European Accounting Review, Vol. 14, No. 3, 603–633, 2005

Accounting in Ukraine since Independence: *Real Politik*, Problems and Prospects

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ABSTRACT This paper is a study of the development of accounting in Ukraine since 1990. Ukraine is one of the states created in post-Soviet space where the problems of economic transition have influenced the development of accounting. Until 1997, accounting was mainly for the purposes of taxation, and the tax inspectorate had a large influence over accounting methodology. During the period 1997–99, when accounting and taxation reporting were separated, there were favourable conditions for the creation of an accounting system appropriate to the business needs of Ukraine, however, this opportunity was not grasped. In 2000 Ukraine implemented national accounting standards based on International Accounting Standards (IAS). It transpired that this was premature. The Ukrainian government is now making attempts to return to calculating taxes on the basis of financial accounting. This paper investigates the influences on the development of accounting since 1990, suggests what might be an appropriate system and ends by suggesting that appropriate accounting reforms could commence if the accounting elite unified and worked with the government in the best national interest. However, this may be unlikely, given the political and economic context.

Introduction

The transitional economies that have developed out of the break-up of the Former Soviet Union (FSU) and from the changes in governments in Eastern Europe, inherited bookkeeping that was suitable for a planned economy. Though each country has followed a different path in the development of its accounting, they can be divided into two groups. The first group includes countries which, in living memory (45–50 years), had been independent states. They have experiences they can draw upon from before the Second World War. Among these

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0963-8180 Print/1468-4497 Online/05/030603–31
DOI: 10.1080/0963818042000336755
Published by Routledge Journals, Taylor & Francis, on behalf of the EAA.

countries are the Czech Republic, Poland, Romania, Hungary, Bulgaria and the Baltic States (Seal *et al.*, 1996, p. 491; King *et al.*, 2001, p. 154). We can place here also Western Ukraine, which had joined the Soviet Union at the time of the Second World War.[1] It has been suggested[2] that the principles underlying pre-Soviet accounting in Galitsia bore a certain resemblance to the principles underlying International Accounting Standards (IAS).

However, Ukraine as a whole belongs to the second group, the 12 countries that became part of the Soviet Union in the early 20th century. These countries had not been independent for a long time and, with the changes post 1989, have needed to develop many new state institutions and laws. Given its proximity to Russia, Ukraine has experienced this country's powerful influence for many centuries.[3] After Ukraine's Declaration of Independence, the interaction between Ukraine and Russia in the area of accounting began to weaken and now both nations are seeking to take separate paths in the development of their economies and accounting.

Ukraine is the largest state in Eastern Europe. In terms of population, it ranks fifth in Europe (after Germany, Italy, Great Britain and France) and 21st in the world. In a referendum held on 1 December 1991, the people of Ukraine endorsed independence. Nowadays, Ukraine is a Presidential and Parliamentary Republic. Parliament – the Verkhovna Rada of Ukraine – is the sole legislative body. Verkhovna Rada is a unicameral assembly of 450 deputies, whose main function is making laws. The President of Ukraine is vested with the power of the head of state. He has the authority to speak for the state and he is the guarantor of the state sovereignty, of territorial integrity, and of the observance of the Constitution, civic rights and freedoms. He is elected directly by the voters for a term of five years, with no more then two full terms.

The annual *Transition Reports*, published by the European Bank for Economic Development, have published indicators of Ukraine's economic development since 1995. By 2002, the private sector share of the Ukrainian economy was 65%, which was generally lower than that of the Central European economies, but in line with those of other states of the FSU (EBRD, 2003). Though there had been a large amount of small-scale privatisation by 2002, there had been less progress compared to other transition economies in governance and enterprise restructuring. There had been some progress in banking reform, but less in establishing transparent, well-regulated securities markets. In this respect Ukraine has made similar progress to other states of the FSU (EBRD, 2003).

Society has not always been united behind all the reforms and there is a lack of experience in developing new state institutions and laws. During Soviet times the most highly skilled accounting specialists from all the Soviet republics were concentrated in Moscow and St Petersburg, Russia's great megalopolises. Since 1991, accounting development in Ukraine has been hampered by the lack of well-qualified experts familiar with accounting in a market economy, and the lack of influential leaders whose opinions could be of vital importance while decisions were taken on accounting reforms.

In this paper, we seek to provide an insight into how accounting has developed recently in Ukraine and the influences at work. We also present ideas about the future prospects for the development of accounting in Ukraine. The paper has the following structure. After a review of some key literature on how accounting changes have been implemented in transitional economies, and the issues that arise, we review the recent history of accounting development in Ukraine. We then study how different possible approaches to accounting reform have been reflected in debates in local accounting journals. In the fifth section, we study the present accounting situation in Ukraine and the issues that arose in implementing IAS and accounting certification. We then present some thoughts about what system of accounting would be most suitable for Ukraine, and the obstacles to such a system being implemented.

Accounting in Transitional Economies

As the economies of Central Europe and the FSU have developed since 1989, various research has reviewed and analysed these developments. Much of the research has focused on the economies of Central Europe (e.g. Garrod and Turk, 1995; Krzywda *et al.*, 1995; Seal *et al.*, 1995). Bailey, in a review of accounting reform in all transitional economies, raises some questions about the nature of accounting reform, given the instability of the economies and the recent historical experience. Against the background of the approach to governance in the former Communist economies – with detailed control exercised by state bodies – and the particular volatile state of the nascent market economies in the early 1990s, Bailey examines how accounting has developed in the transition from a planned economy. There has been an emphasis on central state control of accounting, and concerns about the efficacy of some of the accounting changes. In particular, Bailey identifies how accounting had been viewed, historically, from a 'societal perspective in which accounting for business purposes was a subsidiary consideration' (Bailey, 1995, p. 607). Given this approach, and the context, in the transition there was a move from accounting acting as an 'instrument of direct administrative control over state enterprises, (to) an instrument for indirect control, or surveillance, over privatised enterprises' (Bailey, 1995, p. 607). The main tool of this control seemed to be the use of the tax inspectorate. Bailey then discusses some of the more problematic and practical issues of accounting during periods of change in transitional economies, such as the emphasis on formal rather than substantive compliance with accounting rules, and queries the relevance of some of the accounting, as the market economies are underdeveloped (Bailey, 1995). He also comments on the lessons that can be learnt in this area from previous research on accounting in developing economies (Bailey, 1995).

Nobes suggests that the relevant features for defining a developing economy, for the purposes of assessing accounting development, should probably relate to the relatively large number of state enterprises, the small value of the stock market as a percentage of the economy, and the small number of trained accountants per million of population, the degree to which an independent profession exists and whether there is an efficient tax system (Nobes, 1998, p. 28). Given these criteria for analysing the development of accounting, Ukraine would be defined as a developing economy.

