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IMPROVEMENT OF THE ESSENCE OF PROFESSIONAL JUDGMENT IN ACCOUNTING OF UKRAINE

Досліджено сутність професійного судження у Міжнародних стандартах фінансової звітності та українському законодавстві у сфері бухгалтерського обліку. Проведено критичний аналіз наукових підходів українських та іноземних бухгалтерів до дефініції «професійне судження бухгалтера». Запропоновано авторський підхід до розуміння професійного судження бухгалтера, що зумовлено низкою нових викликів у українській системі бухгалтерського обліку.

Ключові слова: Міжнародні стандарти фінансової звітності, Міжнародні стандарти аудиту, професійне судження бухгалтера, умова невизначеності.

1. Introduction

World trends in economic globalization and society informatization pose new challenges to the development of accounting in Ukraine. The evolution of the national accounting is due to the implementation of International Financial Reporting Standards (IFRS) and corporate social reporting (Sustainability Report (SR), Integrated reporting (IR), etc). This in turn leads to the increased requirements for the quality of the information imparted in public reporting by the enterprises in Ukraine.

The adoption of IFRS leads to reconsideration of the existing methodological approaches, which have been used in the national accounting system till now. In particular, it becomes clear that the legislative regulation alone in the field of accounting becomes insufficient as IFRS by their nature are not regulations but just a list of advisory rules, which should facilitate the work of accountants. In this respect, their responsibility increases, because there is a wide range of business transactions which require professional judgment of an accountant to present them in financial statements. The accuracy of an accountant results in the accuracy of data in financial reporting, and it is the basis for the parties concerned to make their own well-grounded decisions. And this is thematic justification of the research.

2. The object of research and technological audit

The term «professional judgment of an accountant» is used in International Financial Reporting Standards (namely, IAS 1 [1], IAS 8 [2], etc.), Conceptual Framework of Financial Reporting [3], International Standards on Auditing [4] and national standards of other countries (Germany, France, Kazakhstan, the Russian Federation, etc.). However, in the national legislation (the Law of Ukraine «About Accounting and Financial Reporting in Ukraine» [5], Methodical Recommendations on Accounting Policies [6], etc.) and other legislative and normative documents there is no direct use of this term. There are only allusions to use personal judgment of accountant when it is permitted by the applicable law.

Therefore, studying the essence of professional judgment in accounting is the basis for drawing conclusions on the feasibility of its implementation and using in the current legislation in the field of accounting in Ukraine. Furthermore, an important condition for high quality valid results is to analyse international [1–4] and national laws and regulations [5, 6], as well as the approaches of national and foreign scientists [7–20].

3. The aim and objectives of research

The aim of research is to define the essence of professional judgment of an accountant and to substantiate the expediency of its implementation in the legislative and regulatory documents in the field of accounting.

To fulfil this aim it is necessary to perform the following tasks:

1. To study the essence of the term «professional judgment of an accountant» in international and national legislative and regulatory documents.
2. To explore the key backgrounds for the introduction of the term «professional judgment of an accountant» for the national scientific use.
3. To perform a critical analysis of approaches of national and foreign scientists-accountants to the definition of the essence of professional judgment of an accountant.
4. To suggest an author's approach to the definition of the essence of professional judgment of an accountant and to substantiate its introduction into the legislative and regulatory documents in the field of accounting in Ukraine.

4. Research of existing solution of the problem

Many foreign and national scientists touched upon the issue of professional judgment in accounting in their works [7–17]. In particular, some studies are focused on the situations where professional judgment of an accountant should be applied: the use of accounting principles, construction and implementation of accounting policies of the company and the valuation of accounting objects. In foreign research there are a great attention to the development of principles of professional ethics, lawfulness and

honesty, which should be the core for the use of professional judgment of an accountant [7]. There is another similar approach represented which criticizes a positivist theory of accounting, emphasising that in the scientific literature little attention is paid to the formation of ethical standards for professional accountants in applying professional judgment [8]. This type of research is not registered in the national accounting science. The vast majority of scientists-accountants of the post-Soviet era only begin exploring the issues of the essence of professional judgment due to the lack of mechanisms of its implementation in the accounting system, considering professional judgement as a process or a set of specific actions of an accountant in response to certain conditions [12–14, 17]. Furthermore, some studies are devoted to the classification of professional judgment by various features and factors influencing it [9, 15–18].

5. Methods of research

The methodological basis of the article is general scientific methods of cognition, namely: the method of comparison, analysis and synthesis, deduction and induction, as well as the method of consistency. In particular, the paper provides a systematic experience in using professional judgment of an accountant in the accounting records maintenance. With the comparison method, the essence of the term «professional judgment» in the international and national laws and regulations is analysed, the basic scientific approaches to the essence of professional judgment of an accountant are defined, and the author's definition of this term is suggested. Based on the methods of analysis and synthesis, induction and deduction main challenges determining the revision of the methodology of the national accounting are identified, and the necessary and sufficient conditions for the application of professional judgment of an accountant are proposed.

