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COMPARISON OF UKRAINIAN GAAP WITH IFRS AND US GAAP: ARE THERE MORE DIFFERENCES OR SIMILARITIES?

The paper is dedicated to the comparison of IFRS, US GAAP and Ukrainian GAAP in order to determine similarities and differences in assets and liabilities recognition, derecognition and presentation in financial statements. The author compares three accounting frameworks considering the following criteria: fixed assets impairment and depreciation, financial assets classification and measurement, financial liabilities classification and measurement. The scope of accounting standards and the types of companies that apply each set of statements are determined. Special attention is paid to financial instruments classification, subsequent measurement and impairment. The author indicates correlation between Ukrainian GAAP and IFRS on the one hand and between Ukrainian GAAP and US GAAP on the other hand. The performed research enables to make the assumption about combination of IFRS and GAAP principles in the process of Ukrainian AS development.

Keywords: *IFRS; US GAAP; Ukrainian GAAP; fixed assets; financial assets; financial liabilities.*

Settlement of the problem. Domestic Ukrainian accounting standards are the set of accounting rules developed by The Ministry of Finance which set conceptual framework and regulate the process of initial recognition, subsequent recognition and derecognition of the accounting objects as well as their presentation in financial statements. Domestic AS are the synthesis of IFRS and US GAAP, so far as they combine accounting and reporting rules of both groups of standards. Such combination determines similarities and differences between Ukrainian GAAP and both IFRS and US GAAP. The latest tendencies of IFRS and US GAAP convergence must be monitored by a domestic standard-setting body in order to eliminate domestic AS inconsistencies arising from adjustment of certain IFRS and US GAAP rules.

blications. Certain issues of IF statements comparison were considered by R.Kusina [1], S.Ivachnenkov, S.Droniuk [2], M.Pasekov, L.Mllerov, J.Strouhal, L.Chyzhevska [3]. But the statements of Ukrainian AS and US GAAP weren't compared by any author that determines the actuality of research.

Purpose of research. The purpose of research refers to comparison of Ukrainian AS with both IFRS and US GAAP with the aim of differences and similarities determination.

Statement of research. IFRS are the set of standards that «**bring transparency, accountability and efficiency to financial markets around the world** [4]» and are approved by the majority of developed countries for public companies and financial institutions. Ukraine endorsed IFRS for banks, insurance companies, non-banking financial companies and public corporations in 2012. Other companies, including non-public companies and SMEs, usually apply domestic AS. But there is a group of countries that did not adopt IFRS for none of business enterprises determined above. For instance, the USA companies follow US GAAP – the set of codificated standards developed by FASB for all industries and types of entities. Studying IFRS and US GAAP enabled to make the assertion that Ukrainian AS are developed on the basis of both. To prove this affirmation, the author suggests to compare three sets of standards. Comparison criteria are the following: fixed assets impairment and reversal impairment, depreciation of fixed assets, financial assets and liabilities classification and measurement.

1. <u>Fixed assets impairment.</u>

Under IAS 16 «Property, plant and equipment» [5] asset is classified as impaired one if its carrying amount is lower than recoverable amount. Recoverable amount is the higher of its fair value less sale costs and value in use. Impairment of asset that is not revaluated is recorded as:

Dr «Loss on impairment»

Cr «Depreciation»

If asset is carried at revaluated amount, the sum of impairment is recorded:

Dr «Revaluation» revaluation decrease

Dr «Other comprehensive expenses»

to the extent of credit balance in the revaluation surplus

Cr «Asset»

ASC 360 «Property, plant and equipment» recommends applying two-step impairment test:

1. Carrying amount is compared with the undiscounted cash flows. If carrying amount is lower, impairment losses are not recognized.
2. If carrying amount is higher, the impairment loss is measured as the difference between carrying amount and fair value.

Dr «Loss on impairment»

Cr «Depreciation accumulated»

Ukr AS 16 «Fixed assets» applies similar to IAS 16 metodology.

2. Reversal impairment of fixed assets.

Under IAS 16 and Ukr AS 16 if impairment, recognized in prior accounting periods, has decreased, there are two ways of record:

1) reversing of impairment losses for non-revalued assets:

Dr «Depreciation»

Cr «Profit on impairment»

2) reversing of impairment losses for revaluated assets:

Dr «Asset»

Cr «Revaluation»

Cr «Other comprehensive income» – to the extent of debit balance in the revaluation sum

Under US GAAP reversal impairment of fixed assets is forbidden.

