SECTION 12. MONEY, FINANCE AND CREDIT

DOI: 10.46299/ISG.2024.MONO.ECON.1.12.1

12.1 Practical aspects of interim financial reporting formation in accordance with IFRS

The current vector of Ukraine's development is aimed at creating its own market-oriented economy. One of the decisive economic levers of management is the banking system, which plays a crucial role both in the domestic market of Ukraine and in the global economic system. New business conditions prompt banking institutions to respond promptly and timely to information coming from external and internal sources of analytical departments. However, the need to expand the volume and content of quality information significantly increases, leading to heightened demands for accounting and auditing in banking institutions.

Since the transition of Ukraine's banking system to the International Financial Reporting Standards (IFRS) in January 1998, the National Bank of Ukraine has been actively working on improving the legal framework for the preparation of banking financial statements and harmonizing it with the requirements of IFRS. However, there are still certain discrepancies between the requirements of current banking legislation and IFRS, especially regarding interim financial reporting.

In the context of institutional changes taking place in Ukraine's banking system, particularly concerning banks' submission of financial statements under IFRS, it is necessary to thoroughly examine the legal framework and international practices regarding the preparation of interim financial statements for banks.

Today, there are several approaches to the issue of preparing and disclosing financial statements by banks, but insufficient attention has been paid to the legal and practical aspects of preparing and submitting interim financial statements by Ukrainian banks in accordance with IFRS.

The system of registering and summarizing operations conducted in the banking business, followed by analysis and verification of results and the preparation of corresponding reports, is the bank's accounting system, which is characterized by promptness and uniformity of construction form. This is manifested in the fact that all settlement, credit, and other transactions carried out in the bank during operational hours are reflected on individual accounts of analytical accounting and monitored by preparing the daily balance sheet of the bank institution. A unified accounting system for all banks is a necessary condition for analyzing banking activities [547].

Accounting information is based on documents that enable tracking the movement of assets from receipt to write-off or realization. The same applies to liabilities – from the occurrence of obligations to their repayment. After all, a bank cannot function successfully in a competitive environment without an appropriate system of daily accounting for all its operations and obligations. Only under such conditions can the management of this institution constantly monitor all aspects of its activities, and therefore, the risks it faces. This information must be provided in a timely, qualitative, and comprehensive manner. Only reliable information can accurately reflect the financial condition of the bank [548].

The development by the National Bank of Ukraine of relevant regulatory acts regulating the procedure for reflecting typical transactions in accounting and establishing requirements for financial reporting in accordance with IFRS is the basis for reforming accounting and financial reporting in the banking system of Ukraine.

In international practice, three options for the implementation of International Financial Reporting Standards (IFRS) have emerged:

1) Application of IFRS in parallel with national accounting and reporting rules;
2) Recognition of IFRS as national accounting and financial reporting standards;
3) Development of national financial reporting standards based on IFRS, with minor differences taking into account the peculiarities of the national accounting system.

As it is known, starting from 2016, banks in Ukraine are required to submit all financial reporting in accordance with international standards. On one hand, for the banking system, IFRS is not something fundamentally new, as banks were the first in Ukraine to adopt international reporting standards back in 1999. However, this only applied to annual reports. Since the beginning of 2016, all banking reporting, including interim financial statements, must be prepared in accordance with IFRS standards.

The use of financial statements prepared according to international standards has several advantages (Fig. 1).