6. Research results

The interpretation of the term «professional judgment» is defined in ISA 200 «Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing», according to which professional judgment is the application of necessary skills, knowledge and experience in the context of auditing standards, accounting and professional ethics in making informed decisions on the action plan that are acceptable for the auditing tasks [4]. Particularly, the auditor should use their professional judgment in the following situations:

- when determining the materiality and audit risk;
- when determining nature, timing and extent of the audit procedures;
- when evaluating the audit evidence;
- when evaluating the management judgments on the application of the conceptual framework for financial reporting;
- conclusions made on the basis of audit evidence [4].

In IFRS quite a big attention is paid to professional judgment of an accountant due to a high level of environmental uncertainty and the inability of companies to significantly influence it. However, there is no specific definition of «professional judgment of an accountant» in financial reporting standards. So, according to paragraph 13 IAS 1 «Presentation of Financial Statements» [1], the companies have the right to file, separately from financial

statements, the management report explaining the characteristics of financial status, financial results, cash flow and key uncertainties which are peculiar to the respective company. Moreover, according to paragraph 14 of IAS 1, the company may file other reports, e.g. the environmental report and the report on the added value that can satisfy the additional information needs of the parties concerned. In addition, paragraph 17 of IAS 1 determines that the company prepares reports based on the selected accounting policies in case of availability of alternative accounting methods that do not contradict IAS 8 «Accounting Policies, Changes in Accounting Estimates and Errors» [2]. Instead, paragraph 19 of IAS 1 entitles the company to depart from compliance with IFRS if the data in financial statements mislead the interested parties. So, paragraph 10 in IAS 8 determines the necessity of applying professional judgment of an accountant in developing the company's accounting policies in case of the absence of standards that would correctly describe accounting rules of the relevant business transaction.

The need to use professional judgment under conditions of uncertainty is specified in paragraph M3 «Conceptual Framework for Financial Reporting» [3], according to which financial statement users, namely investors and creditors, form their future expectations depending on the quality of data in financial statements and full disclosure of uncertainty conditions. Thus, to describe risks and uncertainties that are not actually governed by IFRS there is a need to use professional judgment of an accountant.

The necessity of using professional judgment is also stipulated in the laws of Ukraine, although there is no direct definition of the term «professional judgment of an accountant» there. In particular, according to Article 5 of the Law of Ukraine «About Accounting and Financial Reporting in Ukraine» [5], the company itself establishes its accounting policies and chooses the form of accounting procedures. The same is proved by paragraph 1.2 of «Methodological Recommendations on Accounting Policies» [6].

At the present stage of development, global shifts in the economy cause the revision of the methodological foundations of accounting that leads to the increased application of professional judgment of an accountant. In particular, there are the following prerequisites to it:

- the emergence of new objects of accounting, which are not reflected in the financial statements of the company (the company's business reputation, human capital assets, customer base, transaction costs, etc.);
- the need to revise the established rules of accounting, because the old ones do not reflect the real situation (reflecting of the internally generated brand of the company in balance sheet, reflecting the costs of research and development, and personnel costs as long-term investments of the company, etc.);
- the application of professional judgement on materiality;
- the use of professional judgment in the choice of the evaluation of the accounting object (using the historical or fair value);
- the need to expand the information base to meet the information needs of the parties concerned in case of decision-making (in particular, filing non-financial information in the form of non-financial reporting – a corporate social responsibility report, sustainability report, integrated reporting, etc.) [18].

Thus, an important role is played by professional judgment of an accountant for using the reliable, truthful and unbiased information in the reporting. It is the basis for forming and publishing financial statements, which is further used by the parties concerned for making their own management decisions. However, the emergence of new challenges leads to the increased uncertainty, and, as a result, to the increased risks of having the poor quality accounting information that may materially affect the decision of financial statements users [19]. These uncertainties in the application of professional judgment of an accountant arise from:

- the absence of the normative legal act which can regulate the maintenance of records of the relevant business transaction;
- the presence of two or more alternative accounting methods for the relevant object, which are defined in legislative and regulatory documents;
- the impossibility to identify the accounting object because of the failure of at least one of the recognition criteria of assets or liabilities (the impossibility of making reliable estimates, the uncertainty of future economic benefits, etc.);
- the identification of the materiality level for the financial article or the accounting object.

