

15th International Conference on Economics
and Business 2021



**CHALLENGES IN THE CARPATHIAN
BASIN**

**Global Challenges - Local Answers.
Interdependencies or Slobalisation?**

Sapientia - Hungarian University of Transylvania, Faculty of
Economics, Socio-Human Sciences and Engineering,
Miercurea-Ciuc, 2021

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CHALLENGES IN THE CARPATHIAN BASIN

**Global Challenges - Local Answers.
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KOVÁCS-RUMP HENETTA – MENICH-JÓNÁS JUDIT: INTRODUCTION OF IFRS IN UKRAINE AND HUNGARY: A COMPARATIVE ANALYSIS

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Abstract

As a result of globalization, international harmonization of accounting has become increasingly important over the past 50 years. Among different international accounting systems, IFRS have gained the most ground in Europe. As an EU member state, Hungary could not be left out of the harmonization process either, so the introduction of IFRS brought significant changes in the national accounting regulations. Many European countries, despite not being members of the European Union, have also decided to introduce IFRS due to the significant intensification of trade relations. An example of this is Ukraine, where, despite the country's short history, the need to apply an international accounting system has also been recognized. Hungary and Ukraine are closely linked. On an annual basis, a significant amount of direct capital investment arrives from Hungary to Ukraine. In our research, we examine how IFRS have been introduced in a Member state of the European Union and in a European but non-EU country.

Key words: globalization, accounting, harmonization, European integration

Introduction

The globalization of the world economy has led to a number of problems with the international standardization of accounting and financial reporting. Nowadays, the need for harmonization of accounting at the international level has become clear. Issues of harmonization in the field of accounting are particularly relevant for Ukraine taking into consideration Ukraine's accession to the WTO and the existence of an association agreement with the EU. The political part of the agreement was signed on 21 March 2014 and the economic part on 27 June 2014. It envisages deep economic integration between Ukraine and the EU and the establishment of a deep and comprehensive free trade area. Hungary, which is a neighbor of Ukraine, has been a member of the European Union since 2004, so it has committed itself to the international harmonization of accounting. Although the two countries are separated by only one border, they are on a different path towards international harmonization of accounting, but both countries have decided to introduce IFRS. V.Yu. Svitlichna and S.M. Malik (2011), Ukrainian accounting professionals, emphasize that the main task of harmonizing accounting is to align Ukraine's accounting regulatory framework with EU legislation and IFRS requirements. With this endeavor, too, they are one step closer to joining the Union. Based on the experience of each country, it is possible to determine what preconditions need to be created for the successful implementation of IFRS. As Ukraine is an independent country, not a member of the European Union, it relied mostly on the opinion of its own experts in the implementation process and, although efforts were made to summarize the European experience and take action in this field, in the end nothing happened. According to Ukrainian accountants O.G. Chepets and O.M. Gubarik (2012), in the process of harmonizing national accounting and financial reporting with international standards, an appropriate system of measures should

be ensured, and a legal framework for the regulation of accounting and financial reporting should be developed; new methodological approaches to accounting and financial reporting need to be defined; the organizational aspects of accounting and reporting regulation need to be improved. The harmonization of accounting and financial reporting should, in the opinion of the authors, be determined by the following components: a theoretical and methodological framework (including harmonization of principles and methodological provisions (standards)) and practical tools for harmonizing accounting practices. As an EU member state, Hungary was already able to rely on the experiences of countries in the implementation process. The aim of our research is to explore how the process of introducing IFRS took place in Ukraine and Hungary and to compare the problems faced by the two countries during the implementation.

Results and Discussion

1. ECONOMIC RELATION BETWEEN UKRAINE AND HUNGARY

Creating favorable conditions for the development of the Ukrainian business climate remains one of the most important issues in the Ukrainian economy. Nevertheless, Ukraine has permanent and stable partners, such as Hungary. Figure 1 shows the development of trade between Ukraine and Hungary between 2015 and 2019. The ratio of exports and imports of products and services shows a changing trend between the two countries. In addition, the two countries continue to provide each other with different rates of foreign direct investment. In this respect, a very large amount of foreign direct investments in Hungary, exactly USD 380.9 million, arrived in Ukraine in 2018. The amount of foreign direct investment from Ukraine to Hungary is much smaller, only USD 16.1 million. These figures are extremely important for research, as it is clear that the two countries have an

economic relationship with each other, which anticipates the need for comparison of accounting information, and thus the application of international accounting standards.



Fig. 1.: Development of Ukrainian and Hungarian trade turnover between 2015-2019

Source: own editing based on UNB data

The two countries examined had already decided to adopt IFRS years earlier, applying different trends in the implementation process. We consider it important to emphasize that since one of the two countries examined has been a member of the European Union for several years (Hungary), for the the other it remains an important aim to join as soon as possible (Ukraine). In other words, despite the fact that Ukraine is not currently a member of the European Union, European integration efforts have already been the basis for the process of introducing IFRS. In order to observe the common problems faced by each country in the implementation process and to separate them from national

specificities, we use the Ukrainian and Hungarian experiences regarding the introduction of IFRS.

