

APPLICATION OF EUROPEAN STANDARDS OF FINANCIAL STATEMENTS – INFORMATIONAL RESOURCE OF CONSUMER COOPERATION DEVELOPMENT IN UKRAINE

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Abstract:

More than 120 countries use the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS). The Association Agreement between Ukraine and the EU obliges Ukraine to consider European convergence of accounting and reporting. Since 2012 for some entities the use of IFRS has been compulsory, but for others – voluntary. This trend coincides with the imperative necessity of the consumer cooperation of Ukraine to reform its multilevel informational system as a key component of its effective management and successful implementation of controlling. It is proposed to start reforming with the introduction of IFRS and IAS. Consumer cooperation represents cooperative sector of Ukrainian economy and is included into different international and European cooperative associations. With its historic mission to meet the needs of its members, socio-economic and cultural development of rural areas, in terms of the crisis it faces the serious problem of the systemic reforming under existing conditions through the innovative development and use of experience of economically developed countries, especially the EU.

Key words: European integration, cooperation, innovative development, international accounting and reporting standards, information resources, controlling.

JEL classification: M15, M21, M41

1. INTRODUCTION

The implementation of the Association Agreement between Ukraine and the EU (full name in English - Association Agreement between the European Union and the European Atomic Energy Community and their member states, of the one part, and Ukraine, of the other part) provides a free trade zone, the removal of trade barriers, integration of Ukraine into the European Union's internal market.

The cooperative sector of economy can be one of the first successful European integration projects. The developed cooperative system of Europe covers over 22% of the adult population and is an organic balanced component of the social development. Consumer cooperation in Ukraine already has an international membership. Since 1992 it has been a plenipotentiary member of the International Cooperative Alliance, since 2012 – a member of the European Community of Consumer Cooperatives (Euro Coop), since 2014 - a full member of the European Business Association.

2. LITERATURE REVIEW

The problems of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) implementation in Ukraine were described in publications of the leading national academic economists: V.Parkhomenko (*Parkhomenko, 2014*), S. Holova (*Holova, 2015*), S. Zubilevych (*Zubilevych, 2014*), O. Kharlamova, L. Rudenko (*Kharlamova and Rudenko, 2014*), R. Kuzina (*Kuzina, 2015*). All above-mentioned and many other authors elaborate this subject but their publications are not able to resolve the complex issue of reforming financial reporting in Ukraine, particularly in the sphere of consumer cooperation.

The problems of complex systems management were examined by such scientists as: M.Amper, B.Trentovskyi, A. Bohdanov, Norbert Wiener, L. von Bertalanffy, M.Mesarovich, D.Ekman, A.Borh, O.Lyapunov, I.Poletaev, V.Hlushkov, V.Mikhalevich, I.Serhienko, A.Anisimov, O.Letychevskyi, B.Pshenychnyi, A.Katrenko and others.

3. PURPOSE

Formal affiliation with international cooperative organizations encourages and requires the consumer cooperation to provide domestic reforms towards European integration. Thus, it is of prime importance for the multilevel system of consumer cooperation to reform the information system on the European basis as it is the main component of consumer cooperation effective management, innovation development and controlling implementation. This primarily relates to reporting in general and financial reporting in particular.

4. RESULTS

Management of cooperative economy is characterized by specific features which are not typical for state, municipal or private entities. The specificity of the cooperative sector has been considered by the author in his works (*Koshkarov, 2011a*), (*Koshkarov, 2011b*).

At present, financial statement (of all types) is the main information interface in a multilevel structure of consumer cooperation in Ukraine (the definition of *interface* is a surface that forms a common boundary between two things or a point of interaction between two components or systems; a set of tools, techniques and rules of interaction, management, control between elements of the system).

Rural consumer society (RCS) in accordance with the statute "... maintains fiscal and accounting records of performance ... Consolidated financial, statistical and other statements are to be submitted to cooperative society, of which it is a member" (*Guide, 2007*). Let's consider the change in the number of accounting reporting forms from lower to higher level (Table. 1).

Table 1. Number of accounting forms for submission to cooperative society of a higher level

(*Regulations of Ukoopspilka Board, 2003*), (*Parkhomenko, 2014*), (*Regulations of Ukoopspilka Board, 2011*), (*Regulations of Ukoopspilka, 2015*)

Reports	till 1990	since 2003	since 2009	since 2012	since 2015
1. Financial, annual, quarterly	+	+	+	+	+
2. Financial, monthly (interim)	+	-	-	-	-
3. Statistical, annual, quarterly	+	+	+	-	-
4. Operative (management)	+	+	+, -	-	-
5. Internal:					
- number of account forms;	45	28	24	16	14
- including industry report (number of industries)	17	7	7	5	6

The volume and structure of information transmitted in the system between the levels of management has a strong tendency to reduction and simplification as well as efficiency elimination.

