

THE METHODOLOGY FOR EVALUATING THE IMPACT OF APPLYING OF IFRS ON THE FINANCIAL STATUS OF ENTERPRISES

©2018 ZASADNYI B. A.

UDC 657.006.032

Zasadnyi B. A. The Methodology for Evaluating the Impact of Applying of IFRS on the Financial Status of Enterprises

The article discloses peculiarities of the methodology of determining the general influence of the first application of IFRS in the formation of financial statements on the financial status of enterprises (improvement, deterioration or absence of changes in financial status). It also evaluates the preparation and reliability of financial statements for the first time prepared with use of IFRS in order to identify systemacity or formality. The author substantiates the statement that those enterprises whose financial status remained unchanged after the transition to the application of IFRS came from a formal position to transformational adjustments and application of conceptual principles in the formation of financial statements.

Keywords: accountance, financial reporting, financial status of enterprises, IFRS, adaptation of IFRS.

Fig.: 3. **Formulae:** 10. **Bibl.:** 12.

Zasadnyi Bohdan A. – PhD (Economics), Associate Professor, Candidate on Doctor Degree, Department of Accounting and Auditing, Taras Shevchenko National University of Kyiv (60 Volodymyrska Str., Kyiv, 01033, Ukraine)

E-mail: bzasadnyi@narda.org.ua

УДК 657.006.032

Засадний Б. А. Методика оцінки впливу застосування МСФЗ на фінансовий стан підприємств

У статті розкрито особливості методики визначення загального впливу першого застосування МСФЗ при формуванні фінансової звітності на фінансовий стан підприємств (поліпшення, погіршення або відсутність змін фінансового стану). Також надано оцінку підготовки та достовірності інформації фінансової звітності, вперше підготовленої за МСФЗ, з метою виявлення системності або формальності. Обґрунтовано твердження про те, що ті підприємства, фінансовий стан яких залишився незмінним після переходу на застосування МСФЗ, підійшли з формальної позиції щодо трансформаційних коригувань і застосування концептуальних принципів при формуванні фінансової звітності.

Ключові слова: бухгалтерський облік, фінансова звітність, фінансовий стан підприємств, МСФЗ, адаптація МСФЗ.

Рис.: 3. **Формул:** 10. **Бібл.:** 12.

Засадний Богдан Андрійович – кандидат економічних наук, доцент, докторант кафедри обліку та аудиту, Київський національний університет ім. Т. Шевченка (вул. Володимирська, 60, Київ, 01033, Україна)

E-mail: bzasadnyi@narda.org.ua

УДК 657.006.032

Засадный Б. А. Методика оценки влияния применения МСФО на финансовое состояние предприятий

В статье раскрыты особенности методики определения общего влияния первого применения МСФО при формировании финансовой отчетности на финансовое состояние предприятий (улучшение, ухудшение или отсутствие изменений финансового состояния). Также дана оценка подготовки и достоверности информации финансовой отчетности, впервые подготовленной по МСФО с целью выявления системности или формальности. Обосновано утверждение о том, что те предприятия, финансовое состояние которых осталось неизменным после перехода на применение МСФО, подошли с формальной позиции к трансформационным корректировкам и применению концептуальных принципов при формировании финансовой отчетности.

Ключевые слова: бухгалтерский учет, финансовая отчетность, финансовое состояние предприятий, МСФО, адаптация МСФО.

Рис.: 3. **Формул:** 10. **Библ.:** 12.

Засадный Богдан Андреевич – кандидат экономических наук, доцент, докторант кафедры учета и аудита, Киевский национальный университет им. Т. Шевченко (ул. Владимирская, 60, Киев, 01033, Украина)

E-mail: bzasadnyi@narda.org.ua

In the historical perspective, Ukraine has defined the European vector of development and international integration in the field of economic relations, which requires special steps towards the harmonization and standardization of the accounting and reporting system in accordance with IFRS. This testifies to the urgency and need to scientifically substantiate issues related to developing in enterprises a system of accounting and financial reporting in accordance with IFRS. One of the most expected results from IFRS application is to ensure clarity and quality of financial reporting information, as well as provide more complete information about the results of the activities of enterprises. In general, the use of IFRS in preparing financial statements by companies in Ukraine has positive effects. It contributes to the creation of conditions for the formation of reliable financial reporting used by owners (founders), investors, banks, as well as employees to determine the level of profitability, compet-

itiveness, economic potential, investment attractiveness, and financial position of entities.

