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## **FUNDAMENTALS OF THE ORDER OF COMPILING STATEMENTS BY PUBLIC SECTOR ENTITIES ACCORDING TO THE NATIONAL STANDARDS DEMANDS**

*The article discloses main problems of the domestic accounting system integration process of the Ukraine's public economy sector, its adaptation to the International Accounting Standards and International Financial Reporting Standards. Special attention is paid to prerequisites and the existing problems of the implementation of the International Financial Reporting Standards for public sector in Ukraine.*

*The main difficulties arising from the adaptation of domestic accounting legislation to international demands have been outlined as well as the ways of their overcoming have been described.*

**Keywords:** *public sector of economy; modernization strategy; public sector entities; IFRS; NAS(P)PS (National Accounting Standards (Provisions) for Public Sector); economic group; consolidated accounts.*

**Setting of the problem.** The formation and development of the market-oriented economic conditions of Ukraine brought up a number of issues related to the organization of accounting in the public sector of the Ukrainian economy.

The problem of adaptation of national accounting practices and methodologies of evaluation and accounting subjects to the approaches of the international accounting and reporting standards is especially urgent.

**Research topicality.** During the transition to market relations the role and importance of governmental regulation of the management of socio-economic processes change substantially, and this problem is very urgent nowadays.

The pressing problem is also the one of establishment of accounting institutions, which are financed by public funds. The urgent problem is also to coordinate accounting in financial subjects, that are financed from the budget.

regulation of methodological basics of accounting and reporting of subjects of financial reporting in budget process, intensively actual are problems of unification of local accounting systems in government sector of economics to the international accounting standards, according to the Law of Ukraine «On the National Adaptation Program of Ukraine's legislation to the norms of the European Union» [1].

**Analysis of recent research and publications.** Problems of accounting reforming and modernization in the public sector is being paid attention in many scientific publications of Ukrainian scientists, such as M.I. Cooper, L.Gizatulin, R.T. Dzhooha, T.I. Iefimenko, V.Zhuk, Z.-M.V. Zadorozhnyy, A.A. Kantsurov, L.M. Kindratska, I.A. Kondratiuk, T.N. Kondrashov, M.Kotsupatryy, Y.A. Kuz'minskii, S.Levytska, L.G. Lovinska, B.V. Melnychuk, S.Svirko, N.I. Sushko, V.G. Shvets, F.A. Yaroshenko.

Despite of the significant theoretical and practical achievements, a number of issues still remain unsolved. For instance, there are a lot of problems related to giving theoretical definition and clarifying the procedure of the financial reporting for public sector entities in accordance with national standards requirements.

**The aim of the article is the** complex research of prerequisites and existing problems in implementation of IFRS in the public sector as well as the argumentation of the urgency of theoretical statements and giving practical recommendations on specific ways of their implementation.

**The research.** Nowadays the conditions of budget system functioning in Ukraine can be characterized with existence of number of problematic areas in coordination of budget accounting completion and accounting in budgetary organizations. Urgency of resolving these problems is being actualized in consideration of Ukraine's desire to unify and modernization of accounting according to international accounting standards. It should be emphasized that to reach the goals in unification of accounting, the budget sphere meets a problem of not coordinating of categories used in various legislative acts. In its turn, this negatively influences not only the accounting organization, but such its characteristic features as transparency and clarity. [9]

The clarification of main economic categories for public sector entities is based on same definitions for business entities. However, the subjects of government sector activities significantly differ from commercial, that imposes number of features at definition of main objects accounting.

It's impossible to disagree to the statement the Government Council oversight of accounting standards (GCASB) (USA) that «own standards of accounting and reporting for governments are crucial in meeting the needs of users of governmental financial statements. Standards governments should reflect the unique environment of business including entrepreneurship different from organizational goals and specific legal authority» [11].

Accounting reorganization in compliance to international accounting standards meets 2 groups of problems on its path: first– problems of methodological nature, second – organizational. Methodological problems

tied to urgency of need to decide whether to incorporate IFRS into the national legal framework of accounting or go through the development of national standards that do not conflict with IFRS.

Organizational problems are connected with the choice of the way of reforming.

They include the search to the answer to the question who is responsible of reorganization of accounting through development and acceptance of regulations, who is to implement them to daily practices of an accountant, who is responsible for consistency and effectiveness of this process.

In other words, the organizational problems may be solved by choosing the adjustment option of the national accounting: government regulation or a professional one. Detailed study of international experience evidences that this choice much depends on the level of economic development of the country, socio-political situation, national traditions [9].