Nearly 30 years ago, Briston (1978) noted some of the particular problems that developing economies suffered in trying to build an appropriate system of accounting. In particular, Briston stated that much of the accounting in developing economies, particularly in those economies that were ex-colonies of Britain, imitated accounting developed in Britain, which is unlikely to be appropriate to the needs of the developing economies. Briston highlights *inter alia* the following reasons for the inappropriateness of these accounting systems for developing economies:

1. There is a bias to private sector auditing which places large demands on scarce educational resources; and
2. The World Bank and other international institutions with overseas aid have contributed to an emphasis on accounting according to American and British concepts (Briston, 1978).

Briston then points out how, once accounting has developed in this way, 'it becomes very difficult to modify the system, for those who operate it have a vested interest in its perpetuation' (Briston, 1978, p. 108).

Hove (1986) suggested that there were various mechanisms by which accounting technology was transferred to developing economies, such as colonialism and the actions of transnational corporations. Of particular relevance to Ukraine is his discussion of the role of economic aid in imposing accounting practices in developing countries (Hove, 1986, p. 91). Hove questions whether accounting practices constructed for developed economies, with well-established stock markets and a pool of investors, are necessarily appropriate for developing economies. He then discusses the impact of overseas professional bodies on the developing economies and local nascent accounting professions. In particular, he suggests that the fragmentation of local accountancy professions in some developing economies, which mirrors the fragmentation of the country from which the professions may have been exported (such as the UK), encourages some local accountancy professions to maintain 'intransigence and extreme levels of parochialism' (Hove, 1986, p. 97) when faced with accounting change, and can be ill-afforded by many countries. He proposes that a unified accounting profession would be a better use of the limited accounting resources.

In summary, the above authors suggest that, in developing transitional economies, the state will exercise a strong influence over the development of accounting, given previous state control and the lack of desire to relinquish this control. The role of economic aid, in purveying a particular approach to accounting, and the likely development of a fragmented local accountancy profession, may be deleterious to the development of accounting that is appropriate for the country. These themes provide a framework for analysing what has happened in the Ukraine since 1991 and whether the issues raised by Bailey, Hove and Briston are still relevant.

The History of Accounting Development in Ukraine

The history of accounting development in Ukraine can be divided into four stages. A short description of every stage is set out in Table 1 below, followed by a more detailed description of each stage.

The First Stage (1990–93)

The formation of Ukraine as an independent state began with the Declaration of Independence, passed in July 1990.[4] This period saw the enactment of most basic laws: the Property Act, Land Law, Banking Act, Customs Law and others. The system of bookkeeping developed during the planned economy was inconsistent with the new laws, and new systems of accounting were considered.

At that time Ukraine used the Chart of Accounts 1985 (approved by the order of USSR Ministry of Finance, 28 March 1985 No. 40). Though there were to be amendments to this chart, they were not necessarily officially recognised,[5] and the chart continued in use until 1 January 2000. At this stage, the emphasis was on developing structures of control for accounting. With the initiation of the transition to a market economy, the President of Ukraine issued Edict No. 303 of 23 May 1992 'On transition to international accounting and statistics'. Under the Cabinet's Resolution No. 147 of February 1993, the development of accounting methodology then became a duty of the Ministry of Finance. For

Table 1. The periods of accounting development in Ukraine

No.	Stages	Short description
I	1990–93	First steps from the planned bookkeeping to a market-oriented system
II	1993–96	Accounting and tax integration. Strengthening government control functions over enterprises. Increased powers of tax authorities over accounting
III	1996–99	Tax control lessening over accounting. Preparation for implementing new accounting standards based on international ones. The creation of UFPAA (Ukraine Federation of Professional Accountants and Auditors)
IV	1999–2004	The implementation of new accounting standards, stagnation of accounting, attempts to return to tax and accounting integration

this, the Accounting Methodology Department was created as a new structure within the Ministry of Finance. However, this structure had no effective instruments for exerting influence over enterprises for any misstatements in accounting methodology. Instead, this was the prerogative of the State Tax Inspection of Ukraine (STIU) which had been established in 1990. The STIU was also subordinated to the Ministry of Finance of Ukraine (Ordinance, 1990), with its Head appointed by the Council of Ministers of the Ukrainian SSR (Tax Service Law, 1990, art. 5). The STIU had a right to check books of account, reporting, plans, declarations and other documents concerning taxation and other compulsory payments. Local tax departments were entitled to fine enterprise officials (at the rate of their average monthly wage) for lack of proper accounting, violations in accounting and the non-submission of financial statements (Tax Service Law, 1990, art. 11; Tax Income Law, 1992, art. 25, § 7). Thus, at this early stage of the formation of the independent Ukrainian State, accounting was for tax purposes and the enforcement of accounting was mainly a duty of the tax authorities.

The Second Stage (1993–96)

This stage can be characterised by a steady increase in state control functions. In January 1993 another control authority, the Control and Revision Administration (CRA),[6] was established in accordance with the Control and Revision Administration Law No. 2939-XII. From its inception until now,[7] the CRA has been subordinate to the Ministry of Finance, and its main task has been to check the reliability of financial reporting. However, the scope of the CRA has not been extensive. It only dealt with federally funded organisations such as ministries, department administrations and state executive committees.

The Accounting Regulation (Ordinance, 1993), issued by the Cabinet in April 1993, may be considered as the first national document regulating accounting in Ukraine, two and a half years after Ukrainian independence. The Accounting Regulation determined various accounting procedures (the documentation of business transactions; valuation of assets, inventory of property) and rules for financial reporting. According to the Accounting Regulation enterprises had to file their financial reports with two state structures: local tax inspectorates and statistical agencies. However, only the tax inspectorates had a right to fine enterprise officials for non-submission of financial statements and violations in accounting.

In December 1993 the State Tax Inspection was subsumed within the Ministry of Finance of Ukraine, with its chief raised to the rank of the deputy Minister of Finance (Tax Service Law, 1993, art. 5). At this same time, local tax inspectors were allowed to direct 30% of tax fines for the maintenance of their local offices (Tax Service Law, 1993, art. 6). This acted as an incentive for local tax inspections to fine enterprises.

A new Tax Profit Law was enacted in December 1994. Essentially, it changed nothing in the arrangement of forces. All enterprises still had to submit financial statements to local tax inspectorates and taxes were calculated based on the accounts. However, now the tax inspectorates could not fine enterprises for violations of accounting but only for non-submission of financial statements. Since then, one could state that accounting methodology has been of little interest for the tax inspectorates, as it was not possible to gain additional financial benefit from fines for violations of accounting methodology.

In this second stage, the functions of accounting and control with tax inspection were concentrated at the Ministry of Finance. The two departments, Tax Inspection and Control and Revision Administration, focused on checking accounts. The third department, Accounting Methodology, focused on dealing with accounting methodology. However, as the chief of tax inspection was the deputy Minister of Finance, and the more influential figure, one could argue that tax inspection was the dominant department.

