

Kuzmenko Halyna,
PhD in Economics, Honored Economist of Ukraine,
Associate Professor of the Department of Audit and Taxation,
Central Ukrainian National Technical University,
Address: 25006, m., Kropyvnytskyi,
University of Ave., 8, Ukraine,
E-mail: galina.leda@gmail.com
Shalimova Nataliia,
Doctor of Economics, Professor,
Dean of the Faculty of Accounting and Finance,
Central Ukrainian National Technical University,
Address: 25006, m., Kropyvnytskyi,
University of Ave., 8, Ukraine, Ukraine,
E-mail: nataliia.shalimova@gmail.com
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**THE DISCLOSURE OF EVENTS AFTER THE BALANCE SHEET DATE
RELATED TO THE STATUS OF THE COMPANY AS A TAXPAYER:
PECULIARITIES OF UKRAINIAN PRACTICE**

A B C T R A C T

The article is dedicated to the problem of the disclosure of events after the balance sheet date related to the status of the company as a taxpayer in Ukraine practice. The objective of the paper is to determine the events and situations Related to the Status of the Company as a Taxpayer which can be classified as events after the balance sheet date, and the disclosure of the mechanism of peculiarities of their disclosure. The discussion of the paper emphasized that the content of the financial statements concerning the disclosure of the information about the place of the company in a complex system of tax relations does not fully correspond to the information demands of its users, its qualitative characteristics and principles of training.

The need to disclose the information about tax relations of an enterprise is a consequence of the qualitative characteristic of financial reporting as appropriateness and two principles of its preparation are the principle of full coverage and the principle of continuity of activities.

The mechanism for ensuring compliance with the principle of preparing financial statements as a "principle of full coverage" should be based on the need to allocate in the category of "events after the balance sheet" events and circumstances that are related to tax relations of the enterprise. These events should be classified into two groups: those that arose after the balance sheet date and those that provide additional evidence of the conditions and circumstances that existed on the balance sheet date. Such events, in accordance with the

requirements of national legislation and accounting regulations (standards), should be taken into account in the preparation of financial reporting and covered in the notes to the financial statements.

INTRODUCTION

Financial reporting should include all information about the actual and potential consequences of business transactions and events that may affect users' decisions. This requirement was formulated as the principle of complete presentation in article 4 of the Law of Ukraine "On Accounting and Financial Reporting" [7]. Therefore application of principle of complete presentation requires special attention toward the events after the date of the balance. In practice, after reporting, the circumstances may arise that can have a significant effect on the financial position of a company. For example, in January an enterprise received tax report-decision based on the results of in-office audit conducted in December. This information should be available for the user of financial reporting, as far as it is important for understanding and estimation of business prospects and without similar explanations, the user of the financial reporting could be misguided. Therefore, circumstances or events that took place after the reporting date should be represented in the financial reporting.

Theoretical and applied studies of the problems of the formation and presentation of financial reporting were considered in the works of many well-known national and foreign economists, in particular: in the monograph by S.F. Holov "Accounting in Ukraine: Analysis of the Status and Prospects of Development" [3], and in a separate section devoted to the events after the balance sheet date is in the textbook "Reporting of Enterprises" edited by H.M. Davydov [2]. But, in our opinion, information on the place of business in a complex tax system is not fully disclosed in the financial reporting and, unfortunately, this issue remains beyond the attention of scholars and practitioners.

The purpose of the study. The objective of this study is to determine the events and situations Related to the Status of the Company as a Taxpayer which can be classified as events after the balance sheet date, and the disclosure of the mechanism of peculiarities of their disclosure.

RESULTS AND DISCUSSION

Problems of taking into account the events after the balance sheet date are devoted to one of sections in the Provisions (Standard) of Accounting 6 "Correction of the errors and changes in financial statements" [10]. In the international practice these issues are regulated by International Accounting Standard 10 "Events after the reporting period" [5]. According to Provisions (Standard) of Accounting 6 "Correction of the errors and changes in financial statements" events after the balance sheet date are the event that occurs between the balance sheet date and the date of approval of the financial reporting prepared for disclosure by the

management. The information had or may have an impact on the financial position, performance and cash flows of the company (paragraph 3) [10].

In an appendix to the According to Provisions (Standard) of Accounting 6 "Correction of the errors and changes in financial statements" there are specified examples of events, which denote the circumstances that took place after the dates of the balance.

In determining the amount and materiality of the information about tax relations of a company that should be classified as events after the balance sheet date, there should be used qualitative characteristics and principles of preparation of financial statements and requirements of the Tax Code of Ukraine [11], as well as other normative documents of the State Tax Service, which gives details of its requirements.