Scientific research on adoption and application of IFRS in different countries was carried out by the following foreign scientists: L. Vallišová, L. Dvořáková (2017) [1], B. Ray, L. Xi and Sh. Lakshmanan (2015) [2], K. Romanna, E. Setten (2009) [3], A. Alon (2012) [4], D. Procházka (2015) [5], V. Muller (2014) [6], I. Pășcan (2015) [7]. Also, the issue of adapting of the system of accounting and financial reporting to IFRS through standardization and harmonization is highlighted in many scientific works of domestic scientists. In particular, V. Shvets notes that at the current stage of Ukraine's international integration in the field of economy, attention has been focused on the issue of unification of accounting, the main approaches to which are harmonization and standardization [8].

L. Lovinska investigated the influence of European integration processes on the development of account-

ing and financial reporting in Ukraine and in her works points to the need to improve domestic accounting standards in accordance with the trends in the development of accounting in the globalized world and the needs of national economy management [9].

In the process of analyzing the implementation of IFRS in countries of the European Union and Ukraine, R. Kuzina singled out the problems of their application, among which there are the need for institutional mechanisms for their development, implementation, and observance of application at all levels; resolution of issues of their legal implementation in national practice; a clear understanding of the scope of application at the national level; solving technical issues that are related to the specifics of IFRS themselves and national characteristics [10].

O. Kharlamova investigated the features of preparing financial statements under IFRS in times of crisis, and also substantiated the influence of uncertainty on assumptions, estimates and professional judgments used in compiling IFRS-reporting [11].

In general, the considered studies express concern that harmonization and standardization of the accounting system on a global scale takes place without regard to historical national characteristics and specifics of the activities of individual industries.

The *aim* of the paper is to develop a methodology for determining the overall impact of the first-time adoption of IFRS in the formation of financial statements on the financial position of enterprises (improvement, deterioration of the financial position, or absence of changes), as well as for assessing the preparation and reliability of information of financial statements prepared for the first-time under IFRS (systematic or formal manner in preparing the first-time IFRS financial statements).

An opening statement of financial position is the starting point for accounting under IFRS. In accordance with IFRS 1 “First-Time Adoption of IFRS” [12], when preparing an opening statement, the entity is required to adjust the financial statements, i.e. apply the same accounting policies in the statement of financial position and in all periods that are disclosed in the first financial statements according to IFRS. In this case, the accounting policies shall comply with each IFRS effective at the end of its first reporting period, except as specified in IFRS 1 “First-time Adoption of IFRS” (Fig. 1).

When forming an opening statement of financial position, the first-time adopter shall made the following adjustments of the items:

- ✦ recognize all assets and liabilities that are subject to recognition in accordance with IFRS;
- ✦ remove all assets and liabilities that are not subject to recognition in accordance with IFRS;
- ✦ reclassify the assets, liabilities and equity items in the statement of financial position under IFRS;
- ✦ assess all assets and liabilities under IFRS.

Retrospective adjustments related to the change in accounting policies when adopting IFRS should be directly attributed to retained earnings at the date of transition or to another item of equity. The above-mentioned adjustment procedures for the first-time formation of IFRS financial statements will affect the structure, ratio and value of assets, liabilities, income, expenses and equity elements. Thus we can conclude that the transition to forming financial statements under IFRS will affect the change in the financial position of enterprises. This thesis will be laid down in further investigations of the formation of the first-time IFRS financial statements by enterprises. Since this process requires additional financial costs, some enterprises demonstrate perfunctory and formal attitude to the preparation of IFRS financial statements, which affects the quality of information provided to users.

