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THE INFLUENCE OF PROFESSIONAL JUDGMENT ON THE USE OF ELEMENTS OF THE ACCOUNTING METHOD UNDER THE APPLICATION OF IFRS

The object of research is the accountant's professional judgment, which should be considered as an expression of opinion about the display of information about facts, events, operations of the company's activities in accounting and financial reporting in conditions of uncertainty, as well as the acquisition of responsibility for the results of decisions made on the basis of professional judgment. The expression of professional judgment is inevitable in accounting and reporting in accordance with International Financial Reporting Standards (IFRS). When using the elements of the accounting method, the main tasks, results of application, as well as potential influencing factors on the formation of professional judgment are determined.

The interdependence of individual elements of the accounting method and professional judgment in the conditions of application of IFRS lead to the emergence of information risks and the variability of the interpretation of accounting information by users when making management decisions. The variety of operations, facts and events of the company's activity requires the application of different methodological approaches to the formation of information, taking into account their specificities. Under such conditions, the lack of unambiguous recommendations and interpretations prompts the accountant to find its own well-founded position on the expediency of applying certain accounting procedures and methods to display information in financial statements. The availability of professional knowledge of the theory and methodology of accounting, compliance with ethical norms and competencies determines the level of application of professional judgment regarding the use of elements of the accounting method in the conditions of application of IFRS. The practical application of the obtained results will contribute to the determination of uniform methodological approaches in order to ensure the reliability of accounting information provided to users for making management decisions.

Keywords: professional judgment, IFRS, accounting, inventory, documentation, calculation, double entry, reporting.

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1. Introduction

The concept of professional judgment was developed within the Anglo-American accounting system, which is characterized by professional regulation of accounting. This is considered the quintessence of this system when determining the principles and rules of accounting and financial reporting. However, at present, professional judgment is widely used as one of the key aspects in IFRS. Under the conditions of state regulation of accounting and reporting, a clear regulatory prevails, aimed at a strict and as accurate as possible regulatory definition of the accounting procedure and accountant's actions. With such an approach, the accountant, as a performer of technical work, is required to know and strictly comply with the provisions of regulatory documents, instructions and instructions developed by state bodies.

2. The object of research and its technological audit

The object of research is the accountant's professional judgment, which should be considered as an expression of opinion about the display of information about facts, events, operations of the company's activities in accounting and financial reporting in conditions of uncertainty, as well as the acquisition of responsibility for the results of decisions made on the basis of professional judgment.

The peculiarity of the application of elements of the accounting method for the formation of information under IFRS is determined by the use of the accountant's professional judgment. The essence of professional judgment and its impact on the diversity of interpretation of accounting information is that a separate operation or event within

the enterprise's activities can be reflected in different ways. Taking into account the subjective opinion of the compiler, when exercising professional judgment, the fact of recognition or non-recognition of certain objects in the financial statements may take place. Professional judgment should be considered as a form of interpretation of accounting methods in the conditions of application of IFRS, which ensures compliance with the principle of substance over form in the process of interpreting accounting information. Professional judgment as a professional opinion of an accountant is expressed by him/her in the form of assumptions and assessments regarding the interpretation and display of information in financial statements based on a clear argumentation based on the conceptual basis and basic principles of accounting, as well as on the ethical norms of professional accountants.

The concept of «professional judgment» is often associated with external auditors as one of the tools used when forming an audit opinion. In order to obtain an auditor's certificate, which gives the right to conduct an audit, individuals must pass a qualifying examination, the results of which certify the availability of relevant professional knowledge, experience and skills for the application of professional judgment. There are no clear qualification requirements for corporate accountants, the fulfillment of which gives them the status of «professional» and the ability to use professional judgment.

3. The aim and objectives of research

In the conditions of reforming accounting and reporting in Ukraine, the transition to IFRS is not considered as the main goal of this process. The main goal of the reform process is to build a modern accounting and reporting system, adequate to new types of market relations, which will determine the further development economy. Compiling financial statements according to international standards is one of the means of achieving this goal at the international level. Successful adaptation of accounting and reporting in Ukraine to IFRS requires a multi-vector solution to this problem, in particular:

- a subject review of the theoretical foundations of accounting, the study of modern theories;
- clarification of the conceptual and categorical apparatus of accounting;
- differentiation of requirements for financial and non-financial reporting;
- continuous professional education of specialists in the field of accounting and auditing;
- the active position of professional organizations of accountants and auditors.