Unfortunately, the circumstances, which relate to the tax mutual relations of enterprises, are almost absent. There, in our view, could be included such situation and events:

- receiving of decisions from supervisory authorities about an inspection in the future;
- issue of legislative acts on tax questions, that influence activity of enterprise;
- procedures of administrative appeal and trials on tax questions concerning circumstances that raised exceptionally after the date of the balance:
 - changes in taxation, for example, change of rates of the taxes or tax law, accepted or declared after the date of the balance, that influence current and postponed tax assets and obligations;
 - received conclusions from supervisory authorities concerning the return of corresponding amounts from a corresponding budget;
 - receipt of tax requirements;
 - assumption of tax debt, in relation to which the term of limitation of actions has passed after the date of the balance as hopeless.

An indicative list of generalized event groups can be as follows:

- (1) Advice on taxes.
- (2) Inspections of controlling bodies.
- (3) Tax reports and decisions.
- (4) Unfinished administrative appeal and litigation procedures concerning tax issues.
- (5) Tax claims.
- (6) Tax collateral.
- (7) Administrative seizure of property.
- (8) Depreciation and deferral of monetary obligations or tax debt.
- (9) Unsecured tax debt.

It is possible to distinguish such groups of events, which take place after the dates of the balance:

- those, which confirm circumstances that existed before the date of the balance; those, which specify the circumstances which took place after the reporting date;

– and those which specify that the financial reporting cannot be formed according to the principle to continuousness.

Such grouping is fundamentally important, because it involves different actions of accountant in each situation during the formation of the financial reporting (Fig. 1).