Majority of scientists and experts in the sphere of accounting agree with the idea that the public sector accounting system formed in Ukraine needs much improvement, modernization or conversion to the unified methodological principles.

In consideration of this the Cabinet Ministry of Ukraine made a decision by approving on 16 January 2007 number 34 the «Strategy for the modernization of the accounting system in the public sector in 2007–2015» [2].

Strategy for the accounting system modernization in the public sector outlines the main purpose, objectives, guidelines and expectations. The main idea of the Strategy for the modernization lays in improvement of accounting system in government sector considering the international standards requirements.

According to the Strategy's idea, the objectives should be outlined, among which are the ones as follows: methodology improvement and integration to unified methodological basics of accounting and reporting, also the creation of unified informational and organizational accounting software, following which would promote improvements in management of government finance; middle- and long term strategic budget planning system; order of agenda and implementation of budget based on program-target method in budget process; budget fulfillment control system; informational-analytical system of government finance management [8].

28.12.09 the order of the Ministry of Finance of Ukraine № 1541 approved National standards (provisions) of accounting for the public sector (next – NAS(P)PS) 101 «Presentation of Financial Statements» [3]. The

present provisions of the approved financial statements: Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, Footnotes to the Financial Statements, which must be compiled by the subjects of public sector spending units. The order of the Ministry of Finance of Ukraine from 24.12.10 № 1629 was approved by the following national standards (provisions) of accounting in the public sector: 101 «Presentation of Financial Statements», 102 «Consolidated Financial Statements», 103 «Financial Reporting by Segments», 105 «Financial reporting in Hyperinflationary Economies», 121 «Fixed Assets», 122 «Intangible Assets», 123 «Inventories», 124 «Income», 125 «Changes in accounting estimates and errors corrections», 126 «Rent», 127 «Assets Impairment», 128 «Provisions, Contingent Liabilities and Contingent Assets», 129 «Investment Property», 130 «The Effects of Changes in Foreign Exchange Rates», 131 «Construction Contracts», 132 «Employee Benefits», 133 «Financial investments», 134 «Financial tools», 135 «Costs» [4].

The main reporting documents for public sector entities are Balance-sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, Footnotes to the Financial Statements.

*Balance Sheet* (form № 1-PS) – statement of financial position reflects the assets, liabilities and equity of the public sector and/or the budget at the beginning of the year and at the end of the reporting period on the basis of comparisons of accounting data (Table 1).

Table 1

*The general structure of the balance-sheet*

Section number	ASSETS	Section number	LIABILITIES
I	Non-financial assets	I	Equity and financial performance
II	Financial assets	II	Debts
III	Prepayments	III	Provisions
		IV	Deferred income

Balance sheet reporting data as of the beginning of the reporting period have to be equal to data of correspondent articles of balance sheet at

the end of the previous reporting period of given organizations (in cases when reformation took place at the beginning of the year).

Convolution of assets or liabilities is unacceptable, except cases, pointed out in the appropriate *NAS(P)PS*. Summary of balance assets and liabilities, equity changes and financial results has to total equally.

Evaluation and opening of balance rows carried out according to the filled out forms of financial reporting in government sector, regulated as required by law. Evaluation and further opening of certain balance rows in notes to financial reporting is factored in obedience to *NAS(P)PS*.

An asset is reflected in the Balance-sheet if its value can be reliably measured and economic benefits may be received in future as well as usefulness potential, connected with this asset's usage. Acquisition or creation expenses that may not be reflected in the balance-sheet are to be included into the reporting period expenditures in Income Statement for the reporting term. Liability is reflected in the Balance-sheet, if its valuation can be reliably measured and there is a possibility of reduction of its economic benefit or its usefulness potential in the future because of its pay off. Equity Changes and Income are reflected in the balance-sheet at the same time with reflection of the Asset or Liabilities causing their changes.

*Income Statement.* In the income statement (form № 2 PSs) are transactions with an increase or decrease in income and/or expenditure of the public sector entity and budget (including the investor's share in the financial results of the invested business performance) for the reporting period.

Income Statement consists of three sections (Table 2).

*Table 2*

*The general structure of the Income Statement*

Section number	Section Title
I	Financial result
II	Budget Expenditures by the functional classification of expenditures and budget financing

III	Budget Fulfillment
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Financial result (I) shows the comparison of income and expenses as well as defines the deficit or surplus for the reporting term. Budget Expenditures by the functional classification of expenditures and budget financing (II) are determined by the main state functions: national functions, defense, public order, security and judicial authorities, economic activity, environmental protection, housing, utilities, health care, spiritual and physical development, education, social protection and social security. Budget Fulfillment (III) determines the composition of income and expenses, corresponding to GFSM 2001.

