International Journal of Management (IJM)
Volume 11, Issue 5, May 2020, pp. 788-796, Article ID: IJM_11_05_071
Available online at http://www.iaeme.com/ijm/issues.asp?JType=IJM&VType=11&IType=5
Journal Impact Factor (2020): 10.1471 (Calculated by GISI) www.jifactor.com
ISSN Print: 0976-6502 and ISSN Online: 0976-6510
DOI: 10.34218/IJM.11.5.2020.071

USE OF INTERNATIONAL ACCOUNTING AND FINANCIAL REPORTING STANDARDS IN ENTERPRISE MANAGEMENT

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ABSTRACT

The subject of the research is a set of theoretical, methodological, organizational and practical bases for the formation of financial statements of enterprises in the context of its harmonization with international standards and management needs. The purpose of this work is to determine the advantages, functions and prospects of using international standards in accounting and financial reporting to improve enterprise management. The methodological basis of the article is both General scientific and special methods of scientific knowledge. Methods were used: dialectical, monographic, historical, system-structural analysis and synthesis, problem-and program-oriented approaches. The article defines the advantages, functions and prospects of using international standards in accounting and financial reporting to improve enterprise management. It is proved that the globalization of markets and the creation of a single international economic space actualizes the need to create in the enterprise management system such accounting, financial reporting and control, which would be built on the basis of the same principles and rules. It is determined that in modern conditions of activity management, international standards are an effective tool for increasing transparency and clarity of information that reveals the activities of business entities, creates a reliable basis for recognizing expenses, provides an opportunity to objectively disclose the financial risks of the enterprise and *compare the results of activities. The conceptual framework provides that, depending on the legislation of the state in which the company operates, regulatory and additional reserves may be created as part of its own capital. The conclusions and results of the article can be used in the educational and scientific process of economic faculties of higher educational institutions. It is advisable to transfer them for practical use in enterprise management in order to increase its efficiency on innovative principles. It is important for the management of enterprises not only to use international standards in the organization of accounting and reporting, but also Notes to them. The notes to the annual financial statements should disclose the analysis of other comprehensive income by item, as well as information about the types of shares, indicating for each of them the par value, the amount of dividends recognized as payments to owners during this period, as well as the corresponding amount of dividends per share. In addition, it is necessary to detail the components of registered capital (the number of shares issued, indicating the amount paid, outstanding, and those withdrawn at the end of the reporting period). In order to obtain complete information for the management of enterprises, it is advisable to provide a description of each of the reserves created by the decision of the owners, with a definition of the documentary basis for its creation, as well as the purposes for which the reserve may be directed.*

Key words: management, system, enterprises, information, accounting, financial reporting, organization, international standards, improvements.

Cite this Article: M. Kotsupatriy, I. Ksonzhyk, S. Skrypnyk, I. Shepel and S. Koval, Use of International Accounting and Financial Reporting Standards in Enterprise Management. *International Journal of Management*, 11 (5), 2020, pp. 788-796.
http://www.iaeme.com/IJM/issues.asp?JType=IJM&VType=11&IType=5

1. INTRODUCTION

The globalization of markets and the creation of a single international economic space actualizes the need to create in the enterprise management system such accounting, financial reporting and control, which would be built on the basis of the same principles and rules. This will ensure comparability of their performance indicators, evaluation results, and international communication. Today, domestic enterprises engaged in international activities must prepare financial statements not only in accordance with national accounting regulations (standards) (P(S)BU), but also separately in accordance with the requirements of international financial reporting standards (IFRS), which significantly complicates the organization and maintenance of not only accounting and reporting at enterprises, but also their management. Therefore, the proposed topic of the article is relevant and timely.