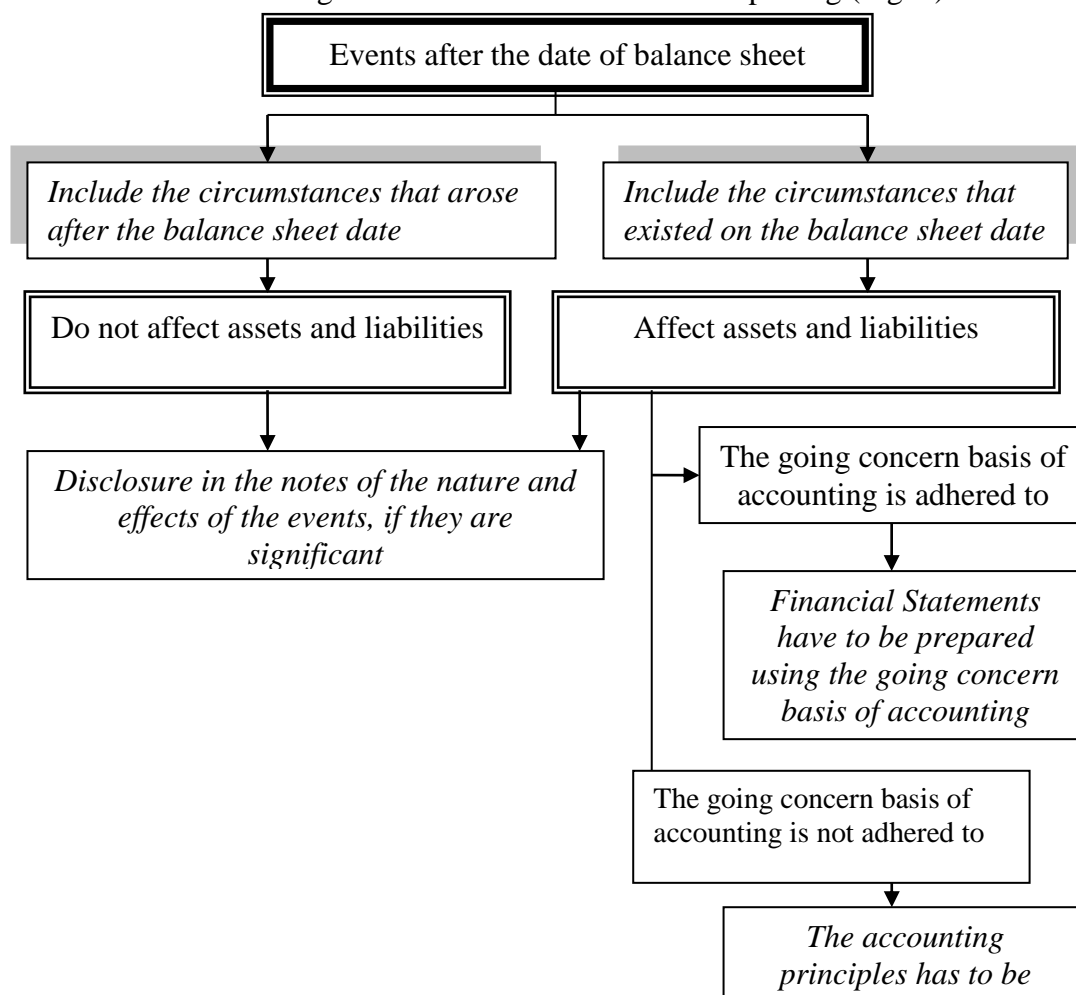


Figure. 2 The mechanism of disclosure the events after balance sheet date

Source. Compiled by the author using the National and International Standards [4; 5; 7; 9; 10].

Appendix B to According to Provisions (Standard) of Accounting 6 "Correction of the errors and changes in financial statements" [10] provides examples of events that indicate circumstances that arose after the balance sheet date. Unfortunately, they do not have the circumstances in connection with tax relations of enterprises.

Such events, to our mind, may include:

- decision-making on conducting inspections by the controlling bodies;
- adoption of legislative acts on tax issues that affect the activities of a company;
- procedures of administrative appeals and litigation on tax matters in circumstances that have arisen exclusively after the balance sheet date;

- changes in taxation, for example, changes in tax rates or tax laws adopted or declared after the balance sheet date that affect current and deferred tax assets and liabilities;
- the received conclusions of the controlling bodies on the return of the corresponding amounts of funds from the corresponding budget;
- obtaining tax claims;
- the recognition of a tax debt in respect of which the limitation period has expired after the balance sheet date is unreliable.

Such events do not require correction of the information in financial statements. They are disclosed in the notes so that the financial statements do not mislead their users. Note that disclosure in the notes is not mandatory for all events, but only for the information that will affect the ability of users to make appropriate assessments and make decisions (paragraph 17 of According to Provisions (Standard) of Accounting 6 "Correction of the errors and changes in financial statements" [10]), i.e. only the events with the substantial consequences. Disclosure involves not just the provision of information but also the assessment of the impact of the event on the result or the rationale for impossibility to make such an assessment (paragraph 23 of According to Provisions (Standard) of Accounting 6 "Correction of the errors and changes in financial statements" [10]). Consequently, the notes to the financial statements should disclose the nature of the event, the assessment of the financial result or the assertion that such an assessment is impossible.

The methods for disclosing events after the balance sheet date may be as follows: explanation, additional information or description, cross-references in the case of a direct relationship between certain articles, tables for more detailed information, etc. The information is prepared as if the event occurred on the balance sheet date. Text explanations accompany the words "if", "in this case", and so on.

Example 1. *Disclosure of events after the balance sheet date that occurred after the reporting date and do not require correction in the financial statements.*

An excerpt from the notes to the financial statements: "The enterprise on 31.11.2017 has accounts receivable on settlements with a budget of UAH 10,0 thousand which arose as a result of the excess of the paid amount of the monetary obligation for the payment of land. On December 15, 2017, the company filed an application for the repayment of excessive paid-up cash commitments to the current account. On December 28, 2017, the controlling body prepared the conclusion on the return of the corresponding amounts of funds from the relevant budget and passed it on to the relevant body of the State Treasury of Ukraine. On the basis of the received conclusion, the State Treasury body on January 5, 2018, repaid excessively paid monetary liabilities. If the conclusion of the controlling body had been prepared earlier, the repayment of funds took place in 2017 which would reduce the balance of receivables and increase the balance of funds by UAH 10.0 thousand".

Events, that provide additional proofs of terms and circumstances that existed upon the date of balance, influence the estimations used during the formation of reports. Ignoring of such circumstances does not provide reliability of the reports. Such events, as a rule, contain information that would be represented in the accounting, if it were noted before the reporting date. They are called corrected, as far as specified events require adjustment of the financial

reporting (paragraph 6 of the According to Provisions (Standard) of Accounting 6 "Correction of the errors and changes in financial statements"). It is necessary to specify again, that the According to Provisions (Standard) of Accounting 6 "Correction of the errors and changes in financial statements" does not contain circumstances that are related to the tax mutual relations of enterprises. To that list of, in our view, could be included:

- receipt from the supervisory authorities the notices-decisions according to the results of the inspections conducted in the previous year;
- exposure of errors or violations of tax law, that resulted in mixture of data of the financial reporting;
- received tax consultation which influence definition of tax obligations in the last year;
- cancellation or recall of decisions of supervisory authorities for previous years;
- admission of tax debt as bad that aroused in the result of circumstances beyond reasonable control.