The result should be a modern paradigm of accounting as an independent science through the clarification of its own subject and method as categories, the presence of which determines the independence of any science. The activity of business entities as a subject of accounting is in a state of permanent changes that affect the financial condition and results of operations. In view of this, the change of the subject accordingly changes the accounting methods, which in the conditions of IFRS acquire qualitatively new forms and methods.

Thus, *the aim of research* is to study of the influence of professional judgment on the use of elements of the accounting method under the application of IFRS.

4. Research of existing solutions to the problem

Professional judgment is defined by various researchers as the application of accumulated knowledge and experience gained during relevant training in accounting or auditing through the use of ethical standards, resulting in informed decisions about courses of action that are appropriate in specific circumstances, such as the audit mission and accounting of economic transactions, following the principles of accounting.

The authors believe that the exercise of professional judgment is a prerequisite for the implementation of IFRS and the ability to exercise professional judgment is not only a key skill for those who prepare financial statements based on IFRS, it is also a distinguishing feature of an accounting professional.

Researcher of [1] believes that the possibility of choosing accounting methods based on IFRS aims to form a true and fair view of the company's financial condition and financial results. In these cases, it is recommended to use professional judgment in order to reach a conclusion that is consistent with accounting principles and is not supported by any accounting standards, as the application of individual professional judgment is preferable to compliance with legal requirements.

The authors of paper [2] believe that International Accounting Standards increasingly rely on «professional judgment». The importance of professional judgment in accounting standards is lower at the national level than at the international level. However, let's highlight a number of dangers associated with the increased use of professional judgment: loss of comparability and transparency, increased risks for accounting professionals, including auditors, and significant discrepancies in the use of professional judgment in individual or consolidated reports.

The article [3] is considered the theoretical prerequisites and regulatory requirements that determine practical approaches to the application of professional judgment in determining the best way to present reporting information. In the course of the research, the authors took as basis normative documents on the preparation of financial and integrated reporting, which have a principled approach and involve the use of professional judgment. The authors assumed that the objects of activity of a professional accountant are the facts of economic activity with the aim of identifying, evaluating, recognizing and reflecting in the accounting and reporting of the enterprise accounting objects that are significant and of interest to users.

According to the author of paper [4] «...the documented circle of persons authorized to make a professional judgment should include as many diverse specialists as possible, which will ensure an increase in the professionalism and efficiency of professional judgment, giving it a sign of collegiality».

5. Methods of research

The importance of professional judgment applied in the context of International Financial Reporting Standards allows users of financial statements to make informed decisions based on the financial information provided, so there is an obvious need for a thorough analysis of the accounting principles and legal acts used by the entity, and also in recognizing the benefits of moving from rules-based

accounting to principles-based accounting established through the appropriate use of professional judgment.

The methodological basis of the study is based on the application of dialectical and systemic approaches to scientific knowledge and a general theoretical understanding of the functioning and development of the accounting of enterprise activities in the context of the application of IFRS as effective management information content. General scientific and specific research methods were applied, in particular, the historical method – to study the genesis of the introduction of IFRS into the national accounting and reporting system; system method – to identify the features of IFRS as a conceptual basis of financial reporting.

6. Research results

A fundamental feature of the approach based on principles in the application of IFRS is entrusting the accountant with responsibility for making decisions regarding the display of individual operations, events and facts of the enterprise's activity in accounting and reporting. In the process of forming a professional judgment, the accountant will be influenced by various factors that will ultimately determine the final decision. It is necessary to describe in more detail the main factors that should be taken into account when forming the professional judgment of an accountant, namely:

1) professional judgment of an accountant as the opinion of a specific person has a subjective nature and is a reflection of his/her psychological portrait. Also, professional judgment should be considered as the result of the relationship between professional education, knowledge, practical skills and experience of an accountant;

2) the professional judgment of the accountant will be influenced by the professional judgment of the external auditor. Such influence may be direct or indirect. The direct nature of the influence of the external auditor is manifested in the event that the accountant changes his/her opinion regarding the reflection of this or that fact of economic life during the audit process. Indirect influence of the external auditor takes place when the accountant initially adheres to a certain own position, but may change it through the prism of the results of the future external audit;