At that time calculation of tax was based very closely on accounting data. When they checked the business accounts, tax inspectors audited the balance sheets, accounts and ledgers, because accounting costs were identical with those of tax. So, the main 'struggle' between taxpayers and the tax inspectorate was over current expenditure. The tax inspectorate acted rigidly and often violated legislation as it kept a vigilant watch over any expenditures that decreased taxable income. Mostly the Accounting Methodology Department sided with the tax inspectorate to the detriment of accounting methodology. An example of such collaboration was in the area of accounting for currency transactions. In this area there were discrepancies between the accounting legislation and that for taxation. These discrepancies caused difficulties for accountants and enabled the tax inspectors to take a subjective interpretation of the area which favoured the tax inspectorate (Golov, 1995, p. 23). The Accounting Methodology Department ended the dispute by issuing Foreign Currency Instruction No. 29 in February 1996, which resulted in exchange gains from currency sales being included in taxable income, but exchange losses being disallowed as a deduction for tax, i.e. favouring the tax inspectorate.

The Third Stage (1996–99)

In August 1996 the State Tax Inspection was changed to the State Tax Administration (STA). Since then the STA has become a central organ of executive power, outside the Ministry of Finance. The Head of the STA is equivalent to a Minister by position (Edict, 1996, §§ 2, 3).

In November 1997 some amendments were made to the Tax Profit Law (1994) and the STA's right to demand financial statements from enterprises was repealed. Since then the tax inspectorate has not been able to demand financial reports or other non-tax reports (Amendments Law, 1997, § 14, part 1) and accounting is no longer under the control of the tax inspectorate. Indeed, the

STA did not resist this, as they were not interested in receiving financial reports where there was no prospect of receiving income from fines. Moreover, it could be argued that the STA were unconcerned about problems with accounting as they had been involved in obtaining greater power in other ways.

Thus, there was an historical chance for accounting to become free from the influence of the tax inspectorate, and to develop independently. It was possible for the government, together with the accounting community, to conduct detailed research into what might be the most appropriate accounting for Ukraine before commencing further accounting reform. However, the opportunity was not grasped.

There were various possible reasons why this happened. However, one of the key reasons was the disagreement within the Ukrainian accounting community about how to progress. This disagreement revolved around the issue of the extent to which IAS should be used within Ukraine, following the provision of international aid for their implementation. There was a division within the Ukrainian accounting community into what we might call three main camps: the conservatives, the moderate radicals and the extreme radicals. This division was reflected in debates within the local accounting and business press.

The conservatives consisted of some experts, men of the old Soviet school and many accountants and businessmen. They had particular reasons for their stance. Some businessmen understood that tight tax pressure, the shadow economy and corruption would cause any new accounting, based on IAS, to be unreliable, and not to be true and fair. In their opinion accounting reforms would prevent them from focusing on the problems of taxation. The conservatives suggested that it was necessary only to insert some amendments into the Chart of Accounts and the Accounting Regulation. Their general submission was that Ukraine had always been under the influence of continental accounting, therefore it would be injudicious of Ukraine to turn to accounting based on Anglo-American practices, legislation and different ways of looking at the world and such an approach could have quite a deleterious effect on accounting. For example, one conservative, Gracheva (*Galitsian contracts*, 1999a) having thoroughly studied accounting in different countries, came to the conclusion that there was still a question of how such foreign experience would work in Ukraine. Therefore, it would be better to develop a school of Ukrainian accounting and supplement it with new elements, where appropriate. Gracheva was convinced that Ukrainian accounting was an ideal integrated system that had no analogy worldwide and there was no need to divide it into two separate parts: financial and management accounting. All that was needed was to add planning and analysis functions to cost calculation, then the Ukrainian accounting system would correspond with all international criteria and, in addition, the amount of hours spent on preparing accounts would be much less than similar work of this kind in the USA or in other European countries. Another conservative academic, Pr. Oguiychuk, claimed that there were not essential distinctions between the accounting principles in Ukraine and other countries. The names of the accounting principles and their main points were actually in agreement, though there was some discrepancy in terminology which was not so important. He argued that Ukrainian accounting was able to provide market participants with reliable information about property and financial conditions (Oguiychuk, 1997).

The moderate radicals comprised many instructors, teaching staff, editors, editor-in-chiefs, experts of accounting editions and a group of accountants concerned about criticism they received from company directors and management for their inability to provide management with objective information. These accountants also possibly thought that the 'new' accounting would allow them to approach an international level in accounting in order to obtain a prestigious well-paid job not only with Ukrainian firms, but also with foreign companies.

The moderate radicals were of the opinion that the transition from the current accounting to a new one must be gradual, so that Ukrainian accountants could deal with its implementation. In the initial stage of implementation, they suggested it would be better for Ukraine to use a bimodal structure of financial reporting with international standards used only at the multinational and/or listed companies level or for consolidated reporting. One of the moderate radicals, Pr. Chumachenko (1997), noted that any accounting reform had to take account of the transitional character of the economy. All changes should be made only if there were the necessary preconditions for them. Therefore, the accounting reform had to include several stages. In the first stage, the priorities had to be set and attention focused on the most important of these. However, there were not endless possibilities for priorities, and the reform of accounting had to be carried out in a piecemeal fashion, with new pieces added slowly whilst maintaining the old established system. Then at the second stage, there must be a switch from piecemeal reform to a change to the whole system.

The extreme radicals insisted that IAS should be implemented as soon as possible. Among the extreme radicals were a small group of government administrative officials, members of the Ukraine Federation of Professional Accountants and Auditors (UFPAA), some experts and consultants. One of the extreme radicals, S. Golov, believed that IAS would deal with all accounting problems in Ukraine. In one of his articles, he criticised some local Ukrainian academics for their scepticism, prudence and the doubt they cast on the utility of implementing IAS for Ukraine. Golov noted that moving to IAS was not a goal of accounting reform but only a new step towards it. The next task would be the creation of an effective integrated accounting system in the interests of users. Golov firmly believed that the acceptance and use of IAS would guarantee:

- a reduction in risk for investors and creditors;
- a reduction of each country's costs on developing national standards;
- more scope for effective cooperation in the accounting area; and
- the same understanding of financial reporting and the growth of confidence in its data throughout the world (Golov, 1998).

At the time there were many external pressures on the Ukrainian economy, as with other transitional economies. It was often these external pressures (for example, from international funding agencies) that caused accounting reform to be placed on the political agenda of the post-communist governments (Bailey, 1995, p. 604). Ukraine was no exception to these pressures.

In the early years of independence, there were many economic difficulties which are catalogued in the various *Transition Reports*, issued by the European Bank for Reconstruction and Development (e.g. EBRD, 1998, 2000, 2003). Many state institutions had not yet been formed, and the privatisation process was at its height. All these contributed to the fact that the government could not establish a united front against external pressures. Thus, the vigorous actions of international organisations like the European Union Training and Assistance (EU TACIS) projects, United States Aid for International Development (USAID) and the International Monetary Fund (IMF) had a substantial impact at this point. These organisations insisted that the receipt of any funding was conditional on the introduction of accounting based on IAS. This pressure was enacted in two ways.