Filled data to financial reporting after the date of balance change can influence all these elements. The common rule of reflection of changes testifies that correcting of assets and obligations is necessary by means of revising of entry or making of additional records in accounting. Balance of undistributed profit is not used in the reflection of corrections.

Example 2. *Correction of financial statements as a result of events after the reporting date which provide additional evidence of the conditions and circumstances that existed on the balance sheet date.*

An excerpt from notes to financial statements: "In December 2017, the company conducted a documentary planned inspection. In January 2018, a tax notice was received – the decision that included a monetary obligation of UAH 200,000. The company fully agrees with the decision of the controlling authority. In this situation, we increased the company's expenses and current liabilities by calculating with the budget by 200.0 thousand UAH, although they did not exist on the balance sheet date. Adjustments were made by recording: debit 94 "Other operating expenses", credit 64 "Settlements with the budget. Amount of 100,0 thousand UAH. was included in other operating expenses in the statement of financial results for 2017".

Let us consider the definition of the characteristics of the information that should be disclosed in the event after the balance sheet date. In our opinion, in this case, the requirements of materiality of information should be used. As Kucherenko T. states, the very essence of information, along with such indicator as "the ratio of costs and benefits" are the main criteria for the operation of the principle of full coverage [6].

Since international financial reporting standards do not rigorously determine the formats of financial statements, the only criterion for submitting an amount to a separate article or combining it with other amounts is materiality.

The Conceptual Framework for Financial Reporting [6], prepared by the International Accounting Standards Board, states that materiality is an aspect of relevance to each entity that is based on the nature or amount (or both) of the articles to which this information relates in the context of the financial statements of the individual entity. Therefore, it is stressed that the

Board can not specify a single qualitative threshold for materiality or determines in advance what may be relevant in a particular situation.

It is noted that materiality of the information is determined by the relevant national accounting standards or international standards of financial reporting and management of the company but in other provisions (standards) there is no reference to it. The Ministry of Finance of Ukraine has developed methodological recommendations on the application of materiality in accounting (letter dated 29.07.2003, N 04230-04108 [8]).

Materiality is the characteristics of the accounting information that determines its ability to influence the decisions of users of financial reporting. The threshold of materiality is the absolute or relative value which is a quantitative sign of materiality of the accounting information. Significance of accounting information is its quantitative and qualitative characteristics, important for users of such information.

The objects of application of materiality are: activity of the enterprise as a whole, separate business transactions and objects of accounting, articles of financial reporting. It is noted that the application of materiality for the presentation of articles in the financial statements is carried out, if the forms of financial statements are not set by accounting regulations (standards) or other regulatory acts. Since the additional requirements for displaying information in the notes are not set by the state authorities, then in this case the requirements of materiality should be used.

An entity shall separately disclose each material class of similar articles and the articles of distinctive character or function unless they are irrelevant. It is noted that financial statements are the result of processing a large number of transactions or other events that are grouped into classes according to their nature or function. The final stage in the process of grouping and classification is the presentation of condensed and classified data that form the lines in the financial statements. If a single line is not significant, it is grouped together with other articles directly in these reports or in the notes. An article that is not sufficiently substantiated to justify its separate presentation in the financial statements may, however, be a sufficient material to be presented separately in the notes.

The methodological recommendations prepared by the Ministry of Finance of Ukraine [8] set out general principles for disclosure of articles in the financial statements:

1. Each significant article should be presented separately in the financial statements, and non-essential articles should be combined with articles of a similar nature or functions.

2. Materiality of the article is determined by its size and nature which is considered together. Separate, of the same kind of accounting objects appropriate to combine into one article, even if the value of each type of objects is significant.

3. Articles that are significant and of a different nature or function should be submitted separately. In particular, financial statements such as monetary and non-monetary, current and non-current, operating and non-operating, interest and non-interest bearing financial statements can not be combined.

4. An article without content to be presented separately in the financial statements may be a sufficient material for its separate disclosure in the notes to the financial statements.

5. When determining materiality of separate articles, the degree of the relevance of article may be part of materiality of the article in the base indicator.

Table 1 presents the letter of the Ministry of Finance with suggested materiality thresholds for certain business transactions and accounting elements that are relevant when disclosing additional information about status of the company as a taxpayer.

Table 1.