3. Fixed assets depreciation.

IAS 16 distinguishes 3 methods of depreciation - the straight-line method, the diminishing balance method and the units of production method. US GAAP gives the option to use the-sum-of-the-year's-digits method. Ukr AS approves all the methods determined above and suggests an additional one – the accelerated diminishing balance method.

Significant differences are viewed in the classification and measurement of financial instruments.It is worth mentioning that all the accounting concepts give similar meaning of the term «financial instrument», determining it either as «any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity [6]», or as «cash, evidence of an ownership interest in an entity, or a contract that both imposes one entity a contractual obligation (to deliver financial instrument or to exchange financial instrument on potentially unfavorable terms) or a contractual right (to receive financial instrument or to exchange it on potentially favorable terms) [7]».

4. Financial assets classification, measurement and impairment recognition.

IAS 32 defines financial asset as the financial instrument that falls into one of four categories:

1) cash;

2) the equity instrument of another entity;

3) the contractual right to receive financial asset from another entity or to exchange financial assets of financial liabilities on potentially favorable conditions;

4) a contract that may be settled in the entity's own equity instruments and is classified as non-derivative or derivative [6].

Under IFRS 9 there are two factors driving financial assets classification:

1) the business model of an entity (the objective of business model is to receive contractual cash flows from managing financial assets);

2) characteristics of contractual cash flows (to receive principal and interests on principal sum outstanding) [8].

As it can be seen from figure 1, the title of the first category determines the method of current value measurement (amortized cost using effective interest rate), while theother two explain where to record the sum of revaluation (in profit or loss or in other comprehensive income).