The first way was to put pressure upon the Ukraine government. Ukraine, like other emerging countries, required loans and credits to support its economy, and one of the conditions of their provision was that national accounting had to be changed to IAS. For example, as noted in a report issued by the World Bank, the reform programme in Ukraine has been supported by several loans from the IMF and World Bank, including a first Enterprise Development Adjustment Loan (EDAL) which was approved in mid-1996. The loan would provide funds in three equal tranches, of US$100 million each, in return for the implementation of policy and institutional reforms. Conditions for borrowing the money included the implementation of international accounting and audit standards for the enterprise sector and the development of professional accounting capacity (World Bank, 1998).

The second way was through the foundation of a controlled local public organisation, financed through overseas grants, which acted as a pressure group for the implementation of IAS. So the Ukraine Federation of Professional Accountants and Auditors (UFPAA) was founded in 1996 with USAID assistance.[8] UFPAA declared itself to be a public professional, self-regulating non-commercial organisation established for working in the best interests of accountants and auditors. At that time, of the 500,000 Ukrainian accountants, only 1,300 (0.26%) were counted as UFPAA members.[9]

As a public structure, UFPAA has never published its budget. Indeed there has been some controversy generally over foreign funding of Ukrainian organisations. Various foreign government agencies and private funds have financed different groups in Ukraine, however, there has been some debate about what has sometimes happened to all the funds. There have been allegations of foreign monies being siphoned off illegally to management. It has been stated that this is commonplace in Ukraine (*Ukrainian truth*, 2002).

Thus, while at this juncture accounting was no longer under the control of the tax inspectorate, neither the Ukrainian government nor professional organisations seized the opportunity to make a concerted attempt at coherent accounting reforms. There were some debates in the accountancy press about the path and pace of accounting change but these debates were not spirited. Moreover, administrative officials did not react to these discussions. There was little detailed investigation of what might be appropriate before the accounting reforms were implemented. The extreme radicals made attempts to change public opinion by trying to convince people of the need for a new accounting system but their arguments were not always too cogent or clearly evidenced. The moderate radicals and the conservatives, in their turn, endeavoured to goad the public into protesting against the new standards being implemented so quickly but their attempts failed. This debate and dissension amongst local accounting academics mirrors the problems of fragmentation amongst local accounting professions that may stymie coherent attempts at accounting transformation, as laid out by Hove (1986). It is possible that the underlying issue here was that there was little public concern about problems of accounting. However, as noted, there were also external pressures on the country as a divided group of accountants, who took various stances on reform from the need for little change to a stance which favoured wholesale change in accounting.

The Fourth Stage (1999–2004)

With the Tax Service Law, which was redrafted in February 1998, the STA became a central executive body, an independent organisation having large powers with the Head of Tax Administration appointed and dismissed by the President of Ukraine at the suggestion of the Prime Minister. As the President of Ukraine had gained much of the power, neither the Prime Minister nor the Parliament could have any impact upon the Head of the STA.

In this situation the STA became established as part of the political struggle by the pro-presidential forces against their opponents. The former Ukrainian Attorney-General Golovaty asserted that the most active opposition organisations have found themselves kept in check by executive power. Such organisations have been subjected to interference from governmental departments. They have often been subjected to numerous tax audits and pressures from other control authorities (Golovaty *et al.*, 2001). For example, a newspaper reported that a Lviv firm applied to the Office of Public Prosecutor to bring an action against tax inspectors for committing infractions and interfering with its business. The plaintiff, Y. Khendzior, was of the opinion that tax pressure had been caused by his appearance as a witness in the suit '*Social Democratic Party of Ukraine (united)* [10] v. *Y. Khendzior*' [11] (*Postup*, 2002).

In this environment, the Accounting Law was signed by President Kuchma on 17 August 1999. The Accounting Law came into effect on 1 January 2000 simultaneously with the new Chart of Accounts for enterprises, which was adopted by the Ministry of Finance of Ukraine (order No. 291 of 11 November 1999).

According to the Accounting Law, the regulation of accounting methodology and national standards approval were entrusted to the Ministry of Finance. Similar to some other Western countries the Ministry of Finance has a Methodological Board attached to it as a deliberative body.[12] The Accounting Law made no mention of who had responsibility for dealing with violations against this law, but this oversight was corrected in the following June. Management of enterprises can now be subject to an administrative fine for methodological mistakes or for making arithmetical errors (Accounting Law, 1999, part 5, § 1). This approach might seem to be a little extreme, but it has to be understood that for a long time Ukraine has used fines as a tool for increasing national budget revenues rather than as measures for ensuring there are no subsequent violations. Hansen notes that a lack of clear rules has led to vast sums of fines being paid for accounting mistakes, even when the mistakes were made many years before. Though the original amount of the fine might be imposed fairly, the terminal penalty daily accrued by considerable interest could bankrupt a firm (Hansen, 2000).

Table 2 illustrates the amount of national budget revenue that is derived from fines.

With the signing of the Accounting Law, Ukrainian accountants faced two main problems: lack of time for implementation and retraining.

Lack of Time

The Accounting Reform Program issued by the Cabinet of Ministers of Ukraine on October 1998 preceded the Accounting Law. Under this programme, there were eight accounting standards that had been approved before the Accounting Law was signed. The other five standards were approved by 1 January 2000, the date when the Accounting Law came into power. The schedule of accounting standards adopted before January 2000 is shown in Table 3.

Table 2. Revenue in Ukrainian budget from tax fines

Years	Fines ('000 of hryvnia)	Annual rate of inflation (%)
1998	64,612	20
1999	43,680	19.2
2000	38,840	25.8
2001	100,640	6.1
2002	104,000	−0.6
2003	283,800	8.2
2004	343,170	12.3

Table 3. Accounting standards adopted in 1999

No.	Name of accounting standard	Issue date
1	General Requirements to the Financial Statements	26 March
2	Balance Sheet	26 March
3	Income Statement	26 March
4	Cash Flow Statements	26 March
5	Equity Capital Statement	26 March
6	Correlation of Errors and Changes in Financial Statements	26 March
19	Business Combinations	7 July
20	Consolidated Financial Statements	30 July
10	Receivables	8 October
8	Intangible Assets	18 October
9	Inventories	20 October
15	Revenue	29 November
16	Expenses	31 December

Ukrainian accountants[13] found themselves in a very difficult situation at that time. First, they were not given very much time to study an approach to accounting, which was quite different from what they were used to. The Ukrainian accounting standards are very simplified versions of the IAS on which they were based, without many examples and explanations. Secondly, some of the particularly important standards for financial reporting, such as ‘Fixed Assets’ and ‘Leasing’, were issued much later – respectively four and seven months after the Accounting Law, 1999, had come into effect. Third, the situation was aggravated by the way in which the majority of accountants were retraining while still working and trying to deal with the many contemporaneous changes to tax laws and the many company tax audits.

