ECONOMY

INFORMATION TRANSPARENCY OF THE ACTIVITY OF THE ENTERPRISE AS TAXPAYER: FINANCIAL REPORTING CAPABILITIES AND WAYS OF INCREASING OF ITS QUALITY

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Abstract. The article discloses the ways of ensuring information transparency regarding the tax relations of the enterprise in the system of financial reporting. It is substantiated that the necessity of disclosing information about tax relations of an enterprise is the result of such qualitative characteristics of financial reporting as appropriateness and two principles of its preparation: the principle of full coverage and the principle of continuous activity. The information about tax relations of a company which should be classified in the categories of events after the balance sheet date taking into account the requirements of tax legislation is disclosed. The format for disclosing information on the qualitative state of taxation at the enterprise in the notes to the financial statements is proposed taking into account the requirements of the Tax Code of Ukraine concerning the procedure of administering taxes, fees and obligatory payments.

Keywords: financial reporting, notes to the annual financial reporting, events after the balance sheet date, tax relations, calculations with the budget

Introduction. In the conditions of the development of market relations, many decisions of the legislative and executive authorities and businesses are inaccurate and false due to the lack of reliable and complete information. For the same reason many macro- and microeconomic models which are recommended by the experts for the Ukrainian economy in general and for specific economic entities in particular, do not work. Information transparency involves many aspects but the main two aspects are: (1) effective operating information infrastructure of the market; (2) effective mechanism of information disclosure by the participants in this market.

Financial reports should satisfy interests of its users to the fullest extent. According to Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (1999) [1] the main objective of statutory regulation of accounting and financial reports is formation the uniform rules of accounting and reporting as a means of guarantee and protection of user’s interests. In the National Statement (Standard) of Accounting 1 "General Requirements to Financial Reports" (2013) [2] the following definition for users of accounting is specified: it is physical and legal parties which need information about activity of the enterprise for decisions making. Information needs of users are various and comprises interests in the sphere of appropriation, sale and holding of securities, participating in the capital of enterprise, estimation of quality of management, ability of enterprise to execute the obligations, to material well-being of obligations of enterprise, determination of sum of dividends, that is subject distribution, adjusting of activity of enterprise and others like that. In accordance with these informative needs, it is necessary to determine informative possibilities of the financial reporting, that is possibility to satisfy them and volume of their accomplishment. Among these needs certain references to the informative requirements in the sphere of tax relations are absent, although implicit is circumstance that the important aspect of estimation of the financial state of enterprise must be an estimation of its tax potential and state of calculations with a budget.

Theoretical and applied developments of the problems of the formation and presentation of financial reports were presented in the works of many well-known Ukrainian and foreign economists. Problems of forming of the financial reporting and methodological approach to its formation are in the spotlight of scientists of Ukraine. Among the last researches of scientists of Ukraine, it is important to note the monograph of S. Holov "Accounting in Ukraine: Analysis of the State and Perspectives of Development" (2007) [3]. The detailed analysis of qualitative characteristics and principles of preparation of the financial reporting is presented in book "Financial Reports of Enterprises" of H. Davydov & N. Shalimova (2010) [4]. Research of problems of influence of tax relations on
organization of accounting and auditing is presented in dissertation researches of such scientists of Ukraine, as O. Malyskhin ("Accounting and Auditing Tax: Theory, Methodology, development", 2014 [5]) and E. Heyer ("Methodology and Organization of Interconnection between Enterprise Income Accounting and Taxing", 2015 [6]). But in our opinion, the content of financial reporting on the disclosure of information about the place of the company in a complex system of tax relations remains beyond the attention of scientists and practitioners. Therefore, the purpose of this study is to determine the ways of ensuring information transparency concerning tax relations of the enterprise in the system of accounting and financial reporting.

**Results of Research.** Information that is given to the financial statements should correspond to such qualitative characteristics: understandability, relevance, reliability and comparability. The requirement of appropriateness foresees that the financial reporting must contain appropriate information that influences on making decision users only, gives an opportunity in to estimate past, present and future events in time, confirm and correct their estimations done in the past. It is difficult to deny, that exactly the right and duties of enterprises as taxpayers have substantial influence on the decision making of users in the financial reporting.

In addition, a necessity of information disclosure about the tax relations of enterprise is the consequence of two principles of preparation of the financial reporting: to principle of complete presentation and principle of continuous activity. According to principle of complete presentation, the financial reporting must contain all information about the actual and potential consequences of operations and events, which can influence the decisions made on its basis. In native practice, the fullness is provided by the requirement of continuous registration of facts of financially economic activity. Also in accordance with this principle, the financial reporting is not limited to balance only, report on financial results, report on a property asset and report of cash flow, but also contains notes that give additional information.

