

## The Development Path of Accounting Regulation in Ukraine

**Резюме.** Законодавче регулювання бухгалтерської діяльності в Україні пройшло тернистий шлях. Після розпаду Радянського Союзу та проголошення незалежності України держава довелося зіткнутися з викликами, до яких вона була не готова. До таких серйозних випробувань належала і розбудова власної правової бази. Не стало винятком і регулювання бухгалтерської діяльності, навіть більше, оскільки світ бізнесу не здатний функціонувати повноцінно без належного регулювання бухгалтерської діяльності, важливість вирішення цієї проблеми відчувалася ще більше. Звісно, був так званий перехідний період, коли бухгалтерська галузь та інші сфери пробували діяти, дотримуючись норм і правил попередньої епохи. У нашій роботі зроблено спробу простежити розвиток регулювання бухгалтерської діяльності в Україні за період незалежності. Оскільки Україна також включена в пошук торгівлі, пов'язаної з глобалізаційними процесами, окремо ми зупиняємося на тому, які заходи були вжиті для гармонізації українського бухгалтерського законодавства із міжнародним. Це важливо також у тому контексті, що Україна обрала шлях європейської інтеграції.  
**Ключові слова:** бухгалтерський облік, регулювання, євроінтеграція

**Резümé.** Ukrajna számviteli szabályozása rögös úton ment keresztül. A Szovjetunió felbomlása után, vagyis az ország függetlensége óta, több olyan kihívással kellett az államnak szembenéznie, melyekre nem volt felkészülve. Többek között komoly kihívást jelentett az önálló jogi szabályozási rendszer felépítése. E kihívás alól a számviteli szabályozás sem volt kivétel, sőt mivel az üzlet világa működésképtelen a megfelelő számviteli szabályozás nélkül, így még inkább érződött a probléma megoldásának súlyossága. Természetesen volt egy átmeneti időszak, amikor a még korábbi rendszer szabályait követve próbált működni a számviteli szakma és egyéb területek. Munkámban azt a fejlődési utat vizsgálom, melyen az ukrajnai számviteli rendszer szabályozása ment keresztül napjainkig. Mivel Ukrajna sem maradhatott ki a globalizáció okozta kereskedelmi életkülésből, így kitérek arra is, hogy milyen intézkedések mentek végbe az országban a nemzetközi számviteli harmonizációs törekvések terén és ez hogyan érintette a nemzeti számviteli szabályozási rendszert. Ez különösen fontos a tekintetben, hogy Ukrajna nyilvánvalóvá tette az eurointegrációs törekvéseit.  
**Kulcsszavak:** számvitel, szabályozás, eurointegráció

**Abstract.** Ukraine's accounting regulations have gone through an uneven road. After the break-up of the Soviet Union, that is, since the country's independence, the state has had to face several challenges for which it was unprepared. Among other things, the construction of an independent legal regulatory system was a serious challenge. Accounting regulation was no exception to this challenge, moreover, as the business world is dysfunctional without proper accounting regulation, the severity of the problem was felt even more. Of course, there was a transitional period when the accounting profession and other areas tried to operate following the rules of the previous system. In my work I examine the development path that the Ukrainian accounting system has gone through up to our days. As Ukraine could not be left out of the trade recovery caused by globalization, I will also discuss what measures have been taken in the country in the field of international accounting harmonization and how this has affected the national accounting regulatory system. This is particularly important given that Ukraine has made clear its European integration aspirations.

**Keywords:** accounting, regulation, European integration

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### ***Introduction***

Legal regulation is the activity of the state to bring organization, order in various spheres of accounting life. The core and basis of legal regulation is legislation - a set of binding legal acts issued by public authorities in accordance with a certain procedure and in the prescribed form. It is necessary to distinguish between normative acts, for instance expressed in the appropriate form of establishment, which are issued on behalf of the state, and specific rules of law, which are individual provisions contained in these acts.