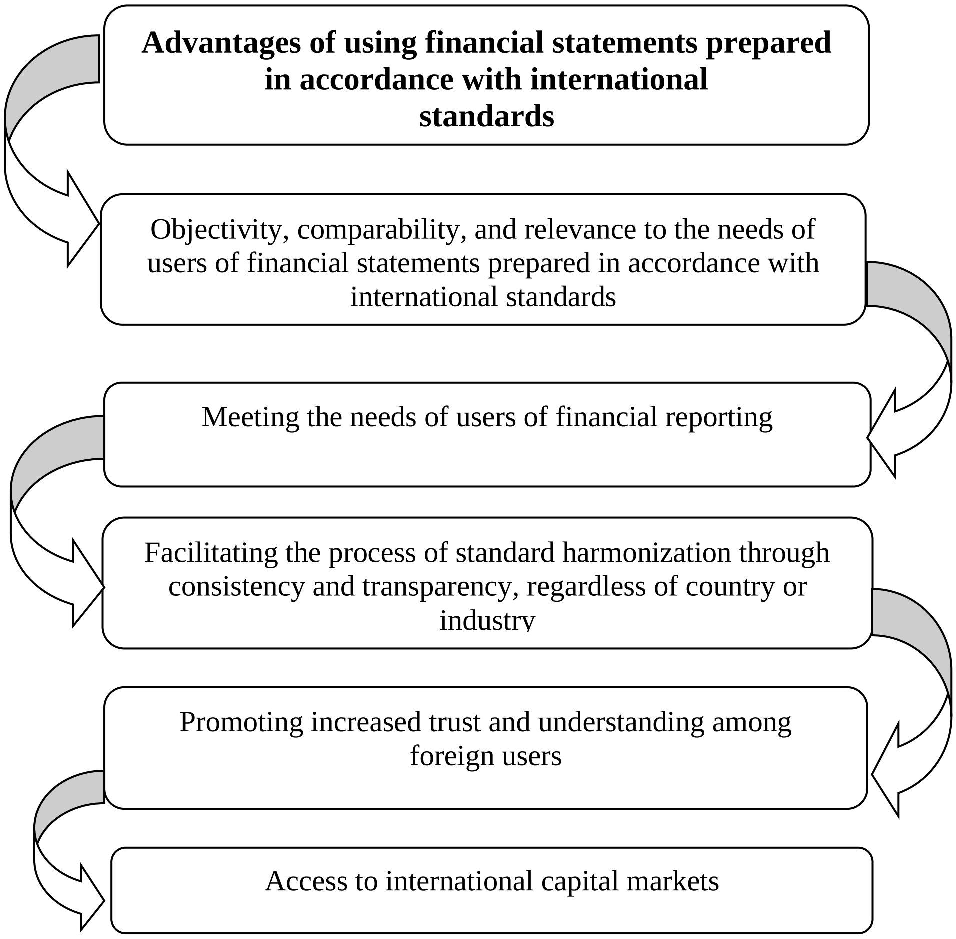

Fig. 1. Advantages of using financial statements prepared in accordance with international standards*

* Source: developed by the authors based on source [550].

General issues related to the preparation and presentation of interim financial reporting under the IFRS are regulated by IAS 1 Presentation of Financial Statements and IAS 34 Interim Financial Reporting.

IAS 1 establishes the fundamentals of general-purpose financial reporting to ensure their comparability with the financial statements of an entity for previous periods, as well as with the financial statements of other entities. It sets out general requirements for financial reporting presentation, guidance on its structure, and minimum requirements for its content.

The entity shall apply this Standard in the preparation and presentation of general-purpose financial statements in accordance with International Financial Reporting Standards (IFRS).

This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 "Interim Financial Reporting". However, paragraphs 15-35 are applicable to such financial statements. This Standard applies to all entities, including those that present consolidated financial statements and those that present separate financial statements.

IAS 34 clearly defines the purpose, scope of application, key terms, content, and forms of interim financial reporting, significant events and transactions, periods for which interim financial reporting should be presented, disclosure of information in annual financial statements, and so on.

The objective of this Standard is to define the minimum content of interim financial statements and to establish principles for recognition and measurement in the interim financial statements for the interim period. Timely and reliable interim financial reporting enhances the ability of investors, creditors, and other users to understand the entity's ability to generate profits and cash flows, as well as to evaluate its financial position and liquidity.

According to IAS 34, interim financial reporting is a financial report consisting of either a complete set of financial statements or a condensed set of financial statements for an interim period.

A complete set of interim financial statements should include the following components (Fig. 2).