Recommended thresholds for materiality for particular business transactions and accounting elements that are relevant when disclosing additional information about status of the company as a taxpayer

Accounting object	Threshold of materia-lity	object according to which the threshold of materiality is calculated
Assets	5%	Balance of all assets
Liabilities	5%	Balance of all liabilities
Separate types of income and expenditures	2%	Net profit (loss) of an enterprise
Other economical activity and objects of accounting	1-10%	Object does not specify. It is noted: «Taking into account the volumes of activity of the enterprise, the nature of the impact of the object of accounting on user decisions and other qualitative factors that may affect the definition of the threshold of materiality»

Source: compiled by the author using the recommendations on the application of materiality in accounting, developed by the Ministry of Finance of Ukraine [8]

CONCLUSION

Summarizing the results of the study, it should be emphasized that the content of the financial statements concerning the disclosure of the information about the place of the company in a complex system of tax relations does not fully correspond to the information demands of its users, its qualitative characteristics and principles of training.

In our opinion, the need to disclose the information about tax relations of an enterprise is a consequence of the qualitative characteristic of financial reporting as appropriateness and two principles of its preparation are the principle of full coverage and the principle of continuity of activities. It should kept in mind that a significant part of the events occurring in the financial and business activities of the enterprise and associated with the performance of duties of the taxpayer may be classified as events after the balance sheet date, requiring careful treatment of them in determining the order in which they are reflected in the accounts and reporting.

The mechanism for ensuring compliance with the principle of preparing financial statements as a "principle of full coverage" should be based on the need to allocate in the category of "events after the balance sheet" events and circumstances that are related to tax

relations of the enterprise. These events should be classified into two groups: those that arose after the balance sheet date and those that provide additional evidence of the conditions and circumstances that existed on the balance sheet date. Such events, in accordance with the requirements of national legislation and accounting regulations (standards), should be taken into account in the preparation of financial reporting and covered in the notes to the financial statements. This will improve the qualitative characteristics of the accounting information concerning the place of the enterprise in the system of tax relations and its understanding by users.

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*Кузьменко Галина,
доктор философии по экономике, Почетный экономист Украины,
Доцент кафедры “Аудит и налогообложение”,
Центральноукраинский Национальный Технический Университет,
Адрес: 25006, м., Кропивницкий,
Университет пр., 8, Украина,
E-mail: galina.leda@gmail.com*
*Шалимова Наталья,
доктор экономических наук, профессор,
Декан факультета “Бухгалтерский учет и финансы”,
Центральноукраинский Национальный Технический Университет,
Адрес: 25006, м., Кропивницкий,
Университет пр., 8, Украина,
E-mail: nataliia.shalimova@gmail.com*
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АННОТАЦИЯ

РАСКРЫТИЕ СОБЫТИЙ ПОСЛЕ ДАТЫ БАЛАНСА, СВЯЗАННОЙ С СОСТОЯНИЕМ КОМПАНИИ КАК НАЛОГОПЛАТЕЛЬЩИКА: ОСОБЕННОСТИ УКРАИНСКОЙ ПРАКТИКИ

Статья посвящена проблеме раскрытия событий после отчетной даты, связанных со статусом компании как налогоплательщика на практике Украины. Целью работы является определение событий и ситуаций, связанных со статусом компании как налогоплательщика, которые могут быть классифицированы как события после отчетной даты, и раскрытие механизма особенностей их раскрытия. В ходе обсуждения статьи подчеркивалось, что содержание финансовой отчетности, касающейся раскрытия информации о статусе компании в сложной системе налоговых отношений, не полностью соответствует информационным запросам ее пользователей, ее качественным характеристикам и принципам повышения квалификации.

Необходимость раскрытия информации о налоговых отношениях предприятия является следствием качественной характеристики финансовой отчетности, так как целесообразностью и двумя принципами ее составления являются принцип полного охвата и принцип непрерывности деятельности.

Механизм обеспечения соблюдения принципа подготовки финансовой отчетности в качестве «принципа полного покрытия» должен основываться на необходимости выделения в категорию «события после баланса» событий и обстоятельств, связанных с налоговыми отношениями предприятия. Эти события следует разделить на две группы: те, которые возникли после отчетной даты, и события, которые предоставляют дополнительные доказательства условий и обстоятельств, существовавших на отчетную дату. Такие события, в соответствии с требованиями национального законодательства и правилами (стандартами) бухгалтерского учета, должны учитываться при составлении финансовой отчетности и отражаться в примечаниях к финансовой отчетности.