

# ADOPTION OF IFRS FOR SME IN UKRAINE

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## ABSTRACT

*Implementation of the Association Agreement between Ukraine and the EU creates additional opportunities for small and medium-sized businesses. In order to understand the information on the financial condition and results of small and medium-sized enterprises, Ukrainian accounting legislation has been brought into line with European Directives. An article on self-determination of the expediency of applying International Standards for the preparation of financial statements was introduced into the Law on Accounting and Financial Reporting in Ukraine. This enables small and medium-sized enterprises to move from National Accounting Standards to International Financial Reporting Standards for small and medium-sized enterprises.*

**Keywords:** Small and Medium-Sized Business Enterprises, International Financial Reporting Standards, Adoption, Transformation, Conversion, Financial Statements.

**JEL Classification:** M41

## INTRODUCTION

IFRS for small and medium enterprises is increasingly used worldwide. According to the IASB, 86 of the 166 countries surveyed require or permit the application of this standard (Ifrs, 2020). The transition of small and medium-sized enterprises of Ukraine to IFRS is a time requirement, which is associated with the formation of a market economy and due to the need to fulfill Ukraine's contractual obligations under the Association Agreement with the European Union.

## METHODOLOGY AND DATA

In the current conditions of the national economy, small and medium-sized businesses in the world are increasingly playing a decisive role in the growth of national economies, promotes the development of internal competition and business activity. Ukraine has chosen the path of integration into the European Union. In 2017, in accordance with the Association Agreement between Ukraine and the European Union, the Law on Accounting and Financial Reporting was amended regarding the indicators of assigning enterprises to a certain type (Zakon, 2020). Table 1 shows the classification of enterprises depending on the established indicators.

**Table 1**  
**CLASSIFICATION INDICATORS FOR SMALL, MEDIUM AND LARGE ENTERPRISES IN UKRAINE**

Type of business entity	Book value of assets, Euro	Net income from sales of products, thousand euros	The average number of employees, persons
Micro-enterprises	up to 350,000	up to 700	to 10
Small enterprises	book value of assets - up to 4,000,000	up to 8,000,000	up to 50
Medium enterprises	book value of assets - up to 20,000,000	up to 40,000,000	up to 250
Large enterprises	book value of assets - more 20,000,000	over 40,000,000	over 250

Small and medium-sized enterprises are traditionally the engine of the economy and the most numerous representatives of the business environment. The data in Table 2 show a stable share of small business presence in Ukraine (Ukrstat, 2020).

**Table 2**  
**THE NUMBER OF BUSINESS ENTITIES IN UKRAINE DEPENDS ON THE SIZE**

Type of Enterprises	2017	%	2018	%	2019	%
Large	399	0.02%	446	0.02%	518	0.03%
Medium	15254	0.85%	16476	0.90%	18129	0.93%
Small	1789406	99.13%	1822671	99.08%	1922978	99.04%

This trend can be explained by the presence of significant advantages of small business: the ability to make operational management decisions, support employment and job creation, a small amount of initial investment in starting a business.

## RESULTS AND DISCUSSION

The Association Agreement between Ukraine and the European Union in 2004 strengthens ties between the countries, clearly outlines the further vector of economic and social development of Ukraine. The signing of the agreement has led to additional commitments by Ukraine to harmonize domestic legislation with EU law, including the gradual approximation of accounting and reporting to international standards.

Analysis of the information on the website of the Ukraine Finance Ministry shows that Ukrainian enterprises can prepare financial statements in accordance with IFRS for SMEs, without clear quantitative criteria for enterprises. In this case, only two conditions are sufficient: the company is not accountable to society; for external users, general purpose financial statements are subject to disclosure (Visnuk, 2020).

We analyzed the approaches to the application of IFRS for SMEs in Ukraine (Holo, et al. 2013). The results are presented in Table 3.

<b>Approaches to reporting</b>	<b>Varieties</b>	<b>The essence of the approach</b>
Transformation	Full transformation	Transfer of accounting data at the end of the period by reclassifying reporting items or business transactions and making adjustments in accordance with IFRS.
	Full transformation taking into account the requirements for conversion into foreign currency	Bringing accounting data for UAS at the end of the period to the requirements of IFRS with additional conversion into foreign currency.
Conversion	Full conversion (parallel accounting)	Maintenance by the accounting specialist of two databases of financial reporting: Ukrainian and international.
	Transmission	Automated process of data transfer to a separate accounting register with automatic adjustment and reporting in accordance with IFRS.
Outsourcing		Accounting and / or reporting under IFRS by a third-party specialized organization (transformation, conversion).

The choice of the method of preparation of the reporting under IFRS depends on the purposes of its further use, periodicity of drawing up, financial expenses. We analyzed the strengths and weaknesses of approaches to the application of IFRS for SMEs (Table 4).

<b>Indication</b>	<b>Conversion</b>		<b>Transformation</b>		<b>Outsourcing</b>	
	<b>Strengths</b>	<b>Weaknesses</b>	<b>Strengths</b>	<b>Weaknesses</b>	<b>Strengths</b>	<b>Weaknesses</b>
Financial cost	—	Requires significant costs from the company	Does not require significant costs from the company	—	—	Requires significant costs from the company
Reliability of reporting	Potentially high degree of information reliability	—	—	Potentially high information risk, inevitable presence of subjective assessments	Depending on the approach (conversion or transformation)	
Reporting period	Almost simultaneously with the preparation of national reports	Long, because it means "debugging"	Neutral	—	Depending on the approach (conversion or transformation)	
Efficiency of reporting	Almost simultaneously with the preparation of national reports	—	—	Only after the preparation of national reports	Depending on the approach (conversion or transformation)	

The process of adopting IFRS for SMEs in Ukraine is characterized by the following problems: delays in the translation of the updated version of IFRS for SMEs (January 2020), the need to take into account national specifics, the need for common methodological principles. We see the solution of these problems in the cooperation of enterprises and the state.

At the state level, overcoming problems is possible through: convergence of national standards in accordance with IFRS for SMEs, the creation of common methods and principles for the adoption of small businesses to IFRS.

### CONCLUSION

The opening of new opportunities for small and medium-sized enterprises in Ukraine took place with the signing of an Agreement with the European Union and the creation of a free trade area, which puts on the agenda the application of IFRS for SMEs. Compliance with EU accounting requirements in Ukraine may take into account the envisaged options.

The study identified ways to move small and medium-sized businesses to IFRS for SMEs. To facilitate the adoption of Ukrainian small and medium-sized enterprises to IFRS, in the first place, the state, represented by regulatory authorities, should converge National Accounting Standards in accordance with IFRS for SMEs.

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