In addition, it is worth noting that the quality of accounting information is influenced by a number of external and internal factors. The external factors include adverse fluctuations in the stock market, currency exchange rates, loan interest rates, the actions of creditors, investors and counterparties, actions of state controlling bodies, etc. The internal factors are ineffective strategy of the company, incompetent managers, lack of the effective internal control system, etc. In this regard, all risks faced by the accounting system of the company are proposed to be grouped as follows:

- operational risks;
- market risks;
- risks caused by the other business entities;
- accounting risks at the enterprise;
- risks associated with state regulation of accounting.

In the context of the developing non-financial reporting where new information requirements arise for environmental and social issues, there is still a greater need for the parties concerned in being informed about business risks in reporting, as well as about future opportunities of the company. The financial and non-financial reporting is still one of the most important tools for communication with the parties concerned and the society, in general. Thus, the «Guidelines for Sustainable Development G4» (GRI 4) [20] reads that the Sustainability Report (any corporate social report can be its analogue) should disclose the information about any existing and potential relevant risks and opportunities arising from the sustainable development of the company. In addition, GRI 4 shows that such risks must be substantial. Therefore, another problem arises – the one that requires professional judgment – materiality.

So, the necessary condition to apply professional judgment of an accountant is the presence of uncertainty or risk. Furthermore, one of the sufficient conditions for the application of the professional judgment of an accountant is either the lack of the registered norms in the international or national accounting standards and financial reporting on a particular method of accounting of the relevant business operations or the availability of alternative accounting

methods, or when in the normative legal act there is a direct link to the application of professional judgment of an accountant. Considering the above-mentioned necessary and sufficient conditions for the use of professional judgment of an accountant, it would be appropriate to include it in IFRS and National Standards on Accounting.

The absence of the definition of the term «professional judgment of an accountant» in the international and national legislative and regulatory acts encourages searching for solution in the professional circles. This leads to pluralism of opinions in the scientific field concerning the interpretation of this term. So, Table 1 shows the definitions of professional judgment of an accountant by some scientists in the field of accounting.

Table 1

Approaches to the definition of the term «professional judgment of an accountant»

Author	Definition
X. Dai	The process when an accountant analyses the current and future financial situation at the company, using the available information resources and professional working methods, their own abilities and professional experience, choosing appropriate principles and methods for accounting and financial reporting, while facing the problem of uncertainty in legislation, standards or traditions in the profession [7]
L. I. Kulikova, A. R. Gubaidullina	A well-grounded judgment formed in the conditions of uncertainty in regulations concerning qualification, classification and assessment of facts of economic activity to form the reliable financial statements based on the available information and the features of functioning of the economic entity [10]
M. A. Petrova, A. G. Bespalova	The result of an accountant's thinking, which is used for decision-making on the choice of the adequate method to record business transactions in accounting under conditions of uncertainty [11]
M. S. Pushkar, M. T. Shchyrba	Judgments about the mechanism of recording business transactions in the accounting system of the company to remove or reduce the level of uncertainty when making reasonable decisions by the parties concerned on the accounting information [12]
T. V. Synuthsia	It is an opinion which is the basis for decision-making in conditions of uncertainty. Professional judgment of an accountant is based on two aspects: – availability of relevant competencies; – choice between several alternatives [13]
O. O. Smirnova	The possibility for an accountant to express their idea and to use it to make a decision to record some accounting transactions and the facts in the accounting and reporting based on their own experience and relevant professional knowledge [14]
M. V. Stafievskaya	A reasonable and useful opinion made by an independent professional. This opinion is based on their qualification and experience and is related to the issues which have no standard solutions and which have arisen in the practice of business transactions under uncertainty [15]
Z. S. Tuyakova, O. V. Satalkina	A well-reasoned and independent judgment of the accounting professional about accounting objects, ways of forming financial reports, which are based on specialized knowledge and experience of an accountant formed on the practice of the reflection of businesses transactions under uncertainty [16]
I. A. Yukhimenko- Nazarchuk	The elimination of uncertainty due to a choice made by an accountant using their professional knowledge and skills. This choice should be objective and must ensure safety to the owners and satisfy information needs of the parties concerned who will make decisions based on the accurate and complete information [17]

Taking into account the definitions presented in Table 1, one may single out several approaches/groups to describe the essence of professional judgment of an accountant. So, Group 1 includes the situational approach, according to which the essence of professional judgment of an accountant is based on the list of situations in which it should be applied [13]. Group 2 incorporates definitions that are based on the purpose the professional judgment is used for [10–12]. Group 3 is based on the consideration of professional judgment of an accountant as a specific tool used in accounting [7, 14–17]. It should be noted that each approach has a right to exist. However, a comprehensive definition of the essence of professional judgment of an accountant needs a synergistic approach, i. e. to determine the purpose of judgment application, solved problems and the conditions needed for it.