To analyze the impact of transition to IFRS on the financial position, there was selected a totality of enterprises involved in the dairy industry of Ukraine, which is one of the leading branches of the food sector. The dairy industry is almost entirely focused on the domestic supply and consumer market, which somewhat mitigates the influence of foreign economic factors on it and allows investigating the financial position of enterprises regardless of their actions.

The choice of dairy enterprises is also due to the low elasticity of demand for products, which in turn reduces the impact of the trends in their consumption and, consequently, sales volumes. An important factor in selecting dairy enterprises for the analysis was the fact that a significant number of enterprises are public joint-stock companies, which, in accordance with the requirements of national legislation, were obliged to form their financial statements under IFRS starting from January 1, 2012.

Thirty public joint-stock companies of the dairy industry, which are located in different regions of Ukraine, were selected for a representative sample. The information base for implementing the impact of transition to IFRS on the financial position was the official financial reporting of these enterprises posted on the website of the National Commission on Securities and Stock Market of Ukraine (www.smida.gov.ua). Starting from 2012, all enterprises in the totality indicate in their financial statements that they have been formed in accordance with IFRS.

The main task in the context of this investigation is to establish how well the enterprises were prepared to forming financial statements in accordance with IFRS and how scrupulous they were about it. An analysis of changes in the indicators of financial position after the transition to forming financial statements under IFRS will allow to make appropriate conclusions.

The methodological approach to calculations was based on the principles of financial analysis, in particular, the index method was used, within which it was decided to assess the relative changes in individual indicators of financial position before the transition to IFRS and after the date of transition.