Retraining

Many audit firms commenced training courses on the ‘new’ accounting, despite the lack of obvious qualifications in IAS. The international funding bodies set up schemes for ‘training the trainers’, which intended that the trainees would carry their knowledge unselfishly, like missionaries, to all who wished to learn. In this way, accounting knowledge would be extended geometrically. However, this method of ‘training the trainers’ might be considered a little naive in the Ukrainian context. In reality, the trainees were not in hurry to share their knowledge selflessly with others.

Among accounting consultants there was quite a broad range of people such as lawyers, politicians and ex-lecturers. Many such individuals, once they had received training, did not take time to train others (Gracheva, 2002). Many trainers and trainees were attempting to teach themselves by discussing the issues with each other.

Nevertheless, it would probably have been more reasonable to train not accountants themselves, but professors, teachers, instructors and lecturers in academies and colleges. First, professors might have a better ability to learn and to set the studies into context. Second, they would reach a far wider audience of people, such as students and practitioners.

Review of Local Accounting Literature

Having outlined the four stages of development in accounting since 1990, we will now present how this was reflected in discussions in the local accounting journals.

Ukrainian State educational institutions do not have enough funds to enable them to issue scholarly journals in accounting. Instead, most accounting publications cover practical problems in accounting as that is where there is the demand. Although accounting questions have been widely covered in more than 30 different journals and papers, the publications focus on practical issues and there is not any extensive theoretical discussion. Unfortunately, there are no accounting journals in Ukraine at present that popularise accounting as an academic discipline. For seven years (1994–2001) the sole research and practitioner journal, *Accounting & Auditing*, published only 17 articles on the development of the science of accounting. The journal mainly published practical papers and comments on legislation (Butinets, 2001a).

The first edition of *Accounting & Auditing* was issued in January 1994. Representatives of the radicals wrote the majority of the papers in the journal while the conservatives' opinions were not often represented. Initially the journal published readers' articles that debated the different views of accounting development, but those debates were in the spirit of Soviet debates. Thus, articles focused on trying to convince the readers of the truth of 'correct' opinions rather than on debate. For example, during the period 1994–96 the draft Chart of Accounting was being discussed. Chatskis and Soukharev (1994) presented their paper on the new Chart of Accounts as a round-table discussion, however, at the end of it the authors ignored any differences of opinion that had been raised and stated that most of the disputants appreciated the concept of a National Chart of Accounts.

Many articles described accounting systems in different developed countries but these overviews were merely descriptive. There was no in-depth study, examining relevant evidence, on whose experience would be most suitable for Ukraine.

In addition, the editors emphatically presented the advantages of the 'new' accounting by levelling many criticisms at the 'old' accounting system, particularly at its journal-order form[14] of keeping books, even though Ukrainian accountants were accustomed to this approach as it had been applied for ages. It was suggested to readers that the journal-order form of keeping books was archaic and provided much redundant information that was beyond laymen's comprehension (Lovinska, 1995).

A journal titled *Accounting World* was published for a short time between July 1997 and December 1998. This offered its pages to different opinions of academics and the accounting public. In its first issue a member of the National Academy of Sciences, the author of more than 500 papers and treatises, Pr. Chumachenko, presented what could be considered as one of the first thorough analyses of accounting reforms in Ukraine. He pointed out that accounting reformers ignored the Ukrainian context and experience and presented their policy as if there was no alternative to it. The actions of the reformers were thoughtless, the reform ideology was premature, the popularisation phase had been cut short, and there had been no discussion period at all. Chumachenko suggested that the Ukrainian reformers were merely going to 'borrow' (and copy) accounting practices from elsewhere. However, any accounting reform should require an 'adaptation mechanism', involving the following steps:

1. the organisation of the accounting reform process, so that it could happen painlessly;
2. measures to relieve social tension;
3. measures of state contribution to accounting reform financing, to give 'tax holidays', and other steps to support accounting reforms;
4. creation of a social and psychological climate enabling accountants to understand what is important.

Pr. Chumachenko noted that one of the most important elements of accounting reform was the presence of skilled specialists. Accounting reform is an action of organisation rather than just taking power. It is put into practice through the hard work of officials. Therefore, the main condition for successful reform lies in an alliance of leaders of the reforms with executive staff. Moreover, any accounting reform has to be implemented by national specialists and officials. No reform in the world has been properly completed by consultants who were mere visitors to the country (Chumachenko, 1997).

In another article in *Accounting World* the author contended that if an investor was interested in a Ukrainian entity he would invest his money in it without regard to its accounting methodology. However, no accounting standards could help when the country had an adverse investment climate and high-risk conditions for business. The author concluded that it was unlikely individuals would threaten to reduce investment because of the lack of conformity of Ukrainian accounting to Western accounting principles (Redko, 1998).

Ukrainian academics have been concerned about the lack of the scientific character of the accounting reforms. An academic, M. Bilukha, noted that a lack of scientific solutions leads to the failure of reforms. All the drafting of accounting standards is entrusted to the Methodological Board at the Ministry of Finance of Ukraine, where members work on a voluntary basis. This organisation had to do unpaid work on methodological provision for the accounting reforms in Ukraine. The author believes that this work should be undertaken by senior staff at specialist research-and-development centres (Bilukha, 2001).

Also, an academic-accountant, Pr. Butinets, expressed concern over the lack of careful analysis within accounting theory. The previous experience of Ukrainian scientists had been disregarded. Butinets takes issue with those who have glorified the American system of accounting training and have imposed its application on Ukraine whilst rejecting any achievements of Ukrainian accounting. He pointed out that there was a lack of development in the science of accounting, an absence of sound debates on actual accounting problems. All this raised some anxiety about the future of the accounting profession which could just become a simple craft skill, the art of tax recording and tax filing.

It was asserted that a new conceptual basis for accounting in Ukraine had to be based on what had been achieved during past centuries. The theoretical and practical achievements of Soviet times and experience from abroad should not be ignored. On the contrary, each should be thoroughly studied, analysed and understood. At the same time, it could be a terrible mistake if overseas experience of accounting was extended to Ukraine without thought or review. For many years there had been an insufficient study of both national and Western accounting, justified on the basis that there was a great discrepancy between Western and socialist political systems. Currently, some reformers tended to deny the achievements of accounting in Soviet times in order to justify the introduction of international (Western) standards. Not only did this position ignore the long tradition of Ukrainian accounting, but such reformers refuted all useful progress that had been made by Ukrainian accounting. Thus, though it was possible to discuss fairly the shortcomings of the current accounting system, nevertheless, the achievements should not be forgotten. There was a system of higher accounting/economics education, a deep knowledge in accounting and control theory and a long experience in applying a Chart of Accounts. These may not seem like many achievements, but they were a basis, and should be built upon (Butinets, 2001a).