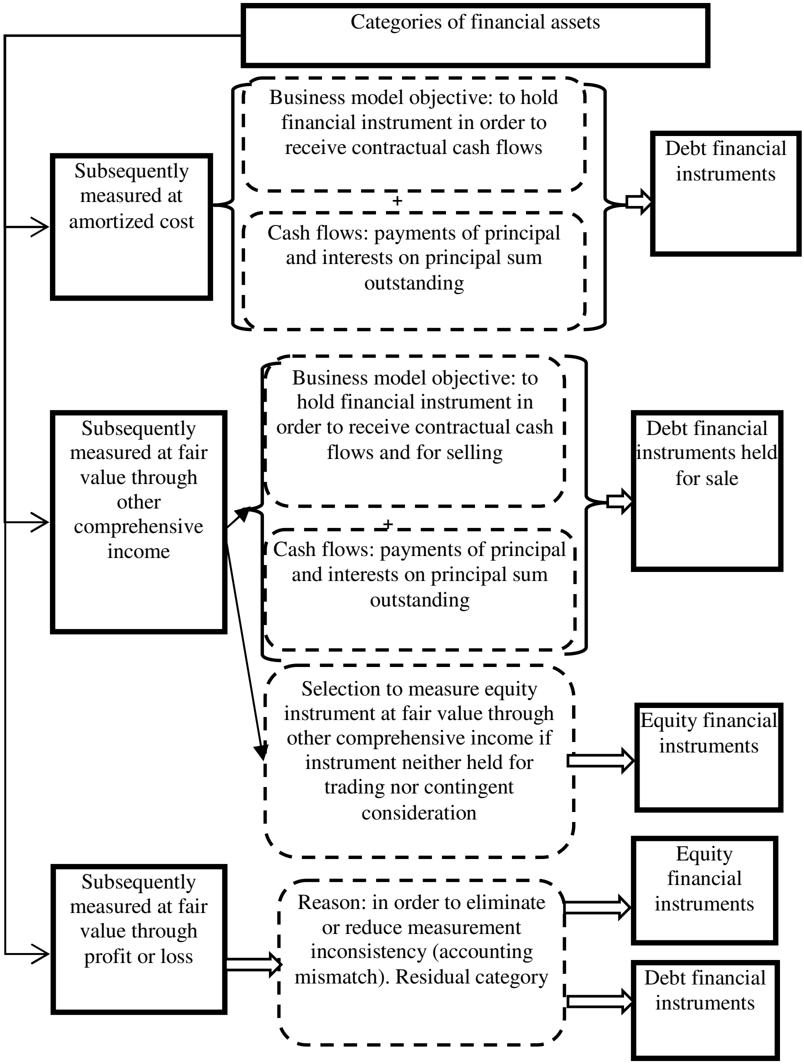

Figure 1. Classification of financial assets under IFRS

FASB Master Glossary defines financial asset as cash, equity instrument, or a contract that gives an entity right to do earlier of receiving cash or other financial instrument from a second entity and exchanging financial instruments with other entity on potentially favorable terms. The asset is characterized as financial one if it arises «from a contractual agreement between two or more parties, not by an imposition of an obligation by one party to another [7]».

Under US GAAP the classification of financial assets is determined by their legal form (figure 2) [9].

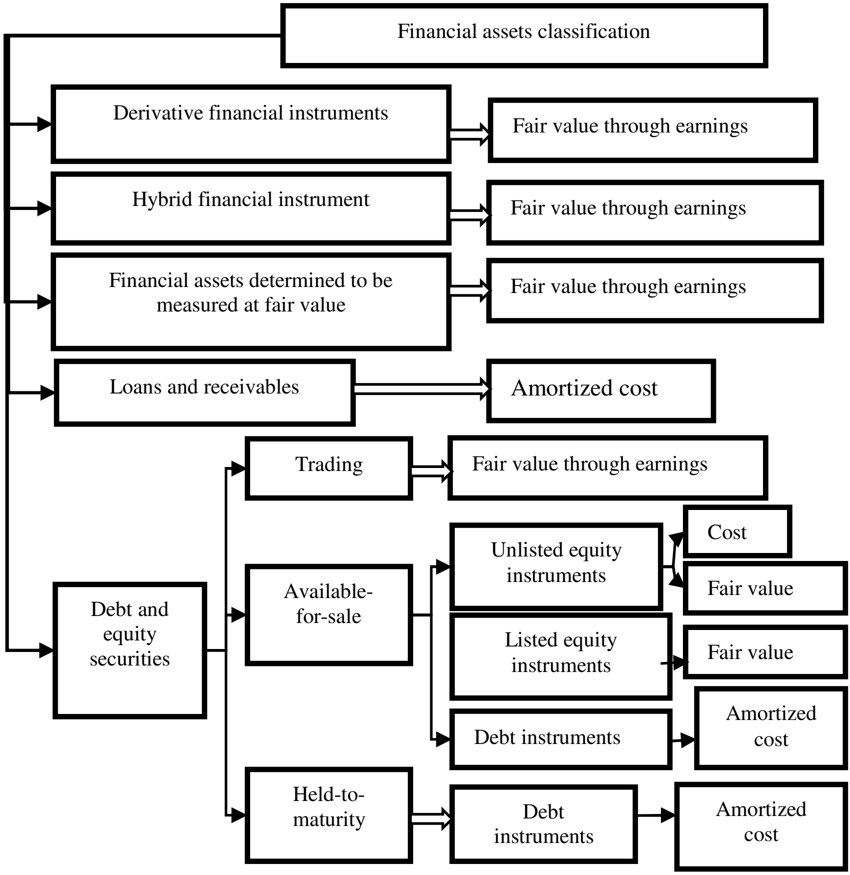

Figure 2. Classification of financial assets under US GAAP

Ukr AS 13 «Financial instruments» classifies financial assets as cash and cash equivalents, receivables, financial investments held to maturity, available-for-sale financial assets and other financial assets. The standard requires to apply one of three measurements: fair value for trading securities and available-for-sale financial assets, amortized cost for held-to-maturity financial investments and receivables, and cost for available-for-sale financial assets when their fair value can't be assessed.

One of the core differences in financial assets accounting refers to loss allowances recognition.

Under IFRS 9 loss allowances for expected credit losses are recognized for the assets measured at amortized cost and for the assets measured at fair value through other comprehensive income. The standard gives two approaches for credit risk recognition:

1) if the credit risk has increased dramatically since initial recognition, credit loss allowances are measured at an amount equal lifetime expected credit loss;

2) if the credit risk hasn't changed significantly since initial recognition, loss allowances are measured at amount equal 12-month expected credit losses.