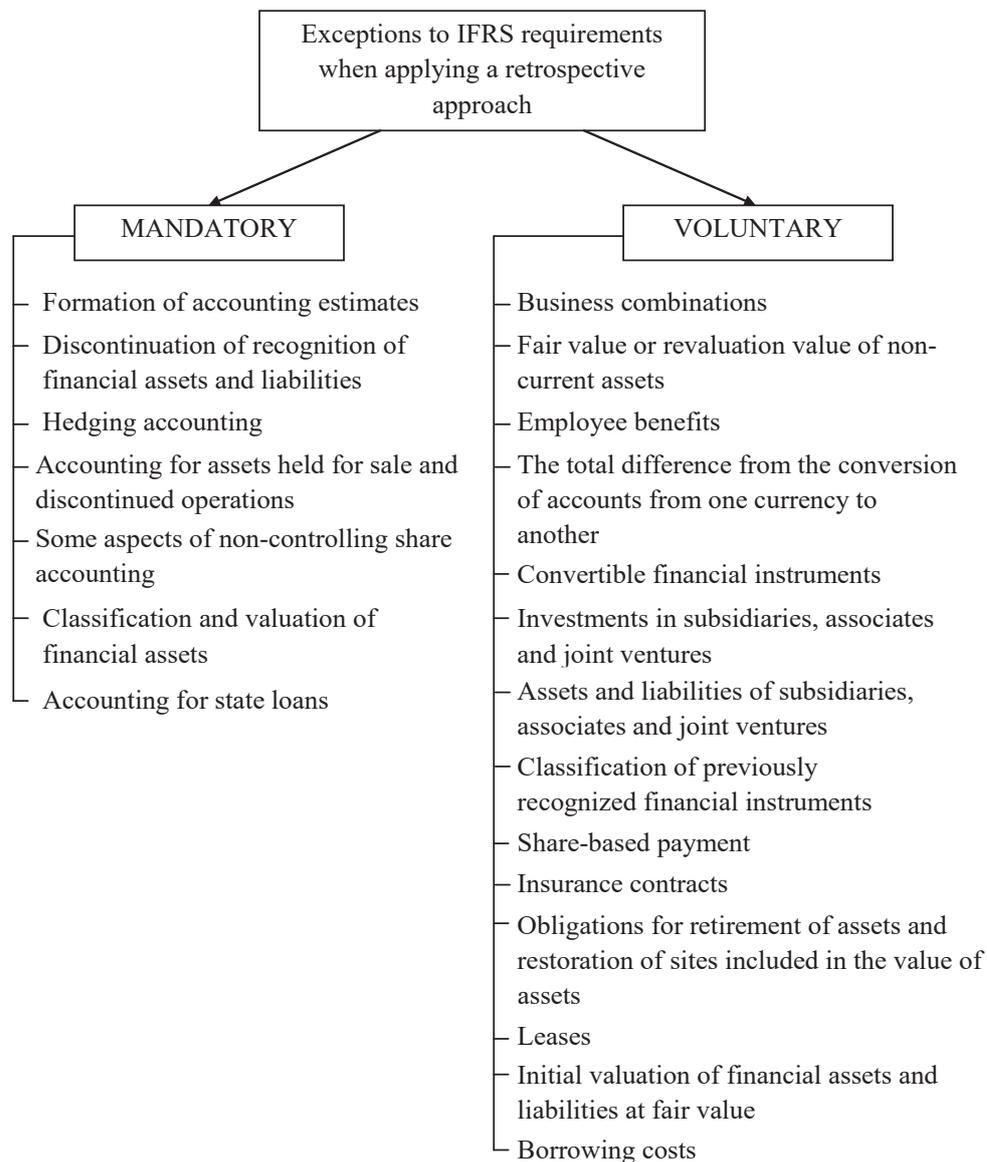


Fig. 1. Grouping exceptions when applying the retrospective approach to the formation of the first-time IFRS financial statements

Source: compiled by the author based on [12].

For the analysis of the impact on the financial position of selected enterprises, 10 indicators were selected:

$$1. \text{ Total assets index} = \frac{\text{Total assets (IFRS)}}{\text{Total assets (NASU)}}, \quad (1)$$

where *NASU* is National Accounting Standards of Ukraine.

$$2. \text{ Equity growth index} = \frac{\text{Equity (IFRS)}}{\text{Equity (NASU)}}; \quad (2)$$

$$3. \text{ Non-current assets growth index} = \frac{\text{Non-current assets (IFRS)}}{\text{Non-current assets (NASU)}}; \quad (3)$$

$$4. \text{ Current assets growth index} = \frac{\text{Current assets (IFRS)}}{\text{Current assets (NASU)}}; \quad (4)$$

$$5. \text{ Total coverage ratio index} = \frac{\text{Current assets} / \text{Current liability (IFRS)}}{\text{Current assets} / \text{Current liability (NASU)}}; \quad (5)$$

$$6. \text{ Absolute liquidity ratio index} = \frac{\text{Cash} / \text{Current liability (IFRS)}}{\text{Cash} / \text{Current liability (NASU)}}; \quad (6)$$

$$7. \text{ Equity to total assets ratio index} = \frac{\text{Equity} / \text{Total assets (IFRS)}}{\text{Equity} / \text{Total assets (NASU)}}; \quad (7)$$

$$8. \text{ Leverage ratio index} = \frac{\text{Equity} / \text{Borrowed capital (IFRS)}}{\text{Equity} / \text{Borrowed capital (NASU)}}; \quad (8)$$

$$\begin{aligned}
 & \text{The share of fixed in total assets index} = \\
 9. & \quad = \frac{\text{Fixed assets} / \text{Total assets (IFRS)}}{\text{Fixed assets} / \text{Total assets (NASU)}}; \quad (9)
 \end{aligned}$$

$$\begin{aligned}
 & \text{Bankruptcy prediction index} = \\
 10. & \quad = \frac{(CA + FE) - (CL + FI) / TA (IFRS)}{(CA + FE) - (CL + FI) / TA (NASU)}, \quad (10)
 \end{aligned}$$

where *CA* denotes current assets; *FE* – future expenses; *CL* – current liability; *FI* – future income; *TA* – total assets.