3) the management of the company can have a significant influence on the accountant's professional judgment. This statement is based on the fact that the accountant, as an employee, is somewhat dependent on the management of the company (employer). Under such conditions, the financial statements prepared by the accountant under the influence of the company's management in order to reflect the desired financial result (for example, presenting the results of the company's activities to increase investment attractiveness or to understate tax liabilities) may contain false and unreliable information;

4) the accountant's professional judgment is inherently dynamic and will depend on changes in the company's activities. First of all, it will be influenced by the consequences of discovering information about new facts of the company's activities, and may also change as the accountant acquires new professional knowledge, competencies and skills;

5) professional judgment of the accountant is formed on the basis of legislative and regulatory regulation of

accounting and reporting. Amendments to current accounting standards or adoption of new standards in the context of state or professional regulation will also affect the accountant's professional opinion;

6) the formation of the individual professional judgment of the accountant takes place under the influence of the collective professional judgment formed at the level of the company, professional organizations, and regulatory institutions. However, improving the quality of the application of professional judgment by an individual accountant due to increasing the uniformity of standards for the collectivization of judgments remains a debatable issue.

In this context, a study was conducted, the result of which was the determination of the features of the application of elements of the accounting method and professional judgment in the conditions of IFRS. First of all, the peculiarities of using the inventory as an element of the accounting method, which is used to confirm the conformity of the actual data on the company's assets and liabilities with the information recorded in the accounting documents at the stage of observation and documentation, are updated.

Conducting an inventory ensures compliance with objectivity and truthfulness as separate qualitative characteristics of accounting information. As a specific element of the accounting method, the inventory should be considered regardless of which conceptual basis (National Ukrainian Accounting standards or IFRS) the business entity uses to prepare financial statements. The traditional approach to conducting an inventory in accordance with Article 10 of the Law of Ukraine [5] is to ensure the reliability of accounting data on the assets and liabilities of the business entity, namely, verification and documentary confirmation of the actual availability, condition and their assessment. From January 1, 2015, the Regulation on the inventory of assets and liabilities, approved by the Ministry of Finance of Ukraine dated September 2, 2014, entered into force. No. 879 [6], according to which business entities independently recognize the objects, terms and periodicity of conducting an inventory of assets and liabilities. The definition of these parameters can be fixed in the accounting policy or by an order of the head of the business entity.

The inventory becomes important when preparing reporting under IFRS. In this case, when carrying out transformational adjustments of assets and liabilities, it is necessary to apply a continuous method, as well as to determine not only their actual presence, but also compliance with the recognition criteria in accordance with IFRS.

In the Regulation on the inventory of assets and liabilities [6], it is noted that the inventory is mandatory when transitioning to the formation of financial statements according to IFRS. It should also be noted that not only technical workers, but also employees who have the right to professional judgment should participate in the inventory commission for conducting an inventory under the conditions of application of IFRS.

When forming the first financial statements in accordance with IFRS, all objects must be subject to a continuous inventory. In subsequent reporting periods, a continuous approach to conducting an inventory should be applied based on the decision of the management of the business entity, taking into account the «benefit-cost» ratio of the results of a continuous inventory.

Thus, the main areas of application of professional judgment when using the inventory as an element of the accounting method will be the determination of compliance with the criteria for recognizing assets and liabilities, the maturity date of receivables and payables, as well as the method of using non-current assets. In this context, the result of the application of professional judgment will be the emergence of new objects and/or the write-off of existing accounting objects, a change in the structure of long-term and current types of debts, as well as the reclassification of items of non-current assets.

Documenting the operations of a business entity as an element of accounting is not considered in IFRS. For the completeness of the display of essential information in the financial statements and the application of the principle of the predominance of the economic essence over the legal form, when specific objects and transactions are reflected in accounting in the absence of typical forms of primary documents, the accountant will use professional judgment to develop non-typical forms of primary documents, in particular, documents accounting.

The study of the procedure for using assessment and calculation in the conditions of application of IFRS as elements of the accounting method also confirms the need to use professional judgment. When displaying information in financial statements in accordance with IFRS, preference is given to the concept of fair value. The concept of historical cost is used to a lesser extent in the assessment of assets and liabilities, but the complete rejection of the use of this type of assessment in the conditions of IFRS application is impractical.