World practice has developed two approaches to the legal regulation of accounting: the first provides for the existence in the country of a code of laws relating to accounting, the second – the use of general legal regulations to regulate accounting. In the first approach, the company has certain responsibilities for accounting, reporting procedures and accounting content. In countries that use this approach, accounting is a source for income tax returns and a means of controlling the payment of taxes. In fact, the continental model of accounting provides for strict government regulation and is aimed precisely at meeting the information needs of the state on the activities of the business entity. The second approach to accounting regulation involves the existence of rules in the legislation of the country, which set certain restrictions for business entities on accounting, but within these restrictions it is possible to choose acceptable for them methods and techniques of accounting. The regulatory framework is developed by professional organizations of accountants and is a generalization of the best global and national accounting experience. Thus, the first approach involves state regulation of accounting in the country, the second – professional (Lovinska 2012). In the countries of the former Soviet Union, the tradition of public accounting has changed to government regulation. A study of the legal accounting requirements of these countries shows that the subject of accounting regulation is a certain state body authorized by the government. At the same time, in countries that create their own regulatory framework, for instance have a national accounting system, the competence of the regulatory body includes the creation of methodological support and its approval.<sup>1</sup> Ukraine is best considered to be one of the countries where accounting regulation is carried out by tax-oriented state bodies.

Legal regulation of accounting determines the degree of state regulation of the national accounting system. Accounting regulation is one of its most painful and widespread problems. The aim of the work is to determine the development path of accounting regulation in Ukraine.

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<sup>1</sup> Resolution of the Government of the Republic of Moldova of 08.09.1995 № 623. Regulations on methodological advisory councils on accounting in the national economy and in budgetary institutions and composition of methodological advisory councils on accounting at the Ministry of Finance.

## **Results**

Regulation of accounting in terms of its methodology is already an organizational aspect, which is practically not studied in modern conditions. Such studies became an urgent need of the time only during the transition of Ukraine's economy to market conditions. Reforming accounting in accordance with international standards, creating a new regulatory framework requires solving the problem of accounting regulation at the national level. International experience shows different approaches to this issue in different national accounting systems (Rozhelyuk 2014).

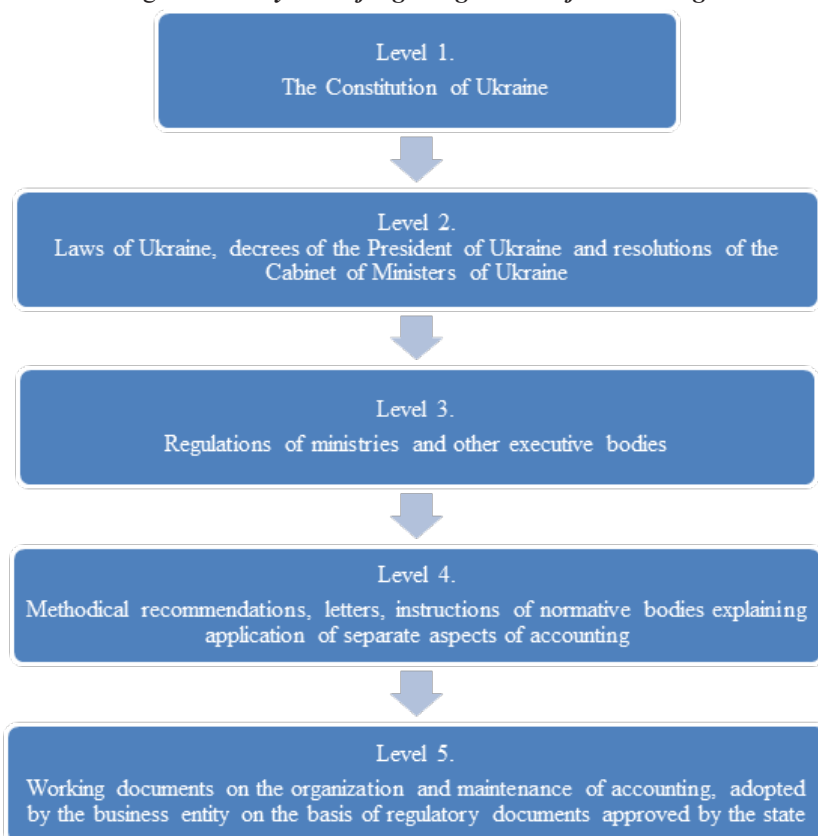
Adams et. al (1994) offers three main arguments, which, in his opinion, confirm the need for regulation:

1. lack of incentives for participants to provide legitimate information to legitimate users;
2. unevenness (asymmetry) of information ownership between different groups of market participants;
3. the tendency of various groups in an unregulated environment to purposefully block the provision of information unfavorable to them.