To perform calculations of the relevant indexes of indicators, a sample of relevant items in the financial statements of 30 enterprises of the Ukrainian dairy industry was made.

In order to obtain the overall impact of transition to IFRS, it is proposed to use an integral index that will combine the trends of individual indicators and serve as a universal indicator for assessing the approach to IFRS financial statements. The integral index of the impact of transition to IFRS is constructed by the method of averages, which implies generalizing the individual values of signs by the average value that characterizes the set of phenomena and is a typical sign of a feature in this set. The use of an average arithmetic value is recommended for the development of an integral index of the impact of transition to IFRS on the financial position.

Evaluating the analysis results of the impact of IFRS application was carried out in the following areas:

- ✦ determining the overall impact of transition to IFRS in the preparation of financial statements on the financial position of enterprises (improvement, deterioration or lack of changes in the financial position);
- ✦ assessment of the preparation and reliability of the information in financial statements of first-time adopters of IFRS (consistency or formality in the preparation of the first-time IFRS financial statements).

Regarding the results of the analysis of the first area, if the value of the integral index of the impact of IFRS application is less than one – this indicates deterioration in the financial position of the enterprise, if more than one – the financial position improved after the transition to IFRS. In case if the value of the integral index is equal to one – the transition to IFRS in the formation of financial statements in no way affected the indicators of the financial position of the enterprise.

As for the second area of evaluating the results of analyzing the impact of IFRS application on the formation of financial statements on the indicators of the financial position of enterprises, any deviation of the integral index from 1 indicates that there are certain adjustments to the items of financial statements in preparation of the first-time IFRS financial statements. If the integral index is equal to 1, there is a high probability of a formal ap-

proach to the formation of the first-time IFRS financial statements.

The results of experimental calculations of the integral index of the impact of IFRS application on the financial position of enterprises of the dairy industry in Ukraine are presented in Fig. 2.

It should be noted that based on the results of the analysis of the impact of IFRS application on the formation of financial statements, the financial position of five enterprises (PJSC Zolotoniskiy Butter Plant, PJSC Novokakhovskiy Melted Cheese Plant, PJSC Bashtanskyy Cheese Making Plant, PAT Vilnianskyy Maslozavod, PAT Svitlovodskyy Maslosyrkombinat), representing 20% of the totality of the enterprises under study, has improved.

However, there were nine enterprises (PJSC Ostrozhkyi Dairy Plant, PJSC Chernihiv Dairy Plant, PAT Khrystynivskiy Molokozavod, PAT Shpolyanskyy Molokozavod, PJSC Borshchiv Cheese Factory, OJSC Irklyiyv Butter and Cheese Making Plant, PAT Yahotynskyy Maslozavod, PAT Zhashkivskyy Maslozavod, PAT Horodyshchenskyy Maslozavod), representing 30% of the totality, whose financial position after the introduction of IFRS for the preparation of financial statements deteriorated.

For half of the totality of enterprises (16 ones), the value of the integral index of the impact of IFRS application on the preparation of financial statements on the financial position of enterprises is approximately equal to one, indicating that there is no significant effect on the indicators of the financial position (Fig. 3).

CONCLUSIONS

The results of assessing the impact of IFRS application on the formation of financial statements based on the indicators of the financial position of enterprises give reason to assert that any deviation of the integral index from 1 indicates the existence of certain adjustments to the items of financial statements in the preparation of the first-time financial statements under IFRS.

Thus, using the proposed methodology for assessing the impact of IFRS application on the financial statements of the enterprises of the dairy industry in Ukraine, it can be assumed that the enterprises whose financial position remained unchanged after the transition to IFRS were not scrupulous regarding transformational adjustments and application of conceptual principles in the formation of financial statements in accordance with IFRS. ■

LITERATURE

1. Vallišová, L., Dvořáková, L. Implementation of international financial accounting standards from the perspective of companies in the Czech Republic. *Economic Annals-XXI*. 2018. Vol. 167. Issue 9-10. P. 70-74.