In the course of the business entity's activity, there will always be separate objects for which the application of fair value is impossible due to the lack of conceptual bases for determining the assessment at fair value.

The separate standard 13 «Fair value estimation» [7], which is valid in the list of IFRS, shows the importance and relevance of the problem of determining the fair value of assets and liabilities when displaying information in financial statements. The purpose of IFRS 13 is to define a unified approach to the interpretation of the fair value category, as well as the theoretical basis of its definition for elements of financial reporting. The use of fair value for the assessment of assets and liabilities, on the one hand, satisfies the informational expectations of investors, but may negatively affect the quality of information in financial statements.

A high level of subjectivity in the selection of methods and information sources for determining the fair value can lead to a situation in which financial reporting information ceases to meet such quality characteristics as reliability and comparability. IFRS 13 eliminates certain inconsistencies regarding fair value that exist in other standards, and also defines the form of disclosure of information about fair value in the notes to financial statements. However, IFRS 13 does not include new methods for determining fair value, requirements for the application of fair value, and also does not specify when and under what conditions an entity must measure individual assets and liabilities at fair value. These aspects are the prerogative of the management of the economic entity when forming the accounting policy, which actualizes professional judgment.

Calculation as an element of the accounting method, related to the determination of the cost of production,

has indirect significance for the display of information in financial statements. Cost management and their calculation is an object of management accounting. Management accounting as an accounting subsystem to meet internal information needs in cost management is organized individually for each business entity. The organization of management accounting is considered one of the starting points for the formation of the accounting system of a business entity, since the result of cost management has a significant impact on the efficiency of operations. In modern business conditions, the quality of management accounting organization will depend on interaction and harmonization with other management functions.

The procedure for cost accounting and cost calculation is determined by IAS 2 «Inventories» [8] and refers to the list of calculation methods, recommendations on the distribution of indirect costs, services of complex productions, allocation of costs for their capitalization. However, the selection of individual norms and methods for calculating activity costs, their distribution and classification, taking into account the specifics of the business entity's activity, requires the use of professional judgment on the part of the staff. Thus, the influence of professional judgment in the process of evaluation and calculation as elements of the accounting method will be manifested in the choice of the type of evaluation to determine the value of accounting objects for the purpose of the reliability of the display of the value of articles, as well as in determining the level of materiality of information in financial statements.

The use of accounts and double entry as elements of the accounting method under IFRS require the application of professional judgment in the process of developing a working plan of accounts taking into account the specifics of the activities of each individual business entity to systematize and summarize accounting information for display in management and financial reporting.

The application of professional judgment in the preparation of the reporting of the business entity is carried out with the aim of: determining the composition and structure of the forms of management reporting; selection of methods of financial reporting according to IFRS; formation of the structure of notes to financial statements in accordance with the taxonomy. The result of this will be: the formation of accounting information for the needs of managing the business entity's activities; compliance of financial reporting information with IFRS requirements; full and reliable disclosure of information in accordance with the articles and indicators of the IFRS taxonomy. Professional judgment when using elements of the accounting method under IFRS requires the accountant to take into account the principle of substance over form. The expansion of the range of business entities in Ukraine that apply IFRS for financial reporting is characterized by a tendency to increase the role and importance of professional judgment. Below is a list of issues related to the display of information in accounting and financial reporting that require the application of professional judgment by an accountant:

- classification of assets and liabilities for displaying information in financial statements;
- identification and recognition of objects as elements of financial reporting;
- compliance with the criteria for recognition of accounting objects;

- selection of assessment models for financial reporting elements;
- determination of the probability of the occurrence of conditional events in the future activity of the business entity;
- selection of methods, procedures and methods for displaying objects, facts, operations and events in accounting and reporting when justifying the accounting policy;
- determination of the degree of openness and volume of information contained in the notes to the financial statements of the business entity.

In the context of the interpretation and choice of accounting policy, the application of professional judgment requires compliance with ethical professional norms and competencies, deep professional knowledge of accounting theory and methodology, which serves as the basis for the formation of a well-founded professional judgment. The application of professional judgment requires a new paradigm of professional thinking in an accountant, the essence of which is to identify the initiative to make professional informed decisions and the ability to bear responsibility for the results of such decisions.