2. INTRODUCTION OF IFRS IN UKRAINE

One of the main preconditions for Ukraine's accession to the EU is to bring its national legal system, including common principles, values and legal culture, into line with the EU legal system. Alignment of Ukrainian legislation with that of the European Union is a foreign policy commitment made by Ukraine in accordance with the Partnership Agreement concluded with the Member States of the European Community on 14 June 1994.

One of the key areas of adaptation is accounting legislation. In the field of accounting, the urgency of harmonization is growing with the enlargement of the European Union, which opens up new prospects for partnership, economic integration and cooperation between Ukraine and the European Union. Specific actions in this direction are set out in the EU-Ukraine Action Plan of 21 February 2005.

Accounting reform in Ukraine began with the approval of Resolution №1706 1996-XIV "On Accounting and Financial Reporting in Ukraine" of the Council of Ministers of Ukraine of 28.10.1998., which was executed through the law №996-XIV "On Accounting and Financial Reporting in Ukraine" 16.07.1999. The next step in the accounting reform was the entry into force of Regulation №911 "On the Approval of the Strategy for the Application of International Financial Reporting Standards in Ukraine" approved on 24.10.2007 (the "Strategy"), which aims to improve the accounting and financial reporting system in Ukraine, taking into account the requirements of international standards and European Union legislation. The Strategy sets out a set of tasks that had to be completed by the date of first application of IFRS in order to successfully implement and apply IFRS. As Table 1 shows, several tasks were only partially or in many cases not

performed at all. In our opinion, despite the drafts developed, the accounting profession was unprepared during the transition period.

Table 1: Analysis of the implementation of some strategic steps for the introduction of IFRS in Ukraine

<i>Content of the measure</i>	<i>Planned duration of implementation</i>	<i>Status of implementation</i>
Preparation of proposals to amend the Law on Accounting and Financial Reporting in Ukraine in order to facilitate the procedure for the application of international standards	2007	achieved
Official translation of international standards	2007-2008	achieved
Official publication of international standards in order to make it easier for businesses to create the conditions for free access to them	2008-2009	achieved
Establish an information and analysis basis on issues related to the application of international standards, in order to give economic	2008-2010	achieved partially

entities free access to educational materials, professional publications, information on practical application		
Further training of accountants, provision of accounting specialists	2008-2010	not achieved
Hold annual international scientific and practical conferences on problematic issues related to the implementation and application of international standards.	2008-2010	achieved partially
Summary of the European Union's experience with international standards	2007-2008	not achieved
Develop organizational and methodological approaches for submitting financial statements electronically	2008-2010	not achieved
Improvement and amendment of national accounting regulations (standards) in connection with amendments in line	2007-2010	achieved partially

with international standards.		
Adoption of accounting provisions for business transactions not clearly defined in international standards.	2007-2010	not achieved
Develop methodological support for the application of national accounting provisions (standards)	2007-2010	achieved partially
Ensure that the Ministry of Finance cooperates with the International Financial Reporting Standards Committee	2007-2010	achieved partially
Preparation of proposals for accounting legislation to ensure that all entities submit accounts on the same methodological basis	2008-2009	achieved partially
Prepare proposals for accounting legislation to simplify the clearing process	2008-2010	achieved partially

Align the national regulatory framework for small businesses with international standards	2008-2010	not achieved
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Source: Chudovets (2012), 62 p.

As a result, 2012 was the year when IFRS were already mandatory for some businesses in practice.

From 1 January 2012, public limited companies, banks, insurance companies and companies engaged in economic activities, the list of which is determined by the Council of Ministers of Ukraine, prepare their financial statements and their consolidated financial statements in accordance with international standards.

Table 2 shows that the number of users expanded continuously until 2018.

Table 2. Range of IFRS users in Ukraine

$N\hat{e}$	<i>Scope of IFRS obligations</i>	<i>Year of transition</i>
1.	Public limited companies	2012
2.	Banks	2012
3.	Insurance companies	2012
4.	Private pension funds	2012
5.	Credit unions	2015
6.	Other credit institutions	2015
7.	Wealth management companies	2015
8.	Large companies	2018
9.	Listed companies (not only Plc., but companies of any organizational and legal form)	2018
10.	Companies engaged in the extraction of mineral resources of national importance	2018

Source: Golov bukh website

Table 2 shows that in about 6 years, the number of IFRS users has increased by 2 steps. In addition, it is worth noting that private limited companies and corporations can voluntarily decide to switch.