Enterprise balance and other forms of the financial reporting, in our view, do not give complete information about the tax mutual relations of enterprise. Therefore, there is a necessity of reflection the additional information in the notes. In accordance with Law of Ukraine "On Accounting and Financial Reporting" [1] (p. 2, Art. 11) notes are the integral part of the financial reporting. In accordance with National Statement (Standard) of Accounting 1 "General Requirements to Financial Reports" [2] (2013) the notes to the financial statements is formation of indexes and explanations that provide details and relevancy of the articles of financial statements, and also other information disclosure of which is envisaged by corresponding statements (standards). In the notes to the financial statements, there should be a disclosure of accounting policy of the enterprise, information that is not presented directly in the financial report, but is mandatory under the relevant provisions (standards). Information containing an additional analysis of reporting articles is needed to ensure its comprehensiveness and relevance.

In Ukraine standard form № 5 "Notes to the Annual Financial Reporting" (2000) [7] is determined, but Form № 5 does not have a separate section devoted to the disclosure of the additional information about the relations of enterprise concerning implementation of its duties as a taxpayer. Statements (standards) of accounting 10 "Receivables" (1999) [8] and 11 "Obligation" (1999) [9] also do not contain additional requirements in relation to such information disclosure that certainly limits informing and complete presentation of the financial reporting.

Application of principle of complete presentation requires also special attitude toward the events after the date of the balance. In practice after accounting writing sometimes there are circumstances that can substantially influence the financial state of enterprise. For example, in January an enterprise received tax report-decision based on the results of in-office audit conducted in December. It is necessary to report to the user of the 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. Events after the balance sheet date are an event that occurs between the balance sheet date and the date of approval by the financial statements management prepared for disclosure that has or may have an impact on the financial position, performance and cash flows of the entity (p. 3, Statement (Standard) of Accounting 6 "Correction of errors and change is in financial reports" [10]).

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.
In an appendix to the Statement (Standard) of Accounting 6 "Correction of errors and change is in financial reports" [10] there are specified examples of events, which denote the circumstances that took place after the dates of the balance. Unfortunately, there are almost absent circumstances, which relate to the tax mutual relations of enterprises. There, in our view, could be included:

- 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.

Such events do not need adjustment of information on financial reporting. They are disclosed in notes. Let's specify that the disclosure in notes is obligatory not for all events, but only for those, information about which will influence ability of users make corresponding estimations and decisions (p. 17 of the Statement (Standard) of Accounting 6 "Correction of errors and change is in financial reports" [10] that is only for those events consequences of which are substantial. Disclosure foresees not only information provision, but also estimation of influence of the event on a result or ground of impossibility to make such estimation (p. 23 of the Statement (Standard) of Accounting 6 "Correction of errors and change is in financial reports" [10]). Therefore, in notes to the financial reporting it is necessary to expose character of event, estimation of financial result or statement, that it is impossible to make such estimation.

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 direct interconnection between certain articles, tables for submitting more detailed information, etc. Information is prepared as if the event had occurred on the balance sheet date. The textual explanations are convinced by the words "if", "in the case of" and so on.

**Example. Disclosure of information about the events after a balance sheet date.**

"The enterprise, on December 31, 2017 accounts receivable on calculations with the budget in amount of UAH 2,000, which arose as a result of the excess of the paid amount of the monetary obligation for land payment. On December 15, 2017 the company submitted an application for the repayment of excessive paid debts to the current account. On December 28, 2017 the controlling authority 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, on January 5 2018, the State Treasury repaid excessively paid monetary liabilities. If the conclusion of the controlling body had been prepared earlier, the repayment of funds took place already in 2017, which would reduce the balance of receivables and increase the balance of funds by UAH 2,000."

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 (p. 6 of the Statement (Standard) of Accounting 6 "Correction of errors and change is in financial reports" [10]). It is necessary to specify again, that the Statement (Standard) of Accounting 6 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.

**Example. Adjustment of the financial reporting as a result of the occurrence of the events that provides additional evidence of the conditions and circumstances that existed on the balance sheet date.**
“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 100,000. 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 UAH 100,000, 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".”

The principle of continuous activity foresees the estimation of assets and obligations of enterprise, coming from supposition that its activity will last further. In our opinion exactly this state of fulfillment of obligations by the enterprise as taxpayer is important factor that influence the following by the enterprise the principle of continuous activity. Such factors can be related to financial evidences, for example, availability of tax debt the terms of which discharge is coming upon absence of real perspective of debt discharge, and to other evidences, for example, which can be reviewed in court or at the authority of adjusting of lawsuits or tax questions (if such lawsuits are satisfied) concerning economic entity which as a result can have the requirements, probably, that won’t be satisfied, changes in tax legislation or policy of the government which can negatively influence economic entity.