Since 1990 the performance indicators of the consumer cooperation system in Ukraine have a negative tendency. For instance, let's consider the dynamics of changes for one of the main types of its activity - retail trade (Table. 2).

Informational "hunger" of subsystems of consumer cooperation management system (planning, accounting, control, analysis, regulation, etc.) (Table. 1) leads to their inefficiency and thus to negative consequences. The recourse of volumetric indicators may be one of them (Table.2).

The functional relationship between data of two tables (correlation) requires additional study: which is a cause and which is a consequence ("dependent variable" and "independent" $y=f(x)$ or $x=f(y)$).

Table 2. Changes in performance indicators of consumer cooperation of Ukraine in 1990-2014
(Kuzina, 2015)

Indicators	1990	1995	2000	2006	2010	2014
Retail turnover of consumer cooperation	21280.5 mln. krb.	2070 mln.hrn	1576.5 mln.hrn	2947.9 mln.hrn	3661.7 mln.hrn	4634.4 mln.hrn
Share of consumer cooperation in trade turnover of Ukraine, %	27.2	17.3	5.5	1.7	0.68	0.51
Number of consumer cooperative stores, ths	73.6	58.0	26.3	14.7	10.1	6.9
Additional information: Total retail turnover of Ukraine * does not include AR of Crimea and Sevastopol	78338 mln. krb.	11964 mln.hrn	28757.4 mln.hrn	174367 mln.hrn	541548 mln.hrn	903500* mln.hrn

Therefore, the formation of a modern informational field in the system of consumer cooperation in Ukraine on the basis of European and world experience can be and should be an effective resource for its development.

In our view, **the legal basis** for introduction of a modern cooperative informational management field is a bylaw according to which the lower levels delegate certain powers and functions to the higher levels under a separate agreement. The model agreement provides, inter alia: joint development of projects of the main directions of economic and social development of the region's consumer cooperation; submission to cooperation society administration or its departments background information materials that are not elements of reporting but are necessary for better understanding of financial and economic conditions in the spheres of activity and for joint processing of proposals and measures aimed at improving the system and efficiency of economic management (*Guide, 2007*).

The organizational basis for introduction of modern informational management field is the openness of the cooperative system, membership in international cooperative organizations and businesses. As a consequence there is a possibility and necessity of IFRS introduction and IAS application. These standards are implemented in most developed countries.

In accordance with the Accounting Directive of the European Parliament and of the Council of 26.06.2013 №2013/34EU the EU Member States have to incorporate the rules of the Directive with their national law within two years. The same problem of harmonisation of Accounting and Reporting Legislation should be resolved in Ukraine as it is an associate member of the EU.

In our opinion the advantage of IFRS and IAS for companies is the possibility to build an industry-oriented system of accounting and choose the composition of reporting articles according to the needs and characteristics of their activity.

On the basis of some excerpts from IAS 1 the author denotes their value for the system of consumer cooperation (*IFRS 1*).

P.1 prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities (cooperative and competitive).

P.9. Financial statements also show the results of the management's stewardship of the resources entrusted to it.

A financial statement for wide range of users is a statutory provision for shareholders, members of consumer associations, regional local authorities in the context of social orientation of consumer cooperatives activity goals.

P. 13. Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces.

Consumer cooperative enterprises and organizations through risk management and trend determination can actively respond to changes in the external economic environment as a whole and in terms of processes.

P.14. Many entities also present, outside the financial statements, reports and other statements (such as environmental reports).

Since consumer cooperation is a socio-economic system, the results of its activity are closely related to regional development (procurement of farm surpluses from the public, processing, sales, services providing, development of markets in rural areas, etc.).

P. 25-26. When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern - at least twelve months from the end of the reporting period.

Enterprises and organizations of consumer cooperatives are in need of industrial risk management mechanism to eliminate the uncertainties, threats, local and global downturns.

P. 125-126. An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period.

In the context of above-mentioned issues, some work is underway in the sphere of consumer cooperation. The Consumer Cooperation Development Program at the country level, computerization and the appliance of economic and mathematical methods as well as modern system analysis methods, forecasting, etc. in the process of implementation of the Industrial and Accounting Processes Computerization Program are the basis for reforming the system of consumer cooperation, controlling implementation.