There are three groups of financial assets falling into impairment category under US GAAP:

1) available-for-sale debt securities are assessed for impairment if fair value is less than cost;

2) available-for-sale equity instruments – if decline of fair value below cost is other than temporary;

3) held-to-maturity instruments are measured at amortized cost, when the current value is less than the present value of assessed future cash flows.

When the management can't assert wheather it doesn't intend to sell financial asset, the impairment is triggered. But if such assertion is possible, the management also considers the expectations of financial asset recovery. If such expectations are high, the impairment is not triggered.

Ukr AS require to apply an incurred-loss approach. Loss allowance for incurred credit loss is calculated for assets measured at fair value through capital and assets measured at amortized cost.

2. <u>Financial liabilities classification and measurement</u>

There are also big differences in financial liabilities measurement and classification under IFRS, US GAAP and Ukrainian AS.

IAS 32 determines financial liabilities as:

1) contractual obligation to deliver cash or financial asset to another entity or to exchange financial asset with another entity on potentially unfavorable terms;

2) contract that may be settled in entities ownership interest (either derivative or non-derivative) [6].

Under IFRS 9 financial liabilities are classified into 7 groups depending on the method of subsequent measurement.

1) financial liabilities measured at amortized cost;
2) financial liabilities at fair value through profit or loss (including derivatives);
3) financial liability recognized for transferred asset which does not qualify for derecognition;
4) financial guarantee contracts;
5) commitment to provide a loan at a below-market interest rate;
6) contingent consideration recognized by an acquirer in a business combination;
7) financial assets measured at fair value through profit or loss (eliminates accounting inconsistency).

The methods of financial liabilities further measurement under IFRS 9 [8, p. 4.2.1.–4.2.2.] are presented in a figure 3.

FASB Codification Master Glossary defines financial liabilities as a contract that imposes one entity either to deliver cash or another financial instrument to other entity or to exchange financial instruments with other entity on potentially unfavorable conditions [7].