Analysis of recent research and publications

Issues of accounting, financial reporting and control in the enterprise management system were covered in the works of famous foreign and domestic scientists: M. Ihnatenko, T. Kartuzova, A. Kozachenko, L. Marmul, O. Panadiy, L. Sas, D. Shelenko, S. Shipina, L. Shudak, A. Yavorskaya, V. Yakubov, etc. However, the use of international standards and principles of accounting, control and financial reporting is a relatively new direction in the theory of scientific research and in the practice of accounting and management. Therefore, it is relevant and timely to develop and use a unified conceptual framework for accounting, control and reporting (financial, statistical, internal, tax), the principles of which should not differ for different users, including international ones. In their interconnection and interaction, they should become the basis for creating integrated information that should meet the needs of management, various organizations and individual users at any time.

The purpose of the paper is to determine the advantages, functions and prospects of using international standards in the organization of accounting and financial reporting to improve the management of enterprises.

2. METHODS AND MATERIALS

In modern conditions of business management, international standards are an effective tool for increasing transparency and clarity of information that reveals the activities of business entities, creates a reliable basis for recognizing expenses, provides an opportunity to objectively disclose the financial risks of the enterprise and compare the results of activities. Creating and using financial statements prepared in accordance with international standards has a number of advantages. This is the objectivity, comparability and compliance with the needs of users of financial statements compiled according to international standards; meeting the needs of users of financial reporting; facilitating the harmonization of standards through comparability and transparency regardless of country or industry; promoting confidence and clarity among foreign users; and facilitating access to international capital markets.

Transformation of financial statements in accordance with international standards is necessary for: companies that conduct international business; companies that plan to enter an IPO, attract investment or a foreign partner; an investor who plans to buy or sell a business, or assess the possibility of investing in Ukraine; an owner who needs a report in accordance with international standards; public Ukrainian companies whose shares are listed on stock exchanges [1].

Therefore, enterprises engaged in foreign economic activity must provide information to users in the prescribed form. Therefore, such financial statements should be prepared in accordance with international standards and norms. International standards have emerged as a result of integration processes in the economy and are aimed at bringing accounting and financial reporting closer together in different countries. They are Advisory in nature, but they are widely used around the world.

Companies involved in cooperation with the United States must provide information to interested users in accordance with generally accepted accounting principles and its standards in the United States (GAAP). Based on global economic events, the approach of IFRS and GAAP is expected in the future, which is motivated by globalization processes and the consolidation of international cooperation. However, today there are differences in accounting systems, in particular, in terms of recognizing and evaluating expenses.

Analysis of legal and regulatory documents of Ukraine and international standards regulating the processes of recognition, formation and evaluation, and reflection in financial statements shows that the very concept of "expenses" has differences [2]. This is what needs to be unified in the first place. In international practice, expenses are not regulated by separate IAS, but the basics of this concept disclose IAS 1 "Presentation of financial statements" IAS 2 "Inventory", IAS 16 "Fixed assets", IAS 18 "revenue", IAS 23 "borrowing Costs", IAS 38 "Intangible assets", etc.; IAS 2 "Inventory", IAS 16 "Fixed assets", etc.

Shares of participants that could be classified as equity provided that these participants did not have the right to demand repurchase are equity if one of the conditions set out in paragraphs 7 and 8 is met. This may also be the case if the shares of participants have all the necessary characteristics and meet the conditions specified in paragraphs 16A and 16B, or in paragraphs 16B and 16G of IAS 32. Demand deposits, including current accounts and similar contracts that arise when participants are clients, financial obligations of the business entity.

Participants ' shares are their own capital if the business entity has an unconditional right to refuse to purchase them.

Local law, regulations or the Charter of business entities may provide for various types of prohibition on the purchase of shares of participants [3]. For example, an unconditional ban or a ban based on liquidity criteria. If the buyout is unconditionally prohibited by local law, regulation or the Charter of the business entity, the participants ' shares are their own capital. However, provisions of local law, regulations, or the business entity's Charter that prohibit repurchase only in case of fulfillment (or non-fulfillment) of conditions, such as limited liquidity, do not lead to the definition of participants ' shares as equity.