DOI: <https://doi.org/10.21003/ea.V167-14>

2. Ball, R., Li, Xi and Shivakumar, L. Contractibility and Transparency of Financial Statement Information Prepared under IFRS: Evidence from Debt Contracts around IFRS Adoption.

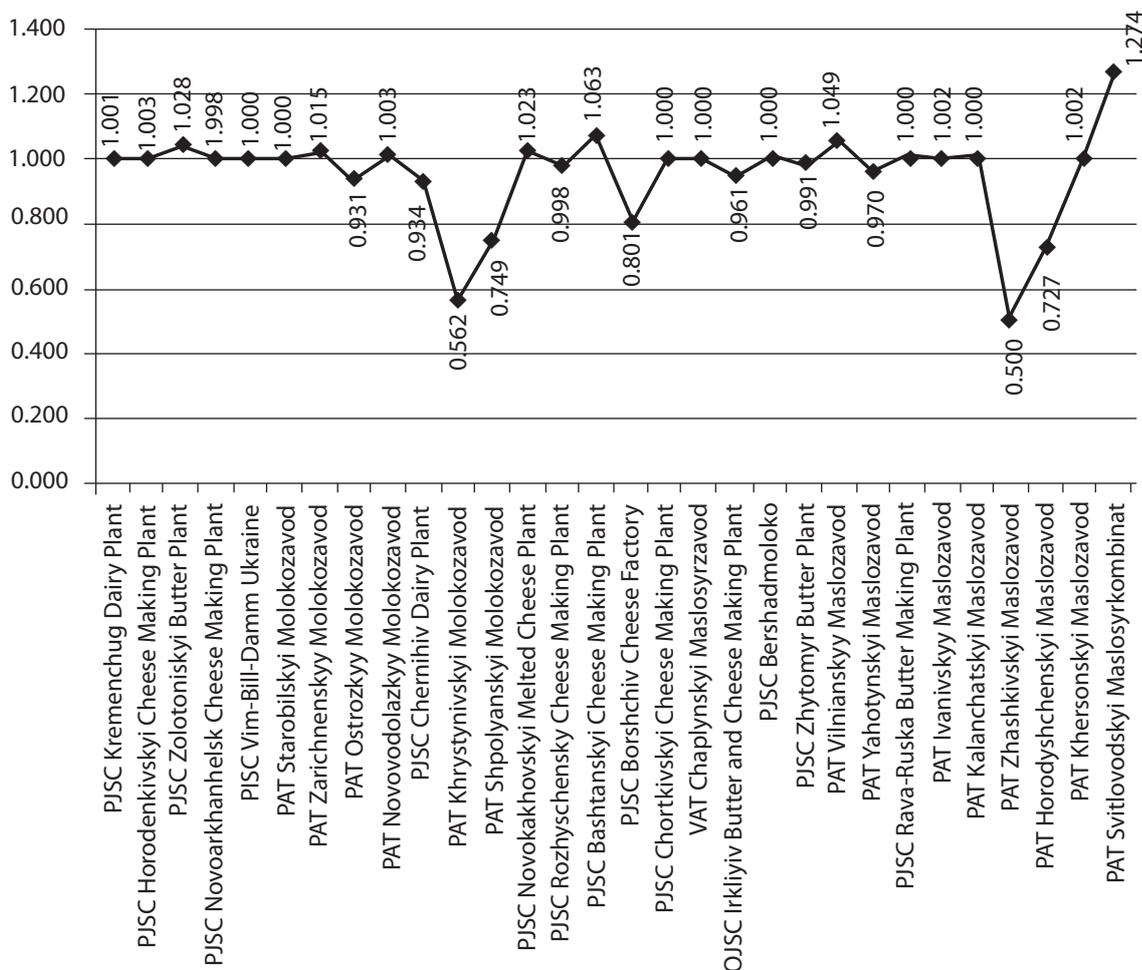


Fig. 2. Integral index of impact of IFRS application on the financial position of enterprises

Source: developed by the author.