As this review indicates, there were few analytical accounting papers published in local Ukrainian accounting publications and they represented different views of how accounting should progress within Ukraine. In summary, there was some suggestion that there should be a full analysis of accounting in Ukraine, the implementation of a system of accounting adapted to local circumstances and a long-term collaboration of accounting leaders with implementers. However, instead, it was suggested that a system was being adopted (not adapted) in a way that was under-resourced and inappropriate to the local Ukrainian experience. Unfortunately, very few people seemed to be interested in the development of accounting as an academic discipline.

The Current Accounting Situation in Ukraine

At present the management of Ukrainian enterprises focuses on the observance of tax laws because of heavy fines in that area. The STA has developed into a powerful independent machine, lobbying for changes in laws within the government process.[15] In December 2002 President Kuchma appointed Y. Kravchenko Head of the STA. This fact underlines the growing power of the STA, as Y. Kravchenko was Minister of the Interior from 1995 until 2001.[16]

With the repeal of the legal provision which allowed local tax administrations to direct 30% of tax fines to the maintenance of their local offices, the government channelled considerable budget funds to the STA. According to the State Budget Act 2003, the Tax Administration appropriated 1,071 million hryvnia.[17] Also, it is envisaged that the STA will borrow about US$114 million from the World Bank at a standard rate of interest[18] for 20 years.[19] It has been noted that there is a good reason for the World Bank to believe that the STA was the most secure borrower in Ukraine (*Business*, 2002a).

In their various actions, the leaders of the STA often use military terminology, as if they were at war with taxpayers. For example, the press-cutting service of the STA of Ukraine has such headlines as 'Dniepropetrovsk: the tax '*descent*' has started'. That particular news report stated that about 200 million hryvnia had been *mobilised* to the Consolidated Budget as a result of prompt actions by the STA.[20]

Even though there has been absolute separation between financial accounting and accounting for taxation[21] the STA continues to use financial accounting for its purposes. For example, the STA insists on valuing inventories for taxation purposes based on accounting estimation, as this increases the amount of taxation that is due, although this is not a requirement of the tax legislation. The Tax Profit Law (Amendments Law, 1997, § 5.9) provides for ad hoc calculation for inventory that is valued at cost price. The STA decreed (Amendments, 2002, § 4.9) that, henceforth, inventory should be valued according to the Ukrainian accounting standard 9 'Inventory'.

After having made some unsuccessful efforts to extend its authority over private business, another control body, the Control and Revision Administration (CRA), decided to act on its own authority on the basis of an error made by the President. In November 2000 President Kuchma issued Edict No. 1265 in which he named enterprises with every type of ownership as subject to audit by the CRA. In August 2002 the CRA made two amendments to its departmental Instruction No. 121 (Order, 1997). First, it empowered itself to check doubtful financial transactions, despite the fact that this is not included in the Control and Revision Administration Law (Order, 1997, § 2.2.3). Secondly, the CRA acquired a right to control enterprises and organisations receiving or having received cash from other entities which claim tax allowances (Order, 1997, § 1.5.5).

Some Ukrainian lawyers have analysed the CRA's authority and the amendments and have concluded that, in most cases, the CRA's audits of these entities under the two amendments were outside the bounds of the CRA's power. This illegal auditing had caused considerable harm to individual legal rights and the interests of entities (Shipka and Kroock, 2002).

Currently, the CRA has two main problems that have been noted by the Head of the CRA, Petro Hermanchuk. The first problem is imprecise legislation. The Budget Code, which has been accepted recently, confers wider powers on the

CRA. However, it contradicts the 'old' Control and Revision Administration Law. The second problem is that the CRA would like to obtain independence from the control of the Ministry of Finance, in a similar way to the STA (*Galitsian contracts*, 2003).

Since the Accounting Law, 1999, came into effect, the Ministry of Finance has issued another 14 accounting standards (Table 4).

For the last few years, Ukrainian enterprises have filed financial reports based on these Ukrainian accounting standards. Many questions have been settled, but nevertheless, many problems still remain. Gracheva points out that on the one hand the national standards are overburdened with unnecessary explanations of self-evident truths that are tangled and imprecisely articulated. However, there is also a lack of exact words where there should have been specific information. This may suggest that the standard-makers themselves could not understand what they wrote. This causes substantial problems for local accountants who are unused to the new accounting and yet do not have enough non-conflicting coherent guidance to proceed (Gracheva, 2002).

The situation may have made officials at the Ministry of Finance feel that they are no longer central among other government departments, as taxes are considered more important. Therefore, they have taken the following steps:

- Attempts to introduce certification for accountants.
- Attempts to reconnect accounting with taxation.

Table 4. Accounting standards adopted after 1 January 2000

No.	Name	Date of adoption
	2000	
11	Liabilities	31 January
25	Financial Reporting of Small Entities	25 February
12	Financial Investments	26 April
7	Fixed Assets	27 April
14	Lease	28 July
21	The Effects of Changes in Foreign Currency Exchange Rates	10 August
17	Profit Tax	28 December
	2001	
18	Construction Contracts	28 April
23	Related Party Disclosures	18 June
24	Earnings per Share	16 July
13	Financial Instruments	30 November
	2002	
22	Inflation Influence	28 February
	2003	
26	Employees Payments	28 October
27	Discontinuance of Business	7 November
	2005	
28	Impairment of Assets	13 January

Certification

During 1995–97, there were attempts to establish a system of certification for Ukrainian accountants. The UFPAA argued that certified accountants were more credible than uncertified ones, had higher professional skills and were higher paid. However, these appeals did not meet with much response at that time.

First, frequent revisions to laws meant that many accountants had to act quickly to deal with the changes in laws and their correct interpretation, even when they lacked experience with the new changes. This led to numerous accounting mistakes, which in turn led to a large increase in fines and caused problems for the accounting profession. In this situation, issues of general certification were not high on the agenda for most accountants.

Second, there were doubts about how different a certified accountant would be from an uncertified one given the lack of qualified trainers in Ukraine.

Third, employers have traditionally been reluctant to hire outsiders as accountants. There has been a tradition of choosing accountants from amongst friends, relatives and acquaintances. Employers preferred an accountant they knew to a certified one.

However, this idea of compulsory certification is still being discussed. Golov has suggested that accounting certification is an essential pre-condition for investors to be confident of the reliability of financial reporting. He uses Russia's example of its process of certification. In his opinion certification would give confidence to users of financial reporting and ensure that they did not have to rely on unskilled accountants who might have taken very short and inadequate accounting courses (Golov, 2002).

USAID, the UFPAA and the Accounting Methodology Department are jointly advocating the certification process. Building on the development of the Certified International Professional Accountant (CIPA) qualification in Russia, a local variant has been introduced. Apparently, this local training leads to a certificate accredited by the International Accounting Standards Foundation Committee (Golov, 2003).

