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## **PREREQUISITES FOR INTEGRATED REPORTING DEVELOPMENT**

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### **Abstract**

*The article provides an analytical review of the accounting literature and other scientific sources, which allowed highlighting the main stages of the development of financial statements, determining the historical and practical prerequisites for the formation of integrated reporting and outlining the basic requirements for information reporting capabilities.*

*The purpose of the study is the conceptual understanding of the integrated reporting evolution.*

*General scientific and special economic research methods, such as dialectical and abstract and logical ones are used to systematize available theoretical material to reveal the element of accounting method. Methods of theoretical generalization, analysis and synthesis have been applied to comprehensive evaluation of the stages of financial reporting development.*

*According to the results of the study, significant influence on the development of the integrated model of accounting has led to the development of economic relations, legal foundations of the functioning of the economy, information needs, the evolution of economic theories: new institutional, evolutionary, theory of rational expectations, theory of exhaustive resources, theory of human capital and the application of these theories to management systems. The main problems of the existing financial statements in accordance with the informational expectations of the stakeholders are identified and substantiated.*

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*Formation of new approaches to the development of accounting integrated reporting in Ukraine on the basis of consideration the national peculiarities of accounting system of the current regulatory system requires further study. The study of the formation of integrated reporting in the world economy, international initiatives in the field of integrated reporting, in order to implement the best world practices in Ukraine are pivotal.*

*Keywords: reporting; bookkeeping reporting; integrated reporting; financial statements; non-financial reporting; capital of the enterprise; development; stages of development; sustainable development, information; enterprise; management system; management decisions.*

**Formulas: 0, fig.:1, tabl.: 0, bibl.: 22.**

**Introduction.** Ensuring of sustainable economic development of an agrarian enterprise involves the successful implementation of management decisions in economic activity, which is the central and most important process of any level of management. The most effective source of a modern system of information support for the decision-making process is accounting and reporting. Increasing the role of integrated reporting as a basis of information support for stakeholders is a focus on economic growth and sustainable development of the national economy and investment attractiveness. American economist, Nobel Prize winner in Economics, Douglas North points out the need for a historical study of the processes and events of social life, while emphasizing the importance of considering the development of various social institutions in time. He said, "History matters. It is important not only because we can learn from the past, but also because the present and the future are linked to the past continuity of the society's institutions. The choices we make today or tomorrow are shaped by the past. And we can only understand the past when we look at it as an institutional development process" [1]. Therefore, studying the trends in the development of financial statements, we can understand the mistakes and shortcomings in ensuring consistent and systematic development of accounting practices, its understanding, improvement, and predictions.

**Literature Review.** The importance of studying and using practical experience of implementing integrated reporting into the practice of enterprises has caused considerable scientific interest, since the theoretical and methodological aspects of the development of integrated reporting are at the initial stage of research. The issues of conceptual foundations of integrated reporting have been reflected in the writings of such scholars as P. Atamas, K. Bezverkhyi, M. Prodanchuk, O. Nesterenko, N. Lokhanova, O. Zorina, R. Kostyrko, O. Lagovska, M. Pushkar, N. Malinovska and others.

The range of tasks in accounting has been expanded in the period of globalization of economy, political and cultural integration, unification, increase of requirements for transparency of activity of enterprises. It has led to the development of institutional theory. According to F. F. Butinets, each stage of society development is characterized by its own accounting system and, as the functioning of society becomes more complicated, accounting becomes more complex, and new subsystems are emerging [2, p.10]. The same applies for bookkeeping reporting.

**The aim of the study.** The aim of the article is to investigate and compare the domestic and foreign theoretical and methodological aspects of bookkeeping reporting, which has become the basis of information platform for the development of integrated reporting of agricultural enterprises, which arose as a result meeting the needs of users in financial and non-financial indicators.

The realization of this goal necessitated the following tasks: to study the historical backgrounds for the development of integrated reporting; to summarize domestic and foreign experience on the methodology of bookkeeping reporting; evaluate the functioning of bookkeeping reporting at each stage of its development; improve the main stages of bookkeeping reporting development.