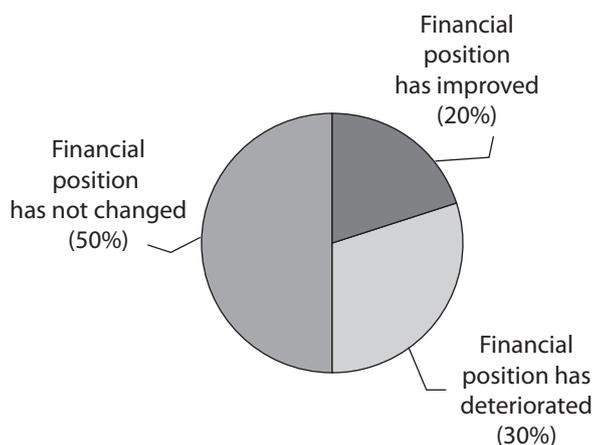


Fig. 3. Results of assessing the impact of IFRS application on the financial position of enterprises

Source: developed by the author.

Journal of Accounting Research. 2015. Vol. 53. Issue 5. P. 915–963. URL: <https://onlinelibrary.wiley.com/doi/full/10.1111/1475-679X.12095>

DOI: <https://doi.org/10.1111/1475-679X.12095>

3. Romanna, K., Setten, E. Why Do Countries Adopt International Financial Reporting Standards? *Harvard Business School Working Papers*. 2009. No. 09-102. URL: http://www.hbs.edu/faculty/Publication%20Files/09-102_1bc06d7-7340-4f0a-b638-e23211a40c41.pdf

edu/faculty/Publication%20Files/09-102_1bc06d7-7340-4f0a-b638-e23211a40c41.pdf

4. Alon, A. The IFRS Question: to Adopt or Not? In: *Advances in Accounting Education: Teaching and Curriculum Innovations (Advances in Accounting Education)* / Dorothy Feldmann, Timothy J. Rupert (ed.). 2012. Vol. 13. P. 405–423.

5. Procházka, D. The Development of Capital Markets of New EU Countries in the IFRS Era. *Procedia Economics and Finance*. 2015. Vol. 25. P. 116–126.

DOI: [https://doi.org/10.1016/S2212-5671\(15\)00720-0](https://doi.org/10.1016/S2212-5671(15)00720-0)

6. Muller, V. The Impact of IFRS Adoption on the Quality of Consolidated Financial Reporting. *Procedia Economics and Finance*. 2014. Vol. 109. P. 976–982.

DOI: <https://doi.org/10.1016/j.sbspro.2013.12.574>

7. Pășcan, I.-D. Measuring the Effects of IFRS Adoption on Accounting Quality: A Review. *Procedia Economics and Finance*. 2015. Vol. 32. P. 580–587.

DOI: [https://doi.org/10.1016/S2212-5671\(15\)01435-5](https://doi.org/10.1016/S2212-5671(15)01435-5)

8. Швець В. Г. До питання нормативно-правового забезпечення бухгалтерського обліку і фінансової звітності в умовах МСФЗ. *Вісник Київського національного університету імені Тараса Шевченка. Серія «Економіка»*. 2015. № 165. С. 5–10.

9. Ловінська Л. Г. Вплив євроінтеграційних процесів на розвиток бухгалтерського обліку та звітності в Україні. *Фінанси України*. 2014. № 9. С. 21–30.

10. Кузіна Р. В. Гармонізація фінансової звітності: міжнародний досвід та українська практика. *Вісник Львівського національного університету «Львівська політехніка»*. 2012. № 721. С. 126–131. URL: http://ena.lp.edu.ua/bitstream/ntb/12695/1/23_119-131_Vis721menegment.pdf

11. Kharlamova O. Crisis «markers» in the controlling system of IFRS-reporting preparation. *Economic Annals-XXI*. 2015. No. 3-4 (2). P. 71–74. URL: http://soskin.info/userfiles/file/2015/3-4_2_2015/Kharlamova.pdf

12. Міжнародний стандарт фінансової звітності 1 «Перше застосування Міжнародних стандартів фінансової звітності». URL: http://zakon2.rada.gov.ua/laws/show/929_004

REFERENCES

Alon, A. "The IFRS Question: to Adopt or Not?". *Advances in Accounting Education: Teaching and Curriculum Innovations*. Vol. 13 (2012): 405-423.

