bezverkhy's research (2013) is related to the study of the experience of the world's leading countries on the transition to IFRS, highlighting the importance of the corresponding transition for Ukrainian enterprises. No less important is the contribution of such a cohort of domestic scientists as S. Holov, V. Kostyuchenko, O. Kulaga (2013), O. Kharlamova (2011), whose scientific works are devoted to the application of IFRS directly

to the sub small and medium-sized businesses and the need to transform financial statements in accordance with IFRS. Despite many years of research by well-known scientists today, a significant number of problematic issues remain, namely: inconsistency of criteria for classifying enterprises as small businesses in existing regulations; organizational and methodological problems of preparation of the first financial statements according to international standards; lack of explanations for small and medium-sized businesses on their transition from the state; convergence of national forms of reporting with the requirements of IFRS.

The purpose of the article is to deepen the theoretical foundations of the introduction of IFRS for small and medium-sized businesses with a justification of practical recommendations for their implementation.

2 Methodology and Data

In Ukraine, until 2012, small enterprises included enterprises with up to 50 employees and annual income of up to UAH 70 million, and medium-sized enterprises with up to 250 employees and annual income of UAH 70 to 100 million. In 2017, the Law on Accounting and Financial Reporting was amended with regard to indicators for classifying enterprises as a certain type. In the table 1 shows the classification of enterprises depending on the established indicators.

Table 1. Classification indicators for small, medium and large enterprises in Ukraine

Type of business entity	Book value of assets, euro	Net income from sales of products, thousand euros	The average number of employees, persons
Micro-enterprises	up to 350,000	up to 700	to 10
Small enterprises	book value of assets - up to 4,000,000	up to 8,000,000	up to 50
Medium enterprises	book value of assets - up to 20,000,000	up to 40,000,000	up to 250
Large enterprises	book value of assets - more 20,000,000	over 40,000,000	over 250

Source: Law 996-XIV / 1999. On Accounting and Financial Reporting in Ukraine

The number of business entities by type is given in table 2. Table 2 summarizes the indicators of structural statistics by business entities according to the State Statistics Service of Ukraine.

Table 2. Number of business entities depending on size

Year	Enterprises, units				
	Large	Medium	Small	Of these, micro-enterprises	Total
2014	497	15906	324598	278922	1591160
2015	423	15203	327814	284241	1630878
2016	383	14832	291154	247695	1559161
2017	399	14937	322920	278102	1466803
2018	446	16057	339374	292772	1483716

Source: UKRSTAT (2012). *Performance indicators of large, medium, small and micro enterprises*. Retrieved from: http://www.ukrstat.gov.ua/operativ/operativ2012/fin/osp/osp_u/osp_u.htm.

The data in Table 2 show that the number of small enterprises in Ukraine significantly exceeds the number of medium and large enterprises and occupy a significant share in the total number of enterprises. If in 2014 the share of small enterprises in the total number of enterprises was 20.4%, in 2018 it increased to 22.9%. In absolute terms, the number of small enterprises tended to increase. Compared to 2014, the number of small enterprises increased by 14,776 units. Similar trends are observed in relation to medium-sized enterprises. During the same period, their number increased by 151 units. The share of medium-sized enterprises in the total number increased from 1.0% to 1.1%

In the European vector of economic development, small and medium-sized businesses are an important player, as evidenced by the presence of such advantages as the ability to make operational decisions; employment support; the need for a small amount of investment in the creation.

3 Results and Discussion

The Association Agreement between Ukraine and the European Union strengthens ties between the countries, clearly outlines the further vector of economic and social development of Ukraine. The signing of the agreement facilitated the introduction of liberalization of foreign trade through such instruments as currency liberalization, tariff quotas for exports to the EU and more. Ukraine has made additional commitments to harmonize domestic legislation with EU law, including the gradual approximation of accounting and reporting to international standards.

In July 2009, the IFRS Board issued IFRS for Small and Medium-sized Enterprises (SMEs), which provides a simplified version of accounting procedures, which has reduced the cost of accounting and financial reporting for small and medium-sized businesses. The relevant standard, on the one hand, is based on the principles of the "full set of IFRS", on the other - is adapted to the needs of this category of entities, which is reflected in the simplification of the requirements of the standards.

As at 21 March 2019, IFRS for SMEs are allowed or required in 86 countries (out of 166 surveyed) and used by millions of companies. In Ukraine, there is no procedure for applying IFRS for SMEs (IASB, 2020). According to the Law "On Accounting and Financial Reporting in Ukraine", international standards are used to prepare financial statements, which are set out in the state language and officially published on the website of the central executive body - the Ministry of Finance of Ukraine. The analysis of the information on the website of the Ministry of Finance of Ukraine shows that Ukrainian enterprises belonging to small and medium-sized businesses can prepare financial statements in accordance with IFRS for SMEs. But in fact, small and medium-sized enterprises apply national Accounting Standards (UAS) for accounting.

Ukraine's European path of development involves a process of transposition. In a broad sense, transposition is the procedures of interpretation, application, enforcement and enforcement of rules of law that comply with European law, public authorities. A striking example is the transposition of the provisions of Directive 2013/34/EU into the national legislation of Ukraine, first of all the amendments to the Law of Ukraine "On Accounting and Financial Reporting". Relevant actions to approximate domestic legislation to the European one were ambiguously perceived by accounting specialists, which necessitates further action on transposition issues.

There are several approaches to the application of IFRS for SMEs in Ukraine, which are shown in Fig. 1. The choice of method of preparation of IFRS reports depends on the purposes of its further use, the frequency of preparation, financial costs.