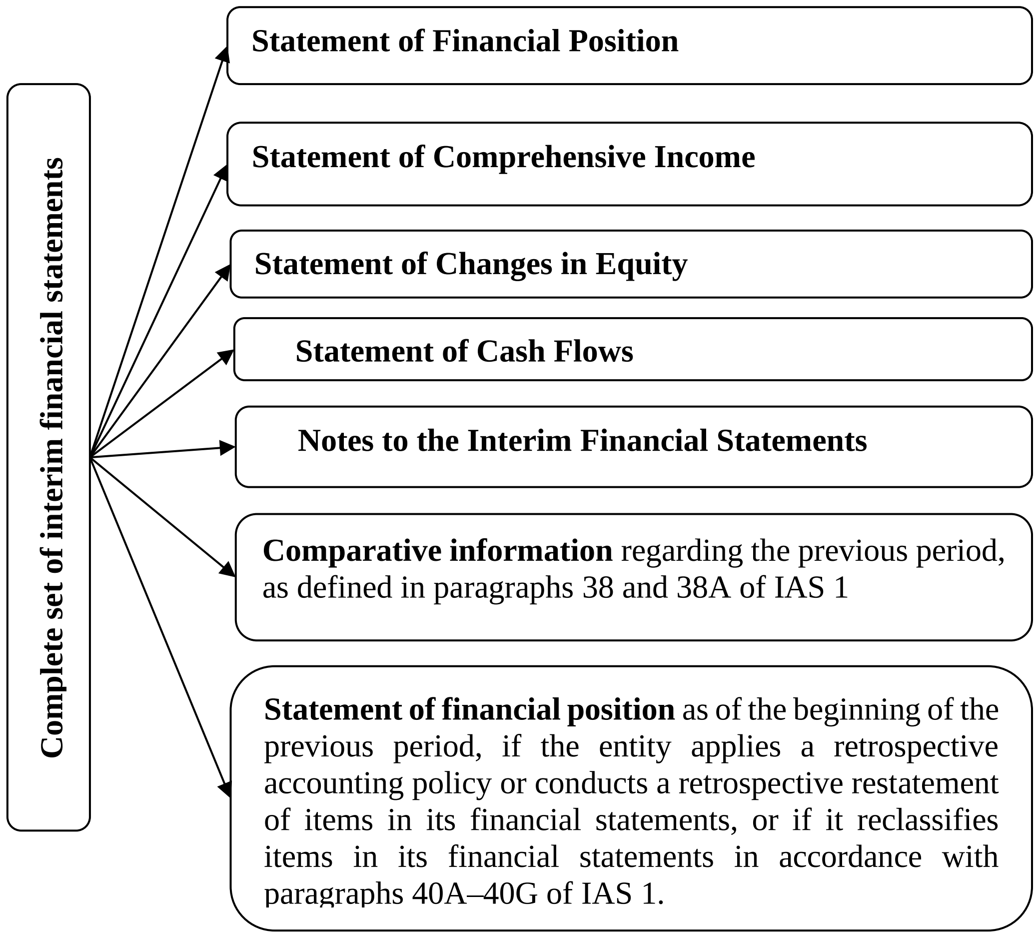

Fig. 2. Components of a complete set of interim financial statements*

* Source: developed by the author based on source [552].

The condensed interim financial statements of a bank for the interim period should include, at a minimum, the following components:

a) Condensed statement of financial position;

b) Condensed statement(s) of profit or loss and other comprehensive income;

c) Condensed statement of changes in equity;

d) Condensed statement of cash flows;

e) Selected explanatory notes.

Banks are required to electronically submit information to the NBU for further publication on the central bank's website according to the following schedule:

- Quarterly (1st, 2nd, and 3rd quarters), as well as for the reporting year, by the 30th day of the month following the reporting period;

- By April 25th, revised information for the reporting year, taking into account annual adjusting entries, including the results of external audits.

Quarterly and annual financial statements for banks are prepared based on Form A4 and Form 02, respectively, with explanations for the reporting forms.

In international practice, Notes to the financial statements are arguably one of the most crucial components of the reporting information for any bank. It is through these notes that users of the financial statements can glean detailed information about the performance of the banking institution and determine its level of investment attractiveness.

However, international financial reporting standards (accounting standards) do not formalize Notes in any way; they merely establish general requirements for the information that must be disclosed in them. In the context of the domestic accounting system, the situation regarding Notes to the financial statements is somewhat more stringent [556].