Ball, R., Li, Xi, and Shivakumar, L. "Contractibility and Transparency of Financial Statement Information Prepared under IFRS: Evidence from Debt Contracts around IFRS Adoption". *Journal of Accounting Research*. 2015. <https://onlinelibrary.wiley.com/doi/full/10.1111/1475-679X.12095>

DOI: <https://doi.org/10.1111/1475-679X.12095>

Kharlamova, O. "Crisis «markers» in the controlling system of IFRS-reporting preparation". *Economic Annals-XXI*. 2015. http://soskin.info/userfiles/file/2015/3-4_2_2015/Kharlamova.pdf

Kuzina, R. V. "Harmonizatsiia finansovoi zvitnosti: mizhnarodnyi dosvid ta ukrainska praktyka" [Harmonization of financial reporting: international experience and Ukrainian practice]. *Visnyk Lvivskoho natsionalnoho universytetu «Lvivska politehnika»*. 2012. http://ena.lp.edu.ua/bitstream/ntb/12695/1/23_119-131_Vis721menegment.pdf

Lovinska, L. H. "Vplyv yevrointehratsiinykh protsesiv na rozvytok bukhhalterskoho obliku ta zvitnosti v Ukraini" [The Impact of European Integration Processes on the Development

of Accounting and Reporting in Ukraine]. *Finansy Ukrainy*, no. 9 (2014): 21-30.

"Mizhnarodnyi standart finansovoi zvitnosti 1 «Pershe zastosuvannia Mizhnarodnykh standartiv finansovoi zvitnosti»" [International Financial Reporting Standard 1 "First Application of International Financial Reporting Standards"]. http://zakon2.rada.gov.ua/laws/show/929_004

Muller, V. "The Impact of IFRS Adoption on the Quality of Consolidated Financial Reporting". *Procedia Economics and Finance*. Vol. 109 (2014): 976-982

DOI: <https://doi.org/10.1016/j.sbspro.2013.12.574>

Pazcan, I. -D. "Measuring the Effects of IFRS Adoption on Accounting Quality: A Review". *Procedia Economics and Finance*. Vol. 32 (2015): 580-587

DOI: [https://doi.org/10.1016/S2212-5671\(15\)01435-5](https://doi.org/10.1016/S2212-5671(15)01435-5)

Prochazka, D. "The Development of Capital Markets of New EU Countries in the IFRS Era". *Procedia Economics and Finance*. Vol. 25 (2015): 116-126.

DOI: [https://doi.org/10.1016/S2212-5671\(15\)00720-0](https://doi.org/10.1016/S2212-5671(15)00720-0)

Romanna, K., and Setten, E. "Why Do Countries Adopt International Financial Reporting Standards?" *Harvard Business School Working Papers*. 2009. http://www.hbs.edu/faculty/Publication%20Files/09-102_1bc06d7-7340-4f0a-b638-e23211a40c41.pdf

Shvets, V. H. "Do pytannia normatyvno-pravovoho zabezpechennia bukhhalterskoho obliku i finansovoi zvitnosti v umovakh MSFZ" [The issue of legal and regulatory provision of accounting and financial reporting under IFRS]. *Visnyk Kyivskoho natsionalnoho universytetu imeni Tarasa Shevchenka. Ser. : Ekonomika*, no. 165 (2015): 5-10.

Vallishova, L., and Dvozhakova, L. "Implementation of international financial accounting standards from the perspective of companies in the Czech Republic". *Economic Annals-XXI*. Vol. 167, no. 9-10 (2018): 70-74.

DOI: <https://doi.org/10.21003/ea.V167-14>