**The main results of the study.** Historians do not have direct evidence of the time and place of bookkeeping reporting, but the need for reporting is evident in the first theoretical works in accounting. In the treatise “On Accounts and Records” of the book “The sum of arithmetic, geometry, the doctrine of proportions and relations”, Luca Pacioli (second half of XI - beginning of XVIII centuries) made an attempt to help merchants in business management by describing the possibilities of applying mathematics in commercial business, including the double-entry bookkeeping method for the primary purpose of providing merchants with business information and determining the financial results of performed operations. The treatise “On Accounts and Records” describes the procedure for drawing up the trial balance. For the first time, the net balance was described in Ian Im-Pin’s work (1541), which was a translation of Ioannes Paulus from Brianza work, presumably a double-entry bookkeeping teacher.

The reforms of the 1960s and 1970s led to the dynamic development of the economy and heavy industry, the emergence of the entrepreneurial class, communication routes, the increase in world trade and, most importantly, the emergence of the securities market. The number of participants in market relations and external users of information about the property and financial condition of enterprises increased dramatically. During this period, the importance of bookkeeping reporting increases, it becomes an independent information element and consists of a balance sheet and a statement of income. The procedure for compiling, maintaining, filing of financial statements was regulated by the Regulations “On State Industrial Tax” of June 8, 1898. [3, c. 21]. For the first time, thanks to lawyers, the balance sheet was recognized as the main document that confirms the ability of business owners to settle with their creditors and was used as evidence in court in resolving issues of economic disputes. It was lawyers’ merit to formulate the requirements for the balance sheet as a form of reporting. The main disadvantages of reporting at that time were the lack of legislative, regulatory documents on the regulation of the reporting structure, formation and list of reporting items and their evaluation. The companies published reports on the form, structure, volumes of information at their discretion and covered the information they deemed necessary for “transparency”. The instruction of 25 May 1899 “On the Application of the State Industrial Tax Regulations” for the first time determined that the balance should be drawn annually for the period from 1 January to 31 December but not more than 18 months (Article 55, paragraph 1). However, the main task of the provision was to establish general accounting rules for determining the amount of profit for tax purposes, as it became apparent that the methodology of accounting affects the size of the financial result.

A. K. Roshchakhovskyi considered accounting as a source of financial information for paying taxes. In his opinion, the result, deduced in the balance sheet “is found out only by careful study of the balance, which is often quite difficult task” [4, p. 195]. In 1910 a typical form of balance sheet of joint-stock enterprises for the purpose of qualitative display of accounting data was offered.

It should be noted that at that time A. P. Rudanovskyi believed that the balance should also reflect those events that are yet to occur and not be limited to the actual values, rejecting the notion of accounting as a historical description of the economy.

At the beginning of the XX century, joint stock companies (which already numbered 2.5 thousand) and enterprises of other forms of ownership came to a logical conclusion about the need to publish their reports. The reporting, which disclosed important financial information about profit and loss, was not systematic and did not have a defined structure of information, standardization on completeness of indicators, branch unification, regularity of preparation.

The Russian scientist Z. P. Yevzlin in 1901 published the book “Comprehensive report of joint-stock companies and the importance of commercial and industrial life”, which, for the first time, covered the issues of public reporting systematization, the system of ordering the report and reporting. The emergence of joint stock companies in the XIX century influenced the obligation to publish their accounts and formulate accounting legislation in most European countries. This, in turn, influenced the development of reporting in the western territory of Ukraine, which was under the influence of the German accounting school of the Austro-Hungarian Empire [5].

Changes in the social and political life of the Soviet Union in the late 1980s, which were associated with the restructuring of the management of the socialist economy, the transition of enterprises and associations on the principles of self-sufficiency and self-financing, contributed to the emergence of common ventures, international associations and organizations with the participation of Soviet and foreign organizations, based on forms of ownership, other than state ownership, led to the emergence of new accounting objects: based on forms of ownership other than state ownership, led to the emergence of new accounting objects: intangible assets, securities, transactions in foreign currency, etc. There was a need to develop a methodology for displaying them in accounting and reporting. The reporting of Soviet enterprises in the 1980s consisted of more than 20 forms, but the annual accounts of 1991 were significantly reduced and consisted of the balance of the enterprise (form №1); statement of financial results and their use (form № 2); the report on the state of property of the enterprise (form № 5); the report on the availability and movement of funds of the enterprise (form №10).

By the early 1990s, the procedure for the formation and presentation of financial statements in Soviet Ukraine was regulated by different editions of the Regulations on Financial Statements and Balance Sheets and by the methodological guidance of accounting by the USSR Ministry of Finance and the USSR Central Statistical Office. These structures adopted the standard forms of accounting reporting for enterprises, associations and organizations of individual republican ministries and departments.