Notes to the financial statements are nothing more than a collection of indicators and explanations that provide the breakdown and rationale for items in the financial statements, as well as other information disclosed in accordance with relevant national accounting standards or international financial reporting standards.

Notes to the quarterly/annual consolidated and separate financial statements are prepared if the data of the primary reporting forms have changed by 10% or more compared to the data of the corresponding items in the annual statements.

Preparation of the bank's financial statements based on accounting data takes into account adjusting entries for events that adjust data after the balance sheet date. Banks make adjusting entries for the following periods (Table 1).

Table 1

The deadlines for the bank to make adjusting entries

№	The period for which adjusting entries are made	The timing of making adjusting entries
1	**reporting month**	- Adjusting entries are made before submitting file 02 (all adjustments in file 02). - Prior to the submission date in January of the current year, file 25 with a separate indicator for adjusting entries for the corresponding month should be provided (adjustments in file 25 with a separate indicator).
2	**interim period (quarter)**	- within the next month following the end of the interim period, from the day of submitting file 02 to the day of submitting file A4 with a separate indication of adjusting entries for the reporting interim period (all quarterly adjustments in file A4).
3	**reporting year**	- In the current year, during the period after submitting file 25 until March 31, with a separate indication of adjusting entries for the reporting year.

Note that adjustments for the reporting year after the submission of file 25 should also take into account annual adjustments from auditors until March 31 of the current year.

The bank's financial statements, considering adjusting entries, are reflected in the cumulative register of adjusting entries:

- For the reporting month - for the formation of file 02 (the file 02 for April, July, and October additionally includes adjusting entries for the interim reporting period with indicators 9 and 0);

- For the reporting interim period - for file A4 (entries for adjusting entries for the quarter with indicators 9 and 0). It is sent to the NBU by the 25th of the month following the reporting interim period;

- Separate cumulative register of adjusting entries for the reporting year, which the bank uses to form files A4 and 81.

It is also worth noting that banks subject to liquidation do not prepare financial statements in accordance with IFRS. Their last reporting period is the period from the beginning of the reporting year to the date of commencement of the liquidation procedure. However, Ukrainian banks that were withdrawn from the market during the period from 2014 to 2016 were allowed not to publish annual financial statements under the conditions of temporary administration or liquidation at the end of the year or in the year following the reporting year until the date of mandatory publication of financial statements.

Only a few banks in Ukraine adhere to the practice of a financial calendar. Such banks published quarterly financial statements for the year 2016 exclusively as part of the Balance Sheet and Income Statement. However, this information does not tell stakeholders anything about the bank's financial activities, except for its closure and lack of transparency. Over the past few years, the National Bank of Ukraine has been taking active steps to provide stakeholders in the market with information in accordance with International Financial Reporting Standards (IFRS), including reducing the "quiet period" from one year to 1 month.

For comparison, European banks are required to publish their annual and quarterly financial statements on their website within 45 days. This entire period is known as the "quiet period." It is a time for providing information to shareholders and regulators, working with subsidiary structures, and so on. Only after the quiet period and before the deadlines for publishing financial statements can banks publish press releases or provide information about specific bank performance results. This fact is a key indicator of transparency to stakeholders and users of financial statements.

Legislative changes aimed at reforming accounting practices in recent times have provided a significant impetus for the adoption of IFRS in Ukraine. International Financial Reporting Standards serve as an effective tool for providing comprehensive and understandable information about the activities of banking institutions to all users, facilitating comparison of their performance to ensure adequate assessment of their potential and the adoption of appropriate management decisions in light of Ukraine's integration into the global economy.

Research has shown that the introduction by the National Bank of Ukraine of quarterly submission of Form A4 by banks will contribute to increasing the time available for gathering, processing, verifying, and analyzing information. This will also enable the implementation of adjusting entries to ensure the preparation and publication of reliable interim financial statements of banks in accordance with IFRS.

The new requirements of the National Bank for banks' interim financial statements according to IFRS are anticipated, although more stringent than those in Europe. These requirements do not represent new isolated demands for accounting or reporting departments; rather, they emphasize the need for collaborative efforts across all structural units of the bank, aimed at enhancing openness and transparency in operations.