
April 20, 2015

Ukrainian Accounting Standards (UAS) and Differences With International Accounting Standards (IAS) *Ieliena Segura, Accounting Manager, Sigma Ventures*

Ukrainian enterprise must maintain accounting records and financial statements in accordance with Ukrainian Accounting Standards (UAS). The financial statements include the balance sheet, income statement, cash flow statement, statement of changes in equity, and notes to financial statements.

The UAS for commercial banks and large companies listed in stock exchanges are similar to International Accounting Standards. But the vast majority of private companies (which are the main companies of concern to Sigma Ventures) still use UAS that differ significantly from IAS.

Currently 31 Ukrainian Accounting Standards (UAS) have been adopted, compared to 41 International Accounting Standards (IAS). There are still areas for which no local standards have been introduced (e.g., Accounting for Government Grants and Disclosure of Government Assistance, Interim Financial Reporting, Investment Property, Share-Based Payments).

In addition, even when local standards do exist, they often lack the detail and some of the disclosure requirements found in IAS. In fact, UAS have less interpretative guidance, explanations and illustrations than IAS, which inevitably leads to some confusion in the application of local standards. This undermines the comparability and quality of financial statements in Ukraine.

Tax considerations also play a role in local accounting standards. Ukrainian Accounting Standards produce financial statements that are intended principally to meet the information needs of the tax authorities and may not be consistent with IAS. Over the past several years, the Ukrainian Parliament has enacted numerous tax accounting rules that operate quite independently of accepted accounting principles. For example, new buildings acquired after 1 January 2004 may be **depreciated** for tax purposes at a rate of 2% per quarter on a reducing value basis, and UAS # 7 "Property, plant and equipment" provides for several depreciation methods, including methods stipulated by Ukrainian tax law. This is not fully consistent with IAS 16, which requires the depreciation method to reflect the pattern in which the asset's economic benefits are consumed by the enterprise. Preparers of Ukrainian financial statements use tax methods whenever possible, and do not give much attention to the quality of information that does not directly affect tax computation.

Many of the IAS requirements do not exist in Ukrainian accounting requirements. Also, the Ukrainian accounting for many business areas are also different to international accounting. For example, in the accounting for salaries and payroll, when taking a vacation, an employee

does not receive his regular salary but the average salary of the previous 12 months. While the regular salary is reduced by unaccomplished working days, the salary during vacation is based on calendar days, which leads to even more complexity and non-transparent calculations in the Ukrainian payroll accounting. There are also major differences in treating comparability, disclosure of information, provisions for losses on loans, valuation and depreciation of fixed assets, foreign exchange results, reporting currency, etc.

As a result, financial statements prepared under UAS differ substantially from IAS financial statements. In such circumstances, since UAS is only used in Ukraine, investors will not accept financial accounting information in Ukrainian statements unless these statements are modified to accommodate standards comparable to the IAS. Only then they can compare Ukrainian companies to those in other countries. The Accounting Specialist does this work.

Other Significant differences between Ukrainian and International Accounting Standards are described below:

- **Ukrainian Accounting Standards do not apply the “comparability” attribute required under IAS.** The Company’s Accounting Specialist must adjust Ukrainian statements to achieve comparability since it is needed by investors to evaluate the financial statements of an enterprise over time to identify trends in its financial position and performance.
- **The Ukrainian disclosure requirements are very limited in comparison with IAS.** For example, disclosure requirements on related-party transactions are vague and not as detailed as those of International Accounting Standards. This causes loopholes for misstatements, or swaying of potential investors. The investor then loses confidence in the information provided by a company that follows such broad methods of disclosures. Also, sales are reported in the income statement inclusive of value-added tax (UAS 3, Income Statement), and there are limited disclosure requirements for this treatment. Major differences exist in disclosure requirements that may mislead a reader who is not well informed about Ukrainian Accounting Standards.
- **Under UAS, companies are not required to identify separate businesses or cost centers.** There is not a requirement in Ukraine, contrary to IAS requirements, to identify reportable (business or geographical) segments or cost centers. There is also no requirement to disclose detailed information about the reportable segment’s revenue, results, assets, and liabilities. One of the major components of the IAS is the distinction of specific information about the reportable segment's revenue, results, assets, and liabilities, and cost unit calculations. These are unknown in UAS. Without this information, it is extremely difficult for current and future trends to be determined. The Company’s Accounting Specialist must adjust financial statements to provide this information which is needed to compare world economic trends such as inflation; otherwise the information can easily be misconstrued.
- **UAS gives more importance to bureaucratic requirements than to substance.** IAS gives priority to “substance” over “form” and stipulates the presentation of most items at fair value. But under UAS, form is more important than substance and only those transactions that occurred **and** were supported with sealed and signed documents can be registered. Proper adjustments must be made by the Accounting Specialist.

- **UAS does not allow accruals and depreciation over time of long-term contracts.** IAS provides for special treatment of revenues generated by long-term contracts. But UAS does not allow these treatments. The Accounting Specialist must make these adjustments.
- **UAS does not require a company to provide relevant information to capital markets, management and investors.** Many investors and creditors are apprehensive that financial statements provided by national enterprises with adherence to the UAS will neglect to demonstrate economic reality. Major areas where material noncompliance with the strict relevance-oriented IAS include lack of adequate provisions for doubtful debt and liabilities and non-tax deductible expenses that are charged to equity rather than income.

In addition to differences in accounting requirements, in Ukraine there are significant noncompliance issues even with Ukrainian Accounting Standards (e.g., noncompliance with rules on fixed assets revaluation, noncompliance with certain disclosure requirements for Property, Plant and Equipment, lack of adequate provisions for doubtful assets, many non-tax-deductible expenses that are charged to equity rather than to income, etc). These noncompliance issues have to be corrected before investors can use the financial statements submitted by the Company.

Under the partially developed UAS, potential investors and creditors will find it difficult to fully embrace financial statements prepared by national enterprises. There is a risk that financial statements will fail to show economic reality. Both investors and creditors will have to translate UAS into internationally recognized accounting standards, for example either International Accounting Standards (IAS) prepared by the International Accounting Standards Committee (IASC) or the U.S. Generally Accepted Accounting Practices (GAAP). Besides, tax and financial statements are prepared separately from one another. Many enterprises thus continue to limit their resources to focus on accounting for tax purposes.

Enterprises with foreign investments usually operate with two accounting systems, one in accordance with Ukrainian requirements and the other one in accordance with international requirements in order to meet the reporting obligations of their parent companies.