Recent events in the USA (the scandals connected with Enron and WorldCom) have caused some supporters of certification to suggest that the certification of accountants would protect investors from dishonest management. Other analysts doubt whether certification could solve all such problems. They note that, even with the long tradition of investor-oriented accounting and audit, recent scandals have concerned large American corporations audited by Big Six audit firms. No certificate of competence in accounting can necessarily guarantee that the investor will be protected. On the other hand, it is possible that accounting certification could undermine the prestige of high schools whose diplomas are the current certificate of an accountant's competency (*Business*, 2002b).

Accounting and Taxation

In March 2002, the President of Ukraine enacted decree No. 216/2002 on the shadow economy. One of the arrangements to deal with the large shadow economy was to return to the system of calculating the tax due based on financial accounting data, rather than on tax accounting data.

To put these measures into practice the Ministry of Finance of Ukraine offered[22] to reconsider the eleventh part of the Tax Code Draft as the need to prepare two different financial reports for accounting and taxation was considered too onerous for taxpayers. It was leading to an increase in costs for taxpayers, had complicated the administration of tax payments and was hindering the forecasting of national income. A project is currently being undertaken by the UFPAA's Committee on Taxation and directed by the STA, to review the way forward on the link between fiscal and financial accounting.

Some Thoughts about What System of Accounting would be Appropriate for Ukraine

Ukraine has experienced two types of national accounting systems since independence:

- Close linkage of fiscal and financial accounting; and
- Separate fiscal and financial accounting.

There is possibly enough experience of both for experts and officials to conclude which of the two systems would be more appropriate for Ukraine. On the one hand, it is reasonable to suggest that keeping two sets of accounting books is more work for accountants and a greater cost to enterprises. On the other hand, the STA has constantly tended to interfere in accounting methodology while the Accounting Methodology Department is often incapable of opposing this. This would imply that under these circumstances it would not be possible anyway for financial reporting to serve any other purpose aside from tax reporting.

Some local experts believe that, at present, it is reasonable for the state governing organs to continue to regulate accounting in Ukraine, but it would be sensible to do it with the help of professional unions of accounting experts. Such regulation would have to be 'soft', i.e. there should be a choice of methods from which accountants could choose on their own as appropriate for local enterprise conditions, e.g. regarding rates of depreciation and amortisation (Butinets, 2001b).

Some overseas academics have suggested that the French model with its detailed charts of accounts would be the most suitable for a transition economy. Nobes (1998) specifically points out that, at least until there are substantial capital markets, an accounting framework such as that of the International Accounting Standards Board (IASB), oriented to the needs of investors in established capital markets, is not appropriate. Perhaps a series of technical rules (such as the French *plan comptable général*) might be more suitable. Whichever approach is appropriate, if either, some consideration needs to be given to the particular context, in this case Ukraine, the issues of financial reporting reliability and the types of users of financial reporting information. In the next section we consider what these might indicate for Ukraine.

Financial Reporting Reliability

In common with some other less developed transitional economies, Ukraine is subject to a high level of inflation, corruption, a large shadow economy and high levels of barter (EBRD, 2000). At present there has been a decrease in barter transactions and the rate of inflation is about 10–12% a year.

According to official returns, 61.3% of the ageing population of Ukraine believe that small and medium-sized businesses have mainly been developed as part of the shadow economy. The overwhelming majority of respondents believe that such businesses have developed this way as there is such a high level of government corruption (Kuchma, 2002). This shadow economy has been calculated to amount to about 45% of the total economy (Kuchma, 2000). According to the Transparency International poll, Ukraine takes one of the top positions on the list of most corrupt countries – 85th position out of a total of 102 (the greater the number, the higher the level of corruption).[23]

It is clear that such a level of the shadow economy cannot be neglected. However, it does not seem to be discussed as an influence on financial reporting in deciding what might be the most appropriate for Ukraine. Golov has accepted that the shadow economy exists in Ukraine. However, he believes that the shadow economy has always been there and will always be there, no matter what kind of accounting standards are implemented by the government. Golov acknowledges that there would be some manipulation of accounting figures, but this has always been the case (*Galitsian contracts*, 1999b, p. 12).

Unlike the shadow economy, which has a direct impact upon the reliability of financial reporting data, corruption has a pernicious influence on both financial reporting and its users. For example, Ukrainian businesses expend considerable financial and other resources on dealing with corrupt officials. First, this has a negative effect on management who are very sceptical about anything concerned with official reporting. Therefore, management uses other resources of financial information which might be considered more reliable than the official reports of enterprises. Second, considerable 'bribe' costs, for example, are not included in financial reporting and this distorts the financial reporting of enterprises.

Users of Financial Reporting

When the draft of the Accounting Law was being discussed in the Verkhovna Rada of Ukraine, one of the radicals, I. Belousova, named the following users as in need of financial reports:

- organs of government, including the Tax Administration, statistics agencies, custom authorities, pension funds;
- shareholders, creditors including banks and other financial organisations.[24]

Let us consider each of these in turn within Ukraine.

The Organs of Government

At present, financial reports are only filed with statistics agencies. The statistics agencies do not have the resources to check the accuracy of the financial reports that they receive. Tax inspectors can use accounting data while undertaking tax audits. Accountants and general managers can be fined only for late submission of statements at the rate of about 170 hryvnia[25] per violation. Hence, some small and medium-sized enterprises prefer paying a penalty to maintaining an accountant, as this is cheaper for them.

Investors

The 'extreme radicals' have always argued that financial statements will be scrutinised by potential investors, and, on the basis of the careful study of these financial statements will decide whether to invest. S. Golov suggests that the hindrances to an influx of foreign investments were both the political and economical instability in Ukraine and the tax orientation of financial reports (Golov, 1996). Also the Head of the State Commission on Securities and Stock Market O. Mozgoviy has argued that investors would never put their money into a business unless they had received detailed and faithful information about how their money would be spent and the risks or benefits from the financial operations. Investors would only provide money to enterprises which give them the necessary information rather than conceal it. The main problem for investors is that Ukrainian accounting does not conform to international accounting (*Securities of Ukraine*, 1999).

However, it is possible to debate these points as follows:

1. *Ukrainian investors do not trust blindly in financial reporting.* In the 1990s there were some collapses of trust companies. Many small investors lost their money, but the question of confidence in financial reporting did not emerge as the main issue for investors. Most Ukrainian investors had decided to invest on the basis of personal recommendation from neighbours, friends or relatives, rather than based on careful scrutiny of financial reports.
2. *Access to financial information.* Even if an average Ukrainian investor wanted to read an enterprise's financial reports, it is very difficult for him to obtain the information. The Internet is not accessible to most Ukrainians and one might query the extent to which, once the accounts are obtained, the average investor would understand what it reported.
3. *Investment in equities.* Ukrainians do not generally invest in securities, as is customary in more developed countries. Usually spare cash is kept either in a bank or in a secluded nook.
4. *Underdeveloped stock market.* Ukrainian stock markets include seven stock exchanges and two over-the-counter electronic trading systems. The equity

> securities turnover ratio is around 15% of GDP, reflecting low trading volumes and a lack of liquidity. Market participants believe that security transactions on the organised markets constitute only a small fraction of the total volume of transactions (World Bank, 2002).