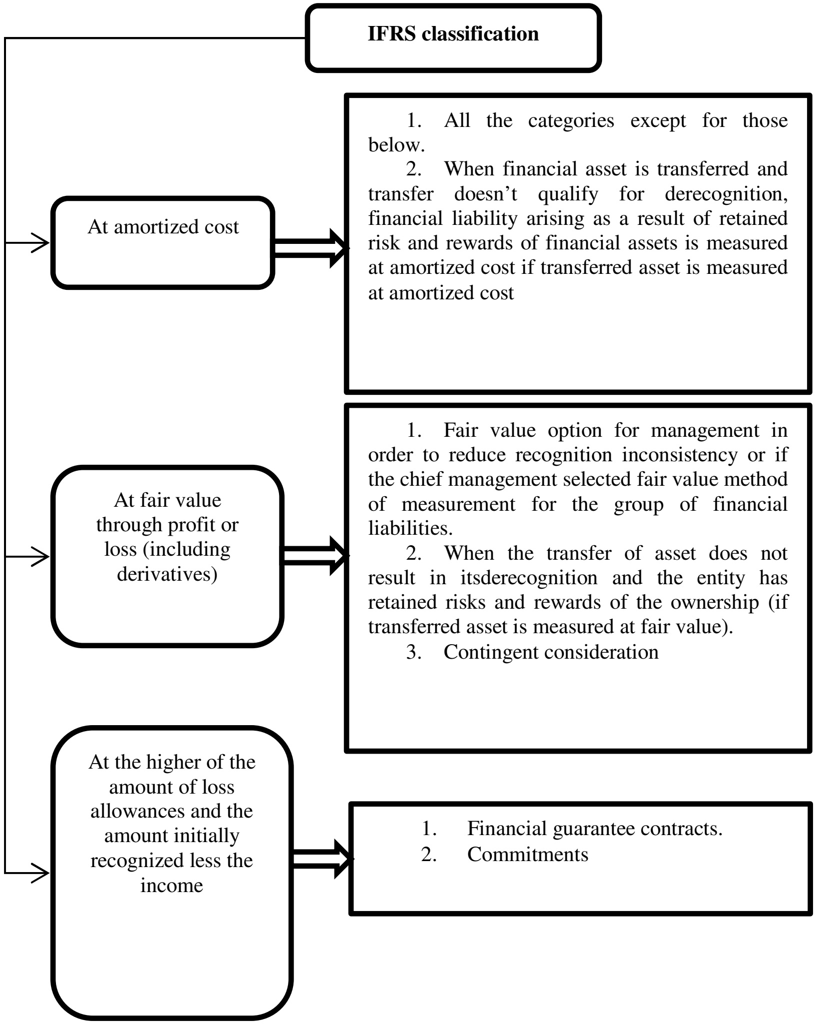

Figure 3. Financial liabilities subsequent measurement under IFRS 9

Under US GAAP financial liabilities are classified for 3 categories driving from the legal form of the contract, and measured either at fair value or at amortized cost (figure 4) [10, 11].

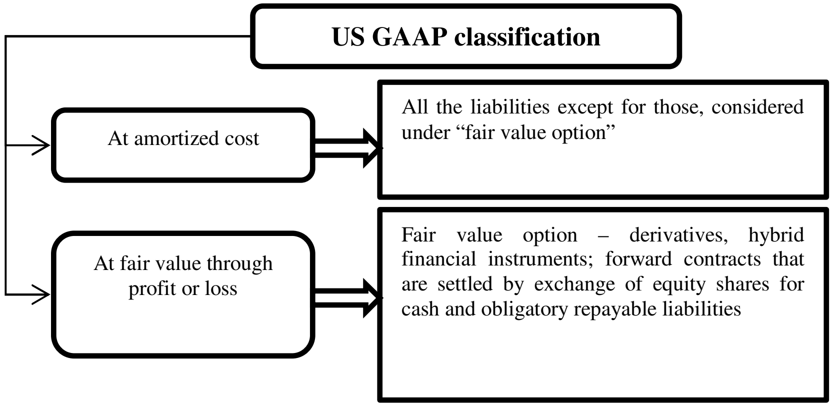

Figure 4. Financial liabilities classification and subsequent measurement under US GAAP

Financial liabilities definition under Ukrainian AS [12, p. 4] is similar to the one under IAS 32. The same can't be said for classification. Ukrainian AS 13 «Financial instruments» classifies financial liabilities as available-for-sale, derivative liabilities and other financial liabilities (figure 5).

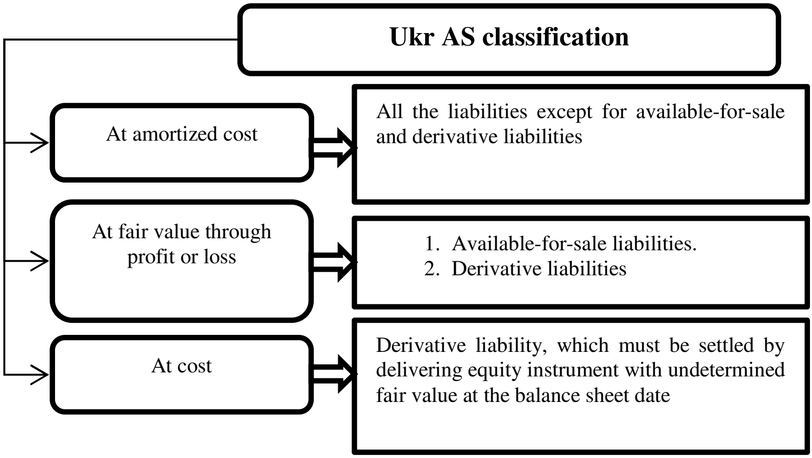

Figure 5. Financial liabilities classification and subsequent measurement under Ukr AS

Conclusions. The research resulted in comparison of Ukr AS (GAAP), IFRS and US GAAP. The paper covers core differences in recognition, classification, measurement and derecognition of fixed assets, financial assets and financial liabilities under each of three sets of standards. Logic analysis enabled to make an assertion that Ukrainian AS have more similarities with IFRS, so far as they were built on the basis of IFRS/IAS accounting framework. Nevertheless certain core points relating financial assets and liabilities classification, measurement and impairment recognition need improvement by Accounting Methodology Department of the Ministry of Finance. The convergence of IFRS and USGAAP must be monitored in order to adjust domestic AS to international principles of accounting.

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