Summarizing the above-mentioned and taking into account the requirements of the Tax Code of Ukraine [11] we can offer the following format for presenting the information on the qualitative state of taxation at the enterprise in the notes to the financial statements (Table 1).

Table 1. Proposals on the content of the information on the status of the company performing its duties as a taxpayer which should be included in the notes to the financial statements

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<td>Characteristics of the enterprise as taxpayer</td>
<td>1. List of taxes, collections and obligatory payments the payer of which is an enterprise. 2. Kinds and characteristics of tax privileges, which are used by an enterprise. 3. Special tax regimes, which are used by enterprise. 4. Availability of the representatives who can conduct representation of legal interests and do business connected to payment of taxes on the ground of the law of letter of attorney.</td>
<td>Necessity of taking into account the principle of full representation.</td>
</tr>
<tr>
<td>Current obligations on settlements with the budget and state tax funds, fees and obligatory payments</td>
<td>1. Amount of the debt. 2. Amount of overdue debt. 3. Amount of recognized debt. 4. Classification of the tax debt according to the terms of payment. 5. Total amount of recognized amount of the fine and penalties. 6. Amount of overdue fine and penalties. 7. Classification of the fine and penalties according to the terms of payment.</td>
<td>Necessity of taking into account the principle of full representation. Confirmation of the ground of classification of the requirements according to calculations with the budget to the current and long-termed.</td>
</tr>
<tr>
<td>Accounts receivable on payments with the budget</td>
<td>1. Amount of all debts. 2. Amount in error and / or excess of paid tax liabilities. 3. Opportunities and grounds for returning or admitting in error and / or excess of paid tax liabilities. 4. Applications for repayment of amounts incorrectly and / or excessively paid for monetary obligations and the presence of conclusions of the supervisory body on the return of the corresponding amounts of funds from the relevant budget. 5. Direction of transfer of funds.</td>
<td>The need to take into account the principle of full coverage. Confirmation of validity of assigning accounts receivable to settlements with the budget and state trust funds to circulating or non-current assets.</td>
</tr>
<tr>
<td>Tax advisory services</td>
<td>1. The fact of applying to the controlling body for tax advice on the practical application of certain rules of tax legislation. 2. The fact of appeal to court as a legal act of individual action of the tax advice of the controlling body, set forth in writing, which in the opinion of the enterprise is contrary to the norms or content of the corresponding tax or fee.</td>
<td>The need to take into account the principles of full coverage and continuous activities.</td>
</tr>
<tr>
<td>Inspections of controlling bodies</td>
<td>1. The fact of carrying out inspections by the controlling bodies. 2. Types of inspections and terms of their conduct. 3. Consequences of inspections.</td>
<td>The need to take into account the principles of full coverage and continuous activities.</td>
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| Tax reports are solutions            | 1. Grounds for issuing a tax notice and a decision and its main characteristics.  
2. Types of tax offenses which became the basis for making a decision on the application of penal (financial) sanctions (fines) and sending tax notices and decisions.  
3. Future actions of the taxpayer in recognition or appeal of decisions of controlling bodies.  
4. Sources of tax debt.  
5. The fact of recognition of a tax notice-decision.  
6. The fact of carrying out the procedure of administrative appeal of decisions of the bodies of the state tax service.  
7. Results of administrative appeal of decisions of bodies of the state tax service.  
8. The fact of appeal to a court with a claim regarding the invalidation of the decision of the controlling body.  
9. Results of the court decision.  
10. The fact of the recall of the tax notice, the decision and the grounds. | The need to take into account the principles of full coverage and continuous activities. Confirmation of the justification of events accounting after the balance sheet date when preparing financial statements. |
| Unfinished administrative appeal procedures and litigation on tax matters | 1. Availability of unfinished administrative appeal procedures and litigation concerning tax matters.  
2. Characteristics of such procedures.  
3. Forecasting the results of such procedures and assessing their consequences. | The need to take into account the principles of full coverage and continuous activities. Confirmation of the justification of events accounting after the balance sheet date when preparing financial statements. |
| Tax claims                           | 1. The grounds for obtaining a tax claim and its main characteristics (tax debt, payment terms, etc.).  
2. Future actions of the taxpayer for the recognition or appeal of the tax claim.  
3. Sources of tax debt.  
4. The fact of the recall of the tax claim and the grounds. | The need to take into account the principles of full coverage and continuous activities. Confirmation of the justification of events accounting after the balance sheet date when preparing financial statements. |
| Tax pledge                           | 1. Property subject to the right of tax collateral.  
2. Property that is in a tax pledge and which may be alienated only with the consent of the body of the state tax service.  
3. Property that is in a tax pledge and which may be alienated without the consent of the State Tax Service.  
4. Property that replaces the alienated property that was in the tax pledge.  
5. Property that is exempt from tax collateral.  
6. The fact of the collection and sale of property of the enterprise, which was in a tax pledge. | The need to take into account the principles of full coverage and continuity of activities. |
| Administrative seizure of property   | 1. The fact of obtaining a decision on the seizure of property and conducting a description of the property.  
2. Property subject to administrative seizure, including those imposed on a full or conditional administrative arrest.  
3. The fact of an appeal by the enterprise to the decision of the head of the state tax service authority on the arrest of property in an administrative or judicial manner.  
4. The fact and grounds for termination of administrative arrest of the property of the taxpayer. | The need to take into account the principle of full coverage and continuous activities. |
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| Depreciation and deferral of monetary obligations or tax debt | 1. The fact of the taxpayer's request to the controlling body with a statement of instalment and deferral of monetary obligations or tax debt.  
2. The basis for the deferral and deferral of monetary obligations or tax debt (a list of circumstances indicating the existence of a threat of occurrence or accumulation of tax debt, as well as economic substantiation, which indicates the possibility of repayment due to the application of the regime of instalment).  
3. The fact of making decisions on instalments and deferrals of monetary obligations or tax debt.  
4. Duration of payment of deferred (deferred) amounts.  
5. The fact of early termination of contracts for deferment (deferment) and its grounds. | The need to take into account the principle of full coverage and continuity of activities.  
Confirmation of the validity of the classification of obligations for calculations with the budget and state trust funds for current and long-term period. |
| Bad tax debt | 1. The fact of assigning a tax debt to the category "hopeless".  
2. The grounds for recognizing a tax debt are unreliable.  
3. The fact of writing tax debts in accounting. | The need to take into account the principle of full coverage and continuous activities.  
Confirmation of the justification of events accounting after the balance sheet date when preparing financial statements. |