7. SWOT analysis of research results

Strengths. When applying IFRS in the process of drawing up financial statements, a clear algorithm has been worked out, which determines the procedure for forming professional judgment. In accordance with IFRS 8 «Accounting policies, changes in accounting policies and errors» [9], if there is a separate IFRS that defines the procedure for forming accounting policies for specific objects, events or elements of financial reporting, the norms of this IFRS should be applied. In the absence of a separate IFRS, professional judgment is used when determining and applying accounting policies. It is important to ensure that the information that will be reflected in the financial statements on the basis of professional judgment is consistent with the main and auxiliary qualitative characteristics. In order to comply with the qualitative characteristics of financial reporting, when exercising professional judgment, the accountant performs the following actions: first, the requirements of IFRS are applied, which deal with similar and related issues, then the definitions, recognition criteria and concepts of valuation of assets, liabilities, income and costs provided for by the Conceptual Basis of Financial Reporting.

Weaknesses. Often, the results of the accountant's professional judgment in accounting and financial reporting become the object of rejection and appeals by regulatory authorities. However, according to Art. 4 of the Tax Code of Ukraine [10], among the principles of tax legislation, the presumption of legality of the taxpayer's decisions is singled out, which consists in the fact that «... in the event that the norm of the law or other regulatory legal act issued on the basis of the law, or if the norms of different laws or various regulatory legal acts assume an ambiguous (multiple) interpretation of the rights and obligations of taxpayers or regulatory bodies, as a result of which there is an opportunity to make a decision in favor of both the taxpayer and the regulatory body, the taxpayer's decision is considered legitimate». This means that it is up to the controlling body to prove the illegality

of the taxpayer's decision, which may be based on the accountant's professional judgment. Under such conditions, the accountant's properly substantiated professional judgment, using the principle of presumption of legality of the taxpayer's decisions and his/her good faith, can become an important argument in favor of the accountant in the legal justification of the information reflected in the accounting and reporting of the business entity.

Opportunities. The application of professional judgment in accounting must be approached with a caveat, so as not to confuse the real situation and not to receive several versions of accounting information at the same time due to different professional judgments of its compilers. In this context, the involvement of various specialists for the application of professional judgment will be important for the preparation of information when solving certain technical, technological, legal, and organizational tasks. Certainly, the advantage in the process of preparation of accounting and analytical information under the conditions of application of IFRS for management decisions is given to professional accountants.

Threats. So far, the question of the list of qualification requirements for accountants to make a professional judgment remains open. The Law of Ukraine «On Accounting and Financial Reporting in Ukraine» generally states that «...a person who has a full higher economic education, experience in the field of finance, accounting and taxation may be appointed as the chief accountant of an enterprise of public interest less than three years, does not have an outstanding or unexpunged criminal record for committing a crime against property and in the field of economic activity» [5]. However, national legislation does not define the concept of «professional judgment», as well as the list of persons and professional requirements for them, which give the right to apply professional judgment.

8. Conclusions

Professional judgment is a defining condition for the formation of financial statements in accordance with IFRS. Its application involves the variability of the accountant's interpretation of information under the influence of a number of factors (subjectivism, professional opinion of the external auditor, change in types of activities, collectivism of professional judgment, administrative pressure of management) and qualification requirements (higher (accounting) education, passing a professional exam, practical work experience in the profession, continuous professional training). The essence of professional judgment is the expression of a professional opinion by an accountant regarding the interpretation and display of information in financial statements based on a clear argumentation based on the conceptual basis and basic accounting principles and ethical standards of professional accountants. The availability of professional knowledge of accounting theory and methodology, compliance with ethical norms and competencies determines the level of application of professional judgment on the use of elements of the accounting method in the conditions of IFRS application and forms a new paradigm of professional thinking among accountants, the content of which is to identify the initiative for making professional informed decisions. The interdependence of individual elements of the accounting method and the accountant's professional judgment under the conditions

of IFRS application lead to the emergence of information risks. The only criterion for assessing the correctness of the application of professional judgment remains the reliability of the reported information, which is used to make management decisions.

Conflict of interest

The authors declare that they have no conflict of interest in relation to this research, whether financial, personal, authorship or otherwise, that could affect the research and its results presented in this article.

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