Thus, many authors in their research rely on the definition of Selznick P. (1985), who defines regulation as "sustainable and purposeful control exercised by a public body over activities valued by society". J. Black's (2002) definition of regulation as "persistent and purposeful attempts to change the behavior of others according to certain standards and goals in order to produce widely recognized results, which may include mechanisms for setting standards, gathering information and modifying behavior" is also often mentioned.

Polenova S.N. (2011) considers it most appropriate to use the concept of "accounting regulation system", which suggests to understand the activities for the development of accounting rules and directions of its development, monitoring their compliance, which streamlines the accounting system and fulfills the goal. A step in solving this problem is made by Shpak V.A. (2011), who in order to streamline the terminological apparatus proposes to make the rules of accounting, laws, regulations, instructions part of guidelines governing the procedure for accounting; and make regulations on accounting at the enterprise, job descriptions, staff list, etc., which establish the order of relations between the participants of accounting activities part of the rules of accounting.

The system of legal regulation of accounting covers laws and regulations governing the organization and maintenance of accounting by enterprises, institutions and organizations of various organizational and legal forms, establish the procedure for their formation of information in accounting and its presentation in financial statements, and determine the competence of government agencies in this area. This system consists of acts of several levels of legal force, which are in a certain hierarchical subordination (Figure 1).

Figure 1 *The system of legal regulation of accounting*

Resource: LOVINSKA et al. 2013. 53.

The first level of regulation is the Constitution of Ukraine, Art. 42 stipulates that “everyone has the right to engage in business activities that are not prohibited by law” and does not allow the abuse of a monopoly position in the market, such as unlawful restriction of competition and unfair competition. To exercise this and other rights, as well as to fulfill the relevant obligations of Art. 13 of the Constitution of Ukraine establishes that “the state ensures the protection of the rights of all subjects of property rights and management, the social orientation of the economy. All subjects of property rights are equal before the law”.<sup>2</sup>

The main normative act of second level in the field of organization and maintenance of accounting and financial reporting is the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" of 16.07.1999. The norms of this docu-

<sup>2</sup> Constitution of Ukraine 28.06.1996 № 254k/96-VR [Electronic resource]. – Access to the article: <http://zakon2.rada.gov.ua/laws/show/254k/96-VR>

ment are the basic guidelines that define the modern accounting system. The legal basis for the regulation of accounting establishes Art. 6 of the Law, which emphasizes that in Ukraine the state regulation of accounting in order to create uniform rules for accounting, preparation of financial statements and their improvement. It should be noted that there are many inconsistencies in the mentioned law. As L.G. Lovinska and I.B. Stefanyuk (2006) emphasize, the law does not answer the question of what is the state regulation of accounting, what is its subject, what is the object, what are the components of the national accounting system, which the relationship between them and what their subordination.

It can be seen from Table 1 that Article 6 of the Ukrainian Law on “Accounting and Financial Reporting” defines the subjects of accounting regulation, the essence and objects of regulation.

**Table 1 *State regulation of accounting in accordance with Art. 6 of the Law "On Accounting and Financial Reporting in Ukraine"***

<i>Subject of state regulation</i>	<i>The essence of state regulation</i>	<i>Object of state regulation</i>
Ministry of Finance of Ukraine	Approval of national regulations (standards), other accounting regulations	Not specified
National Bank of Ukraine	Establishing the order of accounting and preparation of financial statements	Accounting and financial reporting in banks
State Treasury of Ukraine	Establishing the order of accounting and preparation of financial statements	Accounting and financial reporting on the implementation of budgets and budgetary institutions
Ministries, other central executive bodies	Methodical recommendations on application of provisions (standards) of accounting	Not specified

Resource: ROZHELYUK 2014. 226.