The proportion of participants exceeding the limit set for a ban of redemption are financial liabilities. When initially determined, the entity measures this financial liability at fair value. Since these shares are repurchased on demand, the fair value of such financial liabilities is determined in accordance with the requirements of paragraph 5.4.3 of IFRS 9. He claims: "The fair value of a financial liability with a 'demand' characteristic (for example, a demand Deposit) is not less than the amount payable on demand". Accordingly, the entity classifies the maximum amount payable on demand as a financial liability under the buyout provisions.

In world practice, the concept of "capital" is defined as the difference between assets and liabilities of enterprises [4]. Our Ukrainian standards provide for calculating their equity by reducing the value of assets by the amount of liabilities at the reporting date. In General, this sequence is consistent with IFRS, since according to paragraph 4.4 of the Conceptual framework, capital is defined as a share in the assets of an enterprise that remains after all its liabilities are settled. However, unlike P(C)BU, international standards treat equity as net capital or net assets of a business entity, because they are the basic source of financing. Reliable and complete reflection of the amount and components of equity in the financial statements is essential for evaluating the effectiveness of financial management of enterprises and making further managerial investment decisions by both owners and users of the reports [5].

The equity capital includes (paragraphs 4.20-4.23 of the Conceptual framework): funds contributed by shareholders (registered or authorized capital); retained earnings; reserves that reflect the allocation of retained earnings. In international practice, normative reserves are allocated, that is, provided by law (in Ukraine, such is, for example, reserve capital) and non-normative (created on the basis of the decision of the owners of the enterprise, for example, funds for social or industrial development); reserves that reflect adjustments to capital retention (these may include the amount of pre-estimates or the amount of issue income) [6].

The procedure for accounting for transactions with equity components should be considered by its elements. The set of components of equity is not standard and may contain various elements. This is determined by the company's development policy, which is embodied in the owners decisions to create various development funds (additional capital), profit distribution directions, and operations with their own shares. The decision to form the components of equity affects its valuation. As a rule, the main valuation is fair value.

It is used to determine the amount of founders' contributions to the registered (authorized) capital; calculate the amount of revaluation of non-current assets, which is reflected in additional capital; bring the book value of assets and liabilities to fair value, which at the end of the period may be less than recorded in accounting [7]. However, the estimate of the amount of equity reflected in the registration documents may differ significantly from the one that will be determined based on the accounting data at the end of the reporting period. This is due to the impact of business results on the amount of equity and changes in market conditions.

In terms of registered capital, special attention should be paid to transactions with equity instruments that are regulated by a number of international standards: IFRS 2 "share-based Payment", IFRS 7 "Financial instruments: disclosure", IFRS 9 "Financial instruments", IAS 32" Financial instruments: presentation", IAS 39" Financial instruments: recognition and measurement " (each standard defines a certain aspect of the recognition of equity transactions or the attribution of related transactions for settlement of obligations).

An equity instrument in accordance with paragraph 11 of IAS 32 is any contract that confirms the residual interest in the assets of an entity after deducting all its liabilities. These instruments include shares. As a result of such transactions, the registered capital is usually increased by the amount of equity instruments issued for the relevant settlements.

As for this component of equity, it is associated with a number of problematic issues. One of them is the recognition of preferred shares as equity instruments or financial liabilities. To resolve this issue, the accounting Department of each enterprise should focus on the substance of such an instrument, in accordance with the provisions of IAS 32. Thus, if preferred shares are issued with a clear term for their further repurchase, they are recognized as financial liabilities ("a" p. 18 IAS 32) with corresponding recognition as part of the company's long-term liabilities.

If we consider preferred shares as equity instruments, we should take into account certain features of the repayment of earnings per share [8]. Thus, a preferred share, which assumes repayment on a specific date or at the option of the holder, contains a financial liability, since the Issuer has an obligation to transfer financial assets to the owner of the share. The Issuer's right to buy back shares for cash does not meet the definition of a financial liability, since it does not have a current obligation to transfer financial assets to shareholders.