Accounting Law (*Act of Ukraine, 1992*), Regulations of the Cabinet of Ministers of Ukraine, Ministry of Finance and the State Statistics Service impose mandatory application of IFRS, particularly for public companies, loan societies and others. According to the results of comparative economic analysis of cooperation laws and joint stock companies legislation performed by the author (*Koshkarov and Koshkarov, 2011*) we can make a conclusion about the possibility and the necessity for legislative approval of IFRS application at the governmental level or at the level of Ukoopspilka (Ukrainian Cooperative Society). In favor of this proposal it is attested by the global practice of the IFRS spread on enterprises of public interest, which certainly include cooperative enterprises and organizations (the collective form of management for the interests of shareholders and the community).

The economic basis for introduction of modern cooperative informational management field is the cooperation systematicity. According to Article 111 of the Commercial Code of Ukraine: consumer cooperation in Ukraine is a system of self-governing public organizations (consumer societies, their unions, associations), as well as enterprises and institutions of these organizations, which is an independent organizational form of the cooperative movement (*Commercial Code of Ukraine, 2003*). According to the dictionary, "society - close unity, the relationship" (*Dictionary of Ukrainian language*). Synonyms - company, partnership, corporation. Also: "System is a set of interrelated elements that form integrity" (*Katrenko, 2000*).

The functions of separate elements create new properties (may create) when they are in the structure of a single system. The functions of elements and the whole system are realized over time through processes, constituents of which are operations with material, financial, human,

informational and other resources. An enormous importance is taken by information flows that accompany not only all other flows, but also describe the system states and relations between the elements over time, have the potential for the system activation and development.

The scientific and technological basis for introduction of modern cooperative informational management field is represented by IT technology that is being implemented rapidly at the fundamental unit of the consumer cooperation - the consumer societies as well as at individual unions or associations of consumer cooperation enterprises. IT-technology provides the possibility to apply modern and efficient methods of system management.

5. CONCLUSIONS

1. Since Ukraine is an associate member of the EU the issue of harmonization of the Accounting and Reporting Legislation in compliance with the Accounting Directive of the European Parliament and of the Council is of a top priority according to the membership duties and the necessity to harmonize the economic environment between Ukraine and EU.

2. Consumer cooperation is being developed as a separate system incorporated into the country's economy. At the same time informational flows remain unchanged and that distorts the information model. In this case the informational resource inside the country and the potential of the European cooperation are not used. Informational flows do not comply with the system requirements to ensure its operational functioning on a real-time basis, development, efficiency, etc. (processes are constant, informational flows - interruptible, some of them are missing, do not support feedback vertically). The volume of reporting cannot satisfy subsystems of planning, monitoring, effective analysis. IFRS remove many of these problems and enable the innovative development of the consumer cooperation system.

3. According to the system management theory, consumer cooperation is viewed as a system:

- Socio-economic (self-governing organization of citizens which, on the basis of voluntary membership, property and mutual participation, unite for joint economic activity to achieve collective organized satisfaction of their economic and social interests (*Commercial Code of Ukraine, 2003*); it contributes to social and cultural development of rural areas, folk craft and cottage industry (*Act of Ukraine, 1992*);

- Active (goal-oriented);

- Open (is being developed);

- Complex, multi-level, multi-industrial;

- Emergent, synergistic (availability of greater and more effective properties than for the individual elements of the set);

- Formalized (legally approved);

- Has more than one hundred and fifty -year -old history of development in Europe and in Ukraine.

4. For cooperative enterprises and organizations as for enterprises of public interest (entities of public interest) with a collective form of management for the interests of shareholders and communities it is possible and necessary to legitimize the use of elements of IFRS and IAS. IFRS and IAS have more progressive form and content through the use of elements of the economic analysis method, planning, forecasting, monitoring, auditing, etc. - elements of controlling method.

5. We believe that the next evolutionary step of algorithm "data - information - knowledge - the result" should be performed by the usage of effective methods of system analysis (for example, object-oriented modelling, simulation, rapid development of application methods, etc.) and system management with logical change of requirements to the information field and their implementation with the use of IT technologies (elements of "The Fourth Industrial Revolution" (Industry 4.0), proclaimed at the World Economic Forum 2016 in Davos. The results of such studies are being prepared for publication.

Thus, enterprises and organizations of consumer cooperation have the need, possibility and necessity to apply IFRS and IAS as essential components of economic development of cooperative mechanisms through the usage of information potential. That will allow to remove all restrictions for the required informational field formation and, as a result, to integrate subsequently to business processes into a single channel of the European economy and effectively stimulate the introduction of new management systems (subsystems), including controlling.

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