Table 1 shows that the object of accounting regulation is defined only for the National Bank of Ukraine and the State Treasury. In the case of the remaining bodies, the object of state regulation is not fixed, which is considered a deficiency.

In our opinion, the Ministry of Finance of Ukraine, other ministries and central executive bodies also need to clearly define the object of accounting regulations.

Normative acts of the third level are regulations and instructions on accounting, which set out the general requirements of state regulation of accounting and contain the basic concepts, basic rules and techniques of accounting. Among such acts, the National Accounting Standards play a key role, and from January 1, 2012, the International Financial Reporting Standards. According to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", the national regulation (standard) of accounting is a legal act that "defines the principles and methods of accounting and financial reporting, which do not contradict international standards"<sup>3</sup>. National UAS are approved by the Ministry of Finance of Ukraine and define the principles and methods of accounting and financial reporting, which does not contradict international standards. Ministries and other central executive bodies within their competence, in accordance with sectoral specificities, develop methodological recommendations on their application on the basis of national UAS.

The fourth level of legal regulation of accounting includes guidelines, instructions and letters explaining the application of certain accounting standards. The Ministry of Finance of Ukraine has developed and approved the Unified Chart of Accounts, the Instruction on the application of the chart of accounts for assets, capital, liabilities and business operations of enterprises and organizations, as well as Guidelines for the use of accounting registers. In addition, the Ministry has developed standard forms of documents, accounting records, forms of accounting documentation, as well as issues instructions on the procedure for accounting of economic assets and operations. Businesses, regardless of ownership and industry, are required to comply with these documents.

Level 5 documents include working documents of the organization, including regulations, instructions, orders, etc., which determine the order of accounting and are directly within the competence of business entities. These internal documents are the order on the accounting policy of the organization, working plans of accounting accounts, forms of internal reporting, etc.

L.K. Suk and P.L. Suk (2009), without distinguishing the levels of regulation, to the main regulations that provide for the regulation of accounting in Ukraine, include only the Law of Ukraine on Accounting and Financial Reporting in Ukraine, NP(S)BU, P(S)BU, Chart of Accounts (complete and simplified), – Regulations on documentary support of records in accounting.

The impact of accounting in other countries on the national accounting system is manifested in several aspects. It appears, first, in the context of "direct

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<sup>3</sup> On accounting and financial reporting in Ukraine: the law of Ukraine dated 16.07.1999 № 966-XIV [Electronic resource]. - Access to the article: <http://zakon2.rada.gov.ua/laws/show/996-14>

export" of accounting principles, methods and techniques through the introduction of international accounting standards in countries: for example, through the introduction of IFRS in the European Union or in countries formed after the collapse of the Soviet Union; secondly, subject to the creation of a national regulatory framework for accounting in accordance with IFRS, as has happened in Ukraine; third, it may result from "violent" actions (for example, during World War II, the German accounting system was introduced in occupied France and remains to this day. The national accounting systems of the colonies of the British Empire have had a similar impact) (Blake et al. 1997).

International experience has a significant and positive impact on the formation of the national accounting system in Ukraine: the Law was adopted, P(S)BUs were introduced, which comply with IFRS, which summarize the best world experience, adapt accounting in the country to market conditions. In fact, the methodological basis of business accounting has been created, although it needs to be improved in accordance with the changes taking place in IFRS and the experience of using UAS in the country. At the same time, very important steps have been taken to create an information infrastructure of the market environment. However, the reform of accounting in other sectors of the economy does not have such achievements due to insufficient implementation of international experience in standardization. When creating a national accounting system, the use of international practice is a necessary but insufficient condition. Equally important is the study of the state of the country's economy and the impact it has on the methodology and techniques of accounting.