In this case, the share repurchase is carried out solely at the discretion of the Issuer. However, an obligation may arise: when the Issuer of shares exercises its right, usually by formally notifying shareholders of its intention to buy back shares (Annex KZ 25); if the decision to pay preferred stock holders (cumulative or non-cumulative) is made at the discretion of the Issuer. Then shares are equity instruments (KZ Appendix 26).

To analyze approaches to the recognition of equity instruments, as well as how they are reflected in the company's accounting, it is advisable to use Appendix KZ 13 to IAS 32. This Appendix provides examples of equity instruments: ordinary shares without an early repayment right; certain instruments with an early repayment right; certain instruments (meaning contracts for the use of certain assets) that create an obligation for an entity to provide another party with a proportionate share of net assets only in liquidation.

These are also certain types of preferred shares (for example, a preferred share that provides for repayment on a specific date or at the option of the holder); warrants or "call" options that allow the holder to subscribe or buy a fixed number of ordinary shares without the right to early repayment from the issuing entity for a fixed amount of cash or other financial asset (in other words, these are contracts under which the issuing entity can fulfill its obligations by transferring part of its equity in the form of shares, and so on).

IAS 33 "Earnings per share", disclosing the procedure for calculating the return on shares, also defines a number of securities that, under the terms of concluded contracts, can be reclassified as equity instruments. Such debt securities are defined as diluting shares, and the order of circulation is established by international standards governing transactions with financial instruments.

In addition to the above operations with preferred shares, operations with capital instruments include not only repurchase operations (then the amount of repurchased capital is displayed, which reduces the amount of equity) and re-sale of shares, but also various uses of shares as payment means (for settlements with suppliers of goods, works, services, repayment of debts to employees). If the owners decide to buy back their own securities and then cancel them, their equity capital decreases.

With regard to withdrawn capital and its recognition in accordance with international standards, certain issues are covered in IAS 32 and 33. IAS 32 also provides guidance on own repurchased shares. According to the standard, if an entity re-buys its own equity instruments, these instruments should be deducted from equity (paragraph 33, Appendix KZ 36 of IAS 32). The gain or loss from such transactions will not be recognized in profit or loss after the acquisition, issue or cancellation of the entity's own equity instruments. Such own repurchased shares may be purchased and maintained by the business entity or other members of the consolidated group. Compensation paid or received will be recognized directly in equity.

Retained earnings are the result of business activities of enterprises during the reporting period and are determined by the algebraic sum of income and expenses from operations with assets and liabilities provided for in the IFRS system. Profit (loss) is the result of all business operations performed during the reporting period. Accordingly, the procedure for generating profit is disclosed in each of the standards that govern the accounting of transactions within a specific component of assets or liabilities with an impact on financial results.

At the same time, special attention should be paid to the procedure for reflecting dividends paid by an enterprise when there is a profit. The dividend payment regulation contains IAS 33, which provides for the possibility of accruing dividends on ordinary shares (paragraph 6) or paying dividends in ordinary shares (paragraph 27). The amount of accrued dividends on preferred shares (non-cumulative and cumulative) is attributed to a decrease in the company's profit for the reporting period (item 14). This practice is also typical for Ukrainian enterprises. In particular, dividends on company shares are accrued at the expense of the company's profit after the owners make the appropriate management decision.

An additional explanation regarding the estimation of the amount of dividends paid to owners contains an interpretation of KTMFZ 17 "payments of non-monetary assets to owners". Thus, paragraph 11 of this document defines the need to apply the fair value of assets paid by an enterprise to owners in order to pay off debt on dividends in non-monetary form. In General, when considering the impact of securities transactions on profits as a source of financing for dividend payments, accountants and managers should carefully study the terms of contracts [9].

After all, on the basis of companies use of securities for the formation of equity capital or making payments. The main reason is that there are rather fine lines between recognizing securities as equity or transferring them to financial liabilities. This issue should be guided primarily by IAS 32. Other international standards that regulate the turnover and accounting of financial instruments will be Additional.