Thus, under professional judgment of an accountant it is suggested understanding a well-grounded judgment under uncertainty, which is based on professional knowledge and skills of an accountant. This judgement is introduced in case of the absence of the normative and legal document that describes the method of accounting for the appropriate accounting object, the presence of methodological alternatives of its implementations or a direct order to apply this judgment in making reliable financial statements that will be used by the parties concerned for the sound decision-making. It should also be noted that the definition of the term «professional judgment of an accountant» should be included in IFRS and National Standards on Accounting, as in case of ISA. The author's definition complies with the terms, objectives and purpose of the application of the professional judgment of an accountant.

7. SWOT analysis of the research results

Strengths. A strong point of the research is an integrated approach to representing the essence of the research object, namely: identifying pre-conditions to apply professional judgment of an accountant, finding out necessary and sufficient conditions for its functioning in the Ukrainian accounting system, as well as suggesting the definition of its essence.

Weaknesses. However, a weak point of the research is the analysis of international and national legal and regulatory documents concerning the essence of professional judgment of an accountant, as well as the analysis of the practice in the post-Soviet countries, which limits studying practices of applying professional judgment in the other countries.

Opportunities. The opportunities for further research are to harmonize national legislation with that of the developed countries in Europe and Northern America as for the essence and approaches to the use of the institute of professional judgment of an accountant.

Threats. As for the threats, it may be socio-economic instability in Ukraine that makes the reformation of the legislation in the field of accounting impossible due to the lack of stability in the economic and legal systems.

8. Conclusions

1. The essence of the term «professional judgment of an accountant» in the international and Ukrainian legislative and normative base was studied. It was found out that the definition of the essence of professional judgment

was presented only in ISA 200 [4]. It was revealed that despite the regular use of professional judgment in IFRS and national legislation concerning its field of application, there is no direct definition of this term there.

2. There was substantiated the background for introducing the institute of professional judgment into the national accounting system. The challenges are: the emergence of new accounting objects, the need to determine the level of significance for the items in the financial statements, the choice of assessment and its application for recording the relevant accounting objects, the need to expand the information base to meet the needs of the parties concerned for justification of their own management decisions, the emergence of new risks, etc.

3. The approaches to definition of the essence of professional judgment of an accountant in the scientific literature were studied. Three approaches to its interpretation were found out, namely: functional approach, situational approach, and professional (specialized approach).

4. The necessity of legislative definition of the term «professional judgment of an accountant» was substantiated. It was suggested understanding it as a well-grounded judgment under uncertainty, which is based on professional knowledge and skills of an accountant. This judgement is introduced in case of the absence of the normative and legal document that describes the method of accounting for the appropriate accounting object, the presence of methodological alternatives of its implementations or a direct order to apply this judgment in making reliable financial statements that will be used by the parties concerned for the sound decision-making.

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УСОВЕРШЕНСТВОВАНИЕ СУЩНОСТИ ИНСТИТУТА ПРОФЕССИОНАЛЬНОГО СУЖДЕНИЯ В БУХГАЛТЕРСКОМ УЧЕТЕ УКРАИНЫ

Исследовано сущность профессионального суждения в Международных стандартах финансовой отчетности и украинском законодательстве в сфере бухгалтерского учета. Проведен критический анализ научных подходов украинских и иностранных бухгалтеров к дефиниции «профессиональное суждение бухгалтера». Предложен авторский подход к пониманию профессионального суждения бухгалтера, что обусловлено рядом новых вызовов в украинской системе бухгалтерского учета.

Ключевые слова: Международные стандарты финансовой отчетности, Международные стандарты аудита, профессиональное суждение бухгалтера, условие неопределенности.

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SEQUENCE OF FORMATION OF THE PORTFOLIO OF HIGH-TECH PROJECTS

Розглянуті ключові етапи формування портфеля високотехнологічних проектів на підприємстві на основі сучасних теоретичних підходів до розуміння і обґрунтування місця і ролі інновацій в основній діяльності організації. Розглянуто особливості високотехнологічних проектів з метою мінімізації проектних ризиків і оптимізації параметрів ефективності проектів. Представлені елементи механізму формування високотехнологічного портфеля підприємства.

Ключові слова: портфель високотехнологічних проектів, мінімізація проектних ризиків, оптимізація параметрів ефективності проектів.

1. Introduction

Scientific and technological progress, recognized all over the world as the most important factor in economic development, more and more often associated with the concept of high-tech process. This is a unique process that combines science, technology, economics, entrepreneurship and management. It consists in obtaining innovation and extends from the birth of the idea to its commercialization in the form of high-tech processes.

2. The object of research and its technological audit

During realization of mechanism of highly technological portfolio of enterprise construction it is necessary to consider some features of highly technological projects. Seeming similarity of methods of the project financing and procedure of the financial analysis required for the estimation of large capital investments and selection of scientific and technical projects can lead to supposition