The need for consistent development of the convergence process and the introduction of IFRS in the accounting system of Ukraine is caused by the following reasons:

1. Ukraine expands foreign economic relations with other countries, increases the number of enterprises with foreign capital, so there is a need for comparable reporting indicators;

2. world stock exchanges require issuers to submit financial statements in accordance with IFRS, the same requirement is imposed by the World Bank, the International Monetary Fund and other financial institutions, which makes the process of adoption and use of IFRS an important need for statehood in Ukraine and its civilized world (Golov 2007).

It should be noted that today there are unresolved issues in the field of methodology and organization of accounting at the state level. The first year of the transition to IFRS has shown that their direct application requires businesses to concentrate some effort on acquiring new knowledge and approaches to accounting and reporting. Therefore, the state should take steps to create favorable conditions in order to simplify this process and form a certain infrastructure for the application of IFRS. At the same time, the issue of unification of financial reporting

indicators for entities applying IFRS and entities not applying them in the system of national accounts in order to obtain macro indicators of the state of the national economy remains unresolved. It is known that IFRS do not provide for uniform forms of financial reporting, but also do not prohibit such a possibility. The experience of the countries of the former Soviet Union is useful in this matter. Thus, the Ministry of Finance of the Russian Federation has offered companies that apply IFRS, forms of standardized reporting.<sup>4</sup>

The analysis of other existing scientific researches shows that under improvement of regulation of accounting almost all authors understand introduction of IFRS. In fact, there are no studies on the problems of legislative and regulatory support of these processes, taking into account the state of the national institutional environment.

After the reform, the main entities responsible for regulating the methodology of accounting and financial reporting are three state bodies: the Ministry of Finance of Ukraine, the National Bank of Ukraine and the State Treasury of Ukraine. The problem is that the national UASs developed by the Ministry of Finance on the basis of IFRS are of a generalized nature. The effectiveness of their application requires the emergence of a qualitatively new level of the institute of managers and accountants of domestic enterprises. While the latter is in the process of formation, the reform should be carried out taking into account these circumstances. However, the reforms removed the powers and removed the sectoral authorities from the responsibility for the regulation of accounting, for compliance with the established methodology by enterprises. This and many other problems have led to the imperfection of the accounting regulation introduced by the reforms in Ukraine. Moreover, now in the work of the Ministry of Finance of Ukraine the issue of accounting regulation is not a priority. The Methodological Council for Accounting of the Ministry of Finance, as well as other state institutions, existing professional accounting organizations, science and education have limited capabilities. In the legal field, these restrictions are laid down in the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", which does not clearly define the responsibility for the state of accounting in the state. According to the Law, the State Statistics Committee of Ukraine collects and processes financial statements, determines the methodology of accounting and reporting of the Ministry of Finance, but there is no one responsible for compliance with professional "rules of the game". The state of the Ukrainian institution of the owner of the enterprise will be left without comment, as well as the legal and professional status of Ukrainian accountants. This is what is the basis of formal accounting in

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<sup>4</sup> Proceedings of the II International Practical Conference "IFRS in Ukraine: Requirements of the Globalized Economy", Kyiv, May 31, 2011: [Electronic resource]. – <http://gaap.ru/articles/99751>

most domestic enterprises, this is what calls into question the reliability of reporting data of Derzhkomstat, is the first reason for the forced introduction of additional accounting and reporting by the State Tax Administration of Ukraine and other state regulatory authorities. In the scientific and professional community, there are different visions for solving this problem: from improving the work of the existing regulator to creating a new regulatory body.

### ***Conclusion***

The above theoretical and practical justification of ways to improve the regulation of accounting requires changes and amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", and other regulations that would provide:

- strengthening the legal status of the national regulatory body for accounting, its capabilities and responsibilities;
- expansion of the subjects of methodological influence on accounting activities through mandatory and legally defined participation in regulatory bodies of representatives of key line ministries and professional accounting organizations;
- ensuring the responsibility of members of the regulatory body for the formation and compliance with the accounting methodology in the areas of their influence.

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