There were several problems with the migration process, such as:

- regulations or decisions issued by institutional bodies that ensure the application of IFRS and monitor compliance with them are in many cases contradictory or unclear;
- the regulations and explanations adopted on the introduction and application of IFRS have proved ineffective (as evidenced by the postponement of the implementation deadline from 2010 to 2012 due to the failure to implement the measures envisaged in the Strategy in accordance with the Regulation of the Council of Ministers of Ukraine of 17 March 2011 ;
- inadequacies in the translation of IFRS, the problem of content distortion of international standards;
- lack of methodological development of the transition to international standards and practical training programs;
- lack of trained professionals who would be able to transform reports or compile them in accordance with international standards;
- high costs of transition to IFRS, including changes and maintenance of accounting software;
- non-governmental accounting institutes with low professional development;
- ineffective cooperation with relevant international organizations;
- insufficient public funding for the accounting system reform program.

3. INTRODUCTION OF IFRS IN HUNGARY

Since Hungary's accession to the European Union in 2004, the obligation to harmonize has become stronger, before that steps were taken towards harmonization only for the sake of the planned

accession (Vajay, 2015). In 2002, it was decided that listed companies in the Member States of the European Union would be required to publish IFRS financial statements from 2005 onwards (Bruce, 2011).

As a result of two years of preparatory work, in 2015 the new accounting regulations in accordance with IFRS were introduced. One of the most significant milestones is undoubtedly 1387/2015, published in the 80th issue of the Hungarian Gazette on 12 June 2015. (VI.12.) Government Decision on the Application of International Financial Reporting Standards for Individual Reporting Purposes. In it, the government approved the introduction of IFRS for specific reporting purposes and its timing. In order to make the implementation process as efficient as possible, the changeover was not made mandatory for entities immediately, but the schedule was divided into several parts. With this multi-stage introduction, the aim was to provide sufficient preparation time for the farmers and the authorities. The planned transition schedule is shown in Table 3.

Table 3. IFRS transition schedule for separate financial statements

<i>N_o</i>	<i>Type of business</i>	<i>Planned year of transition</i>		
		<i>2016</i>	<i>2017</i>	<i>2018</i>
1.	Credit institutions, financial equivalent businesses		Obligatory	Obligatory
2.	Cooperative credit institutions, smaller credit institutions			Obligatory
3.	Insurers and other financial businesses		Optional	Optional

4.	Listed companies	Optional	Obligatory	Obligatory
5.	Businesses included in IFRS consolidation	Optional	Optional	Optional
6.	Other, subject to audit companies		Optional	Optional

Source: Füredi-Fülöp Judit –Várkonyiné Juhász Mária (2018)

Through the work carried out, a bill submitted by the Minister of National Economy on 13 October 2015 was accepted to amend the domestic application of International Financial Reporting Standards for individual reporting purposes, as well as certain financial laws. The law regulates the accounting tasks arising during the transition, amends and supplements the provisions of the Accounting Act so that certain definitions and regulations can be interpreted in the case of companies applying IFRS. The laws on local taxes, special taxes and the Hungarian Chamber of Auditors will be similarly amended, and the law on credit institutions also needed to be amended. The changeover faced several difficulties in itself, including:

- there was a problem of lack of specialists;
- for some economic entities, the time allowed for the changeover was short;
- some subjects lacked resources;
- the change of attitude has caused difficulties.

Actually, the fact that Hungary has already started to apply IFRS at the level of individual reports, despite the difficulties, has made things easier for accountants, since previously they prepared their reports according to two sets of rules, Hungarian norms and international standards, now the preparation of a report is enough.

Conclusion

To summarize, the introduction of IFRS must be gradual and targeted. Normative legal bases and methodological approaches need to be developed for a successful implementation that will address the deficiencies of the national accounting system, improve and modernize key aspects of accounting and financial reporting. In this aspect, the two countries examined show deficiencies. As for Ukraine, the first obvious obstacle to implementation is the failure to comply with several guidelines of the Strategy. The fact that the state did not provide financial support for the training of appropriate professionals; no accounting provisions have been adopted for business transactions that are not clearly defined in international standards; they did not summarize the experiences in the European Union and, despite previous plans, they did not simplify the accounting process for small businesses, all of which show that the Ukrainian state's readiness to adopt IFRS was insufficient. On the other hand, the implementation process in Hungary has been greatly facilitated by the appropriate institutional background, so much so that since 2016, IFRS have been applied not only in the preparation of consolidated financial statements, but also in the case of individual financial statements for some types of companies. This change greatly undurdens the accountants involved, as compared to the previous two reports, presently, only one needs to be prepared, of course this also involves some need for a change of approach, which in many cases is not easy.

We consider it important to emphasize that the reason for Ukraine's backwardness in terms of the wider application of international accounting standards can be explained on the one hand by the fact that Hungary has about 7 years of advantage and experience in this issue. The introduction of IFRS at the level of individual reports was not a smooth process in Hungary, just as in Ukraine, there is a deficiency of professionals in Hungary, as well,

who are able to apply IFRS. In our opinion, the high cost of training in both countries is an obstacle to the creation of the right accounting professional background.

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