The Resolution of the Cabinet of Ministers of Ukraine №1706 of 28.10.1998 “Program for Reforming Accounting with Application of International Financial Reporting Standards”

defined the strategic orientation of accounting and reporting for International Financial Reporting Standards.

On January 1, 2000, the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” came into force, which defined the basic requirements, principles for accounting and reporting. International Financial Reporting Standards (IFRS) have become an integral part of national law.

Since January 1, 2012, IFRS financial statements in Ukraine have been compulsory for public joint-stock companies, banks, non-governmental pension funds, insurance companies and since 2018 – for large enterprises, enterprises engaged in mining operations of national importance, enterprises of public interest. International financial reporting standards have become mandatory in the European Union since 2005.

For two decades of independence, a tremendous amount of work has been carried out on the formation of a regulatory framework (National Principals (Standards) of Accounting), legislative consolidation of accounting principles, methodological support (methodological instructions) of international cooperation, training of accounting specialists.

The achieved results of accounting and financial reporting reform in Ukraine do not keep up with changes in the socio-economic processes of the modern world, which began with the spread of globalization to almost all spheres of society, the interdependence of economies of different countries through mutual investment, and the development of the concept of socially responsible investing, environmental problems, resource scarcity, population growth, and political activity. Technology plays a key role in driving some of these changes.

We agree with Prof. Y. Ya. Dankiv’s opinion that contemporary approaches to the modernization of financial reporting in the context of the development of globalization and integration processes confirm the tendency of lagging behind the theoretical achievements from the needs of accounting and financial reporting practice in Ukraine.

Today’s financial statements have several significant drawbacks. M. S. Pushkar notes, that “the financial reporting system used in the business world cannot reflect the full complexity of a business in knowledge economy when intangible assets, which also include information resources of an enterprise, play a major role” [6, c. 152]. Also, the scientist thinks that “contradictions between the requirements for expanding the amount of information from management and limited capabilities due to the features of “accounting” which traces past events, point to the anomaly of science” [7, c. 135].

V. M. Kostiuhenko attributes to the major drawbacks of the current financial reporting model that it is “historical” and reflects the results of past events, does not adequately reflect intangible assets, is unable to reflect current and historical cost estimates, contains problems in recognizing liabilities and disclosing information about financial instruments.

Prof. Y. Ya. Dankiv notes that the financial reporting indicators are not suitable for decision making, they do not fully meet the information needs of stakeholders and the quality characteristics of the reporting information. This indicates that the financial statements do not perform the functions, assigned to it (informational, communicative, and social), and channels of information exchange between interested users and the enterprise are inefficient or unavailable [8, p. 208].

Prof. O. V. Rozhnova thinks that global problems of financial reporting are: “trust” – decline of users’ trust in reporting; “future” – the unpredictable nature of the reporting data; “authenticity” – the inability to reflect the real state of the enterprise and the results of its activities by accounting methods when there is a request from users for the most reliable information picture [9].

According to M. Prodanchuk’s views, “Business management models of leading global companies have long been based on the harmonization of financial and non-financial indicators, which is a prerequisite for the transition to the next stage – the creation of a new product of integrated (corporate) companies reporting” [10 p. 159]. So, in the future, integrated reporting should solve the problems, associated with the emergence of new management practices, allowing an objective assessment of the effectiveness and quality of business management, where financial and non-financial indicators are integrated into the new report format.

In the context of Ukraine’s integration into the world economy, the existing reporting system is no longer able to reflect all key aspects of the enterprise’s activities and factors contributing to value creation, and sustainable development. Accumulated problems in the field of reporting have led to the adoption of a new concept of corporate reporting, which reflects all the key aspects of the activities of enterprises in both financial and non-financial indicators.

In Europe, the first non-financial statements began to be compiled in the 1970 s. Their main purpose was to satisfy information requests of a wide range of persons interested in the activity of an economic entity. Subsequently, with the advent of insurance, pension funds, and investment companies, non-financial reports were used as an analytics tool aimed at supporting strategic decision making, i.e., top management decisions that determine the main, long-term areas of activity of an enterprise.