The conceptual framework provides that, depending on the legislation of the state in which the company operates, regulatory and additional reserves may be created as part of its own capital. The creation of reserves at the expense of retained earnings provides for the reduction of the latter and the creation of appropriate types of reserves in the amount determined by the authorized management bodies of enterprises, their managers or owners. The formation of additional capital is carried out in the process of using non-current assets with the selected revaluation model, and it provides for the reflection of the amounts of additional valuations in equity [10].

An interesting question is how to reflect the amount of assets received free of charge in equity. IFRS does not provide for such operations. Experts say that this practice is not common in other countries. At the same time, the cost of non-current assets received free of charge may be included in the equity capital during the transformation: then the residual value of these assets with additional capital is attributed to retained earnings. Another case is the revaluation of the asset thus obtained to its fair value. However, it should be noted that most experts point to the need to reflect income when receiving non-current assets for free.

This is because any item received by an enterprise without compensation is a receipt, and therefore involves the payment of taxes. Along with this, an analysis of the economic essence of the operation itself remains a necessary element. In particular, if resources are provided by shareholders, such action should be carefully analyzed for the repayment of the contribution by the recipient enterprise. Based on the probability of return of the received funds, the enterprise should recognize a liability to the supplier. If there is no provision for the return of cash or valuables received, contributions should be recorded as assets and additional capital at the fair value of the valuables received.

It is also difficult to reflect the so-called issue income in accounting. The probability of such a value is provided for in paragraph 78 of IAS 1: "equity and reserves are divided into different classes, such as paid-in capital, issue income and capital reserves". The issue income arises in connection with excess of the income received by the enterprise from the primary issue (issue) own shares and other corporate rights, above the par value of such shares (other corporate rights). In terms of the difference between the values of equity instruments, IAS contain several important provisions.

Paragraph 16 of IAS 33 provides for attributing the difference between the fair value and the book value of preferred shares that are repurchased by the enterprise itself to an increase in retained earnings [11]. In turn, the excess of the fair value of ordinary shares or other consideration paid in addition to the fair value of ordinary shares that may be issued in accordance with the original conversion terms is the profit of the holders of preferred shares, which is deducted when calculating the profit or loss attributable to the holders of the parent's ordinary shares (paragraph 17).

In addition, paragraph 16 of IAS 32 specifies the need to reflect in equity the difference between the carrying amount of the equity instrument and the fair value of the financial liability at the date of reclassification of the equity instrument to a financial liability (in accordance with the terms of this standard). That is, equity increases or decreases by the amount of the difference between different values of equity instruments, most often as a result of the circulation of such instruments and their use as financial instruments in the management of the enterprise's capital [12].

IAS 1 requires entities to present a statement of changes in equity, which includes (paragraph 106): total comprehensive income for the period, specifying separately the total amounts attributable to the owners of the parent and non – controlling interests; for each component of equity, the effect of retrospective application or retrospective restatement that was made in connection with the introduction or change in accounting policies recognized in accordance with IAS 8.

For each component of equity, a comparison of the cost at the beginning and end of the period is provided, with separate disclosure of changes resulting from: profit or loss; other comprehensive income; transactions with owners acting under their authority as owners, showing separately the contributions of owners and payments to owners, as well as changes in ownership interests in subsidiaries that did not result in loss of control.

3. CONCLUSION

It is important for the management of enterprises not only to use international standards in the organization of accounting and reporting, but also Notes to them. The notes to the annual financial statements should disclose the analysis of other comprehensive income by item, as well as information about the types of shares, indicating for each of them the par value, the amount of dividends recognized as payments to owners during this period, as well as the corresponding amount of dividends per share. In addition, it is necessary to detail the components of registered capital (the number of shares issued, indicating the amount paid, outstanding, and those withdrawn at the end of the reporting period). In order to obtain complete information for the management of enterprises, it is advisable to provide a description of each of the reserves created by the decision of the owners, with a definition of the documentary basis for its creation, as well as the purposes for which the reserve may be directed.

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