Let us consider determining the characteristics of the information to be disclosed. In our opinion, in this case, the requirements of materiality of information should be used. The characteristic of significance is not specifically mentioned in the National Accounting Standards, but it is included in the qualitative characteristic of "relevance". The Ministry of Finance of Ukraine has developed methodological recommendations on the application of materiality in accounting (letter dated 29.07.2003, Number 04230-04108 [12]). Objects of materiality are the activities of the enterprise as a whole, individual business transactions and objects of accounting, articles of financial statements. Below, in Table 2, the proposed substantiation thresholds for separate business transactions and accounting elements proposed in the letters of the Ministry of Finance, which are appropriate when disclosing additional information on the tax relations of a particular enterprise.

Table 2. Recommended thresholds for certain business transactions and accounting elements that are relevant when disclosing additional information about the tax relationships of a particular enterprise according to the letter of Ministry of Finance of Ukraine [12]

<table>
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<th>The object of accounting</th>
<th>The size of the threshold of materiality</th>
<th>The object, depending on which the threshold of materiality is calculated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>5 %</td>
<td>Summary of all assets</td>
</tr>
<tr>
<td>Liabilities</td>
<td>5 %</td>
<td>Summary of all liabilities</td>
</tr>
<tr>
<td>Certain types of income and expenses</td>
<td>2 %</td>
<td>Net profit (loss) of the enterprise</td>
</tr>
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</table>
| Other business operations and accounting objects | 1-10 %                      | The object is not set  
It is noted: "Taking into account the volume 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" |

Conclusions. Summarizing the results of the research it should be underlined that the content of financial reporting concerning information disclosure about the place of enterprise in a difficult situation of tax relations does not correspond to the needs of users in full, its qualitative characteristics and principles of preparation. We think that necessity of information disclosure about tax relations of
the enterprise is the result of such qualitative characteristic of financial reporting as appropriateness and two principles of its preparation: principle of full presentation and principle of going concern. It should be taken into account that a considerable part of events that has place in economic activity of enterprise and connected with fulfillment of taxpayer’s obligations, is nominal or can be classified as events after the date of the balance that requires comity of manner to it according to the determined order of its reflection in accounting and reporting.

The model of statutory regulation of accounting which is used in Ukraine strictly defines the formats of all the components of financial reporting and the list of the Articles, therefore, the main information about qualitative characteristics of tax relations of enterprise should be reflected in the notes to financial reporting as additional taking into account the requirements of materiality. The above-mentioned proposals allow level increasing of information intension of financial reporting and will help the users in making reasonable estimation of the financial state and tax capability of definite enterprise.

REFERENCES