A. Smith pays attention to the rational use of resources, “Thrift is an important factor in social progress” [11, p. 207]. G. Hotelling in his article “Economics of exhaustive resources” raises questions about the rational use of natural resources and gives impetus to the emergence of the Economic theory of exhaustive resources R. Solow. He said, that “The study of the processes of disappearance of mineral resources, forests and other natural resources in the world has led to the emergence of requirements to regulate their use. The realization that these resources are now very cheap for future generations, that they are used greedily and too quickly and, despite their extreme cheapness, they are produced and consumed wastefully, which led to the movement for saving of natural resources” [12]. Such trends are reflected in accounting and reporting.

Thus, a new stage of accounting and reporting development is related to the implementation of the principles of sustainable development, which is interpreted as a model of social development, which provides an integrated approach to the three components of subsystems: economic, social and environmental.

Sustainable development involves understanding the needs of the poorest sections of the population and restrictions that depend on the production technologies, community

organizations that impose on the ability of the environment to meet the present and future needs of mankind.

The United Nations Environment Program (UNEP) promoted: publication of “Corporate Environmental Reporting: Measuring Progress and Industry for Sustainable Development”; the creation in 1997 of the Global Reporting Initiative (GRI) in Boston; developing a system of sustainable development indicators that form the Dow Jones Worldwide Enterprise Sustainability Concept in 1998 (Dow Jones Sustainability Group Index).

The first non-financial report on corporate social responsibility was prepared and published in Ukraine in 2005 by System Capital Management (SCM) [13, p. 205]. It should be noted that to ensure the responsible management of the enterprise’s scarce resources, the financial reporting information is insufficient and the non-financial reporting is no longer suitable for the information function, as there are currently no clear statutory guidelines for accounting and non-financial reporting.

As R. Eccles and J. Serafeim point out financial statements are formed by accounting standards, while sustainable development reports rarely keep the voluntary reporting standards created by GRI.

R. Eccles and J. Serafeim affirm that integrated reporting performs informational and transformational functions more effectively than separate financial and sustainable development reports (non-financial reporting). Moreover, these types of reporting differ in terms of the regulation role importance. If regulation and standard-setting are likely to improve the information function, there is a risk that integrated reporting will more closely meet the requirements of successful enterprise management.

Besides, information contained in non-financial and financial statements does not have a single model, often torn in time, which does not allow the investor to identify the analytical relationship between social productivity, environmental and financial performance, and to understand how sustainable development issues affect the value of the company [14].

The integration of the European Union stimulated combining of different accounting systems, the essence of which is that each country may have its own accounting and reporting model and standards system, which is regulated, but provided that these standards do not conflict with the standards of the Member States of the European Union. The standards of all EU member states should be in harmony with each other.

Integrated reporting is not a supplement to the financial statements, but a combination of financial and non-financial statements, which aims to consolidate them at the legislative level, which will allow it to move from the status of managerial innovation to the status of a new accounting model.

The results presented in this study make it possible to distinguish the following stages in the development of financial statements (Fig. 1):

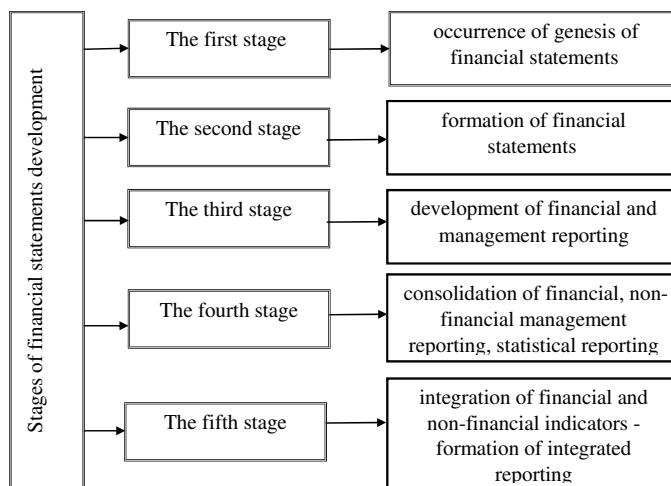


Fig.1. Stages of development of financial statements

Source: own research.

The first stage – (the second half of XI – the beginning of XVIII centuries) emergence of genesis of financial statements – reporting is in the stage of formation without clearly defined purpose and objectives.

The second stage – (XIX – XX centuries) formation of financial statements – formation of the content and methodology of financial reporting.

The third stage – (1920 – 1970) development of financial and management reporting – reporting structure is regulated, rules are introduced, and procedures are defined.

The fourth stage – (1970 – 2002) consolidation of financial, non-financial management, statistical reporting – new opportunities for reporting development emerged.

The fifth stage – (2002 – 2018) integration of financial and non-financial indicators – formation of integrated reporting – using of integrated reporting.

**Conclusions.** According to the results of the study, significant influence on the development of the integrated model of bookkeeping reporting has led to the development of economic relations, legal foundations of the functioning of the economy, information needs and the evolution of economic theories: new institutional theory, evolutionary theory, the theory of rational expectations, the theory of application of human theory and theory control systems.

The systematization of accounting literature and other scientific sources made it possible to expand the historical retrospection of the development of bookkeeping reporting and to identify the five main stages of the development of bookkeeping reporting, to structure them, to determine the historical and practical prerequisites for the formation of integrated reporting, as well as to outline a number of important conclusions.

Firstly, we can conclude that the bookkeeping reporting developed directly depending on the stakeholder information requests.

Secondly, structured steps in the development of bookkeeping reporting provide an understanding of the requirements and tasks that face the reporting to ensure an effective,



strategic management system. This systematic approach allows to reflect all aspects of problems in their interconnection and integrity, to identify the main and historical aspects, to determine the nature of the connections between elements, characteristics and properties as much as possible.

Thirdly, it gives an opportunity to identify topical problems, to substantiate the prospects for qualitative development of bookkeeping reporting in providing new modern management.

Fourthly, the above clearly outlines the requirements that are set out to accounting: transparency, regulation of the reporting structure, displaying not only historical and financial information, but also predicted non-financial information.

The widespread introduction of new, integrated reporting in agrarian enterprises of Ukraine will help to create the image of these enterprises, accelerate their economic development, and to create effective competitive innovative production. The results of the activities covered in the report will allow shedding more light on the existing structures of the enterprise, problems of production, economic, social nature, modeling and predicting the future position of the enterprise.

**Prospects for further research.** The current system of regulation necessitates further study. To introduce the best world practices in Ukraine, it is necessary to study the formation of integrated reporting in the world economy and international initiatives in the field of reporting.

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## ПЕРЕДУМОВИ РОЗВИТКУ ІНТЕГРОВАНОЇ ЗВІТНОСТІ

Шевчук Н. Передумови розвитку інтегрованої звітності. *Вісник Тернопільського національного економічного університету*. 2019. Вип. 4. С. 116–126. DOI: <https://doi.org/10.35774/visnyk2019.04.116>

### Анотація

У статті здійснено аналітичний огляд облікової літератури та інших наукових джерел якій дозволив виділити головні етапи розвитку бухгалтерської звітності, визначити історичні та практичні передумови становлення інтегрованої звітності, окреслити основні вимоги щодо інформаційних можливостей звітності.

**Метою дослідження є концептуальне осмислення процесу становлення інтегрованої звітності.**

При систематизації наявного теоретичного матеріалу з метою розкриття генезису інтегрованої звітності, як визначального елементу методу бухгал-

*терського обліку, використано загальнонаукові і спеціальні економічні методи дослідження: діалектичний та абстрактно-логічний. Для комплексної оцінки етапів розвитку бухгалтерської звітності застосовано методи теоретичного узагальнення, аналізу і синтезу.*

*За результатами дослідження встановлено, що значний вплив на розвиток інтегрованої моделі бухгалтерської звітності спричинив розвиток економічних відносин, правових засад функціонування економіки, інформаційних потреб, еволюція економічних теорій: нової інституціональної, еволюційної, раціональних очікувань, вичерпних ресурсів, людського капіталу та застосування цих теорій до систем управління. Визначено і обґрунтовано основні проблеми існуючої фінансової звітності у відповідності до інформаційних очікувань стейкхолдерів.*

*Формування нових підходів розвитку бухгалтерської, інтегрованої звітності в Україні на основі урахування національних особливостей організації обліку, чинної системи нормативного регулювання зумовлює подальше вивчення, а саме, дослідження становлення інтегрованої звітності в світовому господарстві, міжнародних ініціатив у сфері інтегрованої звітності, з метою запровадження найкращих світових практик в Україні.*

*Ключові слова: звітність; бухгалтерська звітність; інтегрована звітність; фінансова звітність; нефінансова звітність; капітал підприємства; розвиток; етапи розвитку; сталий розвиток; інформація; підприємство; управлінська система; управлінські рішення.*

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