*Cash flow Statement.* The report (form № 3 PS) shows the cash flow for the reporting term from operating, investment and financial activities (table 3). When cash flow as a result of one transaction includes amounts, that pertain to different types of activities, then these amounts have to be reported separately according to those activities types they pertain to.

Amounts of income and expenses created as a result of operational, investment or financial activities have to be reported extendedly. Nonmonetary activities should not be included into this statement. Opening of the statement carried out in accordance with the order of filling out the forms of financial reporting in public sector in compliance with the law requirements.

Table 3

The general structure of the Cash Flow Statement

Section number	Section Title
I	Cash flows from operating activities
II	Cash flows from investment activities
III	Cash flows from financial activities

*Statement of Changes in Equity.* Statement of changes in equity (form № 4 PS) discloses equity changes. This statement determines the amounts of equity, accordingly, at the beginning of the reporting term and the end of it, also the data shown that reflects raise or reduction in parts of equity at the beginning and the end of reporting term as a result of changes in accounting policies, correction of errors and other changes in terms outlined at NAS(P)PS.

The information is shown on changes in consistency and amounts of equity, related to assets coming or withdrawals by the owner's decision.

The data showing equity raise or reduction as a result of re-evaluation of fixed assets and other assets are reflected Separately in the order, required by correspondent NAS(P)PS. Statement of Changes in Equity discloses the deficit/surplus that emerged in reporting term as a result of government organization's activities. Disclosure of the statement carried out in accordance with the order of filling out the forms of financial reporting in government sector in compliance with the law requirements.

The order of consolidated financial reporting is outlined in this normative document. Consolidated financial reporting is compiled by updating the parameters of financial activities of controlled subjects in government sector to same parameters of financial reporting of controlling subject of government sector;

In factoring of consolidated financial reporting excluded are: balances and transactions between subjects of government sector within the economic group and received as a result of it unused income; unused expenses as a result of operations within economic group except those that can be reimbursed;

All items (rows) of the forms of financial reporting are provided. Only those items (rows) of the form of financial statements can be omitted.

One and the same reporting term is chosen for the consolidation, balance date for the financial reporting of the controlling subjects, and for such conditions only generated accounting policies is used;

Currency exchange differences that occur during the process of re-evaluation of parameters of financial reporting of controlled subjects of government sector, located outside of Ukraine, into the Ukraine's currency, are determined in compliance with correspondent NAS(P)PS.

General consolidated reporting of government sector subjects generated by State Treasury of Ukraine in order to obtain information on general property condition and results of activities of government sector subjects and budgets.

General consolidated reporting includes: the consolidated balance-sheet, consolidated income statement, consolidated cash flow statement and consolidated equity statement.

General consolidated financial reporting is factored by updating the parameters of financial activities of controlling government sector subjects and budgets.

Implementation of all accepted NAS(P)PSis a next step to modernization of accounting system in Ukraine. Current rules of budget accounting in Ukraine are on the way to budget accounting development to the international level.

**Conclusions.** During last years the reduction of differences in financial reporting and accounting in a lot of countries was noted, that facilitates analysis and decision making under conditions of expanding commercial activity, transnational corporations growth, financial markets globalization.

To eliminate the problem of accounting reformation in Ukraine in accordance with the International Standards of Financial Reporting it is necessary to solve the set of methodological and organizational problems, such as the problem of choosing the appropriate type of accounting regulation in Ukraine – a governmental regulation variant or a professional one, that depends on economic development of Ukraine, as well as on the socio-political situation and national traditions.

The transition from national standards to the international financial reporting standards under conditions of globalization has to be a gradual and purpose oriented process, as is discrepancy of Ukrainian accounting system would be eliminated gradually in accordance to demand of market economy without the corruption of this system.

As a result of research, the conclusions have been made as follows: changes to a budget process and new objectives of government management demand development and ratification of new rules of accounting.

The new rules conformity of in all significant parts to the International Standards requirements has to be their most important characteristic feature. Without reformation of the system of accounting and financial reporting it is impossible to reach the goal of increasing of effectiveness of the budget expenditures, full opening of Ukrainian economy for foreign investments, setting-up of the constructive dialogue as to the problems of local municipality issues between government authorities and public.

Thus we have to point out that the accounting systems modernization will promote the transparency in government finance management; improvement of the mid-term and long term strategic planning of budgeting system; enhancing control over budget fulfillment process; implementation of international accounting standards based on generally accepted

international standards; increasing the role and status of accountants and economists.

The issues of implementation of international accounting standards and reporting into the practice of government sector institutions of Ukraine may be considered the areas of further research.

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