Thus, one might argue that foreign investors interested in Ukrainian entities would invest their money despite the accounting methodology used. In fact, the main reasons for the low level of foreign investment in Ukraine are likely to be the very risky conditions for business, the uncertain legal environment and the high levels of corruption. An average investor is not the main user of financial reports in Ukraine and principal shareholders have access to other information about their investments, which is beyond the reach of small investors.

Creditors

Before giving credit to an enterprise, Ukrainian banks familiarise themselves with its financial statements. But they do it with the purpose of determining which liquid assets should be pledged[26] rather than for the calculation of liquidity and net profit ratios. Indeed, it is possible for a client to provide his property as security for a loan, without giving any financial reports. The main issue for bankers is that they receive the documents certifying title to the debtor's assets. It is to be noted that Ukrainian banks lend out money at a high rate of interest.[27]

It would therefore seem that there are only two groups in Ukraine concerned about financial reports being prepared in accordance with IAS:

- companies with shares quoted on an internationally recognised stock exchange; and
- those companies looking for funding from overseas investors.

In the first group, there are about 12–15 Ukrainian companies listed on world stock exchanges. For example, between five and seven Ukrainian enterprises have been registered on the US Securities and Exchange Commission.[28] Given this relatively small group of companies, one has to question the appropriateness of applying national accounting standards based on IAS for *all* Ukrainian enterprises. It seems to have been a hasty solution that was appropriate neither for the economic nor the political circumstances in the country. Bailey pointed out that an extensive and rapid accounting reform might be justified for enterprises seeking direct foreign investment and for those seeking a quotation on a national stock exchange (Bailey, 1995, p. 611). However, such enterprises comprise a small proportion of the total number of enterprises in Ukraine.

As already commented, Briston observed that, because of external pressure, no developing country had been able to construct a system of accounting designed primarily to meet its own information needs. This can lead to unsatisfactory developments because, with the creation of an accounting system and the nucleus of an accounting profession, vested interests were created who wished to defend the new status quo, even if it is not appropriate (Briston, 1978). This would be an accurate reflection of what has happened in Ukraine.

The Way Forward?

If it were possible, it would be helpful for Ukrainian enterprises to have an ‘accounting vacation’ or ‘breathing space’ for two or three years. During this period all enterprises would file only simplified financial reports, though those who wished to compile financial statements based on IAS or American generally accepted accounting principles (GAAP) could be permitted to do so. This is a particularly unique opportunity as fiscal and financial accountings are currently still entirely autonomous from each other. During this ‘accounting vacation’ two lines of activity would be possible.

First, a thorough analysis of the accounting situation in Ukraine could be made in a similar manner to that in other transition economies, for example, Romania (King *et al.*, 2001, pp. 159–164). The pros and cons of each accounting system could be comprehensively aired and accountants, entrepreneurs, bankers and investors could be involved in a thorough review. Statistics on the percentage of companies seeking investment from overseas, information on what would be necessary for the tax inspectorate and the impact on tax collection of different approaches to financial reporting could be gathered. It is possible that a similar development will take place in financial accounting to that having occurred in management accounting, where a great number of different approaches have been developed. The right balance between standardised and privatised accounting needs to be found (Bailey, 1995, p. 612) and the information needs of all users of financial reporting could be assessed such that the most appropriate system could be implemented (Briston, 1978).

Second, it is necessary to develop a united accounting elite, composed of highly skilled specialists capable of interacting with the government, which would propose ideas on the issue of accounting reforms and promote the national interest. This may be the most important requirement as it is almost impossible to make headway without having a closely knit, powerful accounting elite. However, this may be too idealistic. It would be quite wrong to say that there is no accounting elite in Ukraine, but it has been too weak, too divided and has not acted in many cases in the Ukrainian public interest. Many of the accounting reforms in Ukraine have been carried out at the Ukrainian government’s own initiative with the support of guided ‘public’ organisations, against a background of ongoing political and economic crisis. The development of an appropriate system of financial reporting and accounting in Ukraine may not be possible until a civil society has developed, capable of independently pursuing matters of national interest, and developing alternative sources of power. It has been recognised that Ukrainian accountants are badly organised. The existing organisations focus on special privileges for their members and are inaccessible for many accountants and academics because of their high entrance fee. It may be possible to turn the vanguard of Ukrainian accountants and academics into lobbying forces which would be able, not only to execute the orders of legislative bodies, but also to take an active part in the development of local laws (Mossakovsky, 2003).

Following the 'breathing space' recommended above, the Ukrainian government together with the Ukrainian accounting elite could draw up a programme of further joint actions. It would be helpful if there was an agreement between Ukrainian officials and accounting leaders in which both parties undertake obligations to coordinate their actions, to protect national interests, and to take decisions that do not impinge upon the rights of Ukrainian enterprises. Undoubtedly, Ukraine is a part of Europe after all. Therefore, Ukraine must not be isolated from the movement to IAS and the work of international organisations. However, this process must run its natural course rather than be imposed in an artificial manner. As the Ukrainian economy is developing, more and more enterprises might be interested in providing financial reports based on IAS. This process should be as painless as possible and should satisfy both the world community and Ukrainian accountants.

Without a doubt, it would be appropriate for Ukraine to unify taxation and accounting, but there are currently few appropriate conditions for this. At the Conference 'Audit and Accounting in Ukraine – 2003', Golov stated that the calculation of taxes on the basis of accounting profit would be impossible at present in Ukraine because of the imperfection of the tax legislation, as it was being used as a political tool. The same speaker was of the opinion that tax and accounting approximation would be possible only after Ukrainians have learned to collect taxes skilfully. At present tax collection in Ukraine is expensive and inefficient, which causes much stress for enterprises, and is not effective at providing sufficient income for the state budget (*Buhgalteria*, 2003, p. 48).

Conclusions

Accounting has not developed independently since Ukraine declared its independence. At first, it was dominated by the needs of the tax inspectorate, which interfered in accounting methodology with a view to increasing the amount of tax received from taxpayers. Then, the interference from international organisations led to a further crisis in accounting.

In this paper, much attention has been devoted to taxation and its relationship with accounting. Accounting cannot be understood outside the political and economic environment in which it is functioning, and a key theme of the post-independence period in Ukraine has been accounting's relationship with taxation. The interaction between accounting and taxation from their convergence to separation from each other and again towards convergence has continued against the background of a strengthening in the functions of state control. As explained in the paper, accounting in Ukraine is in a state of crisis for four main reasons. First, there is a lack of a national patriotic-minded accounting elite which would be able to advocate national interests.[29] Second, there are dire economic and political circumstances which make the Ukrainian government and public organisations susceptible to pressure from international organisations. Third, users generally distrust the reliability of financial reports. Fourth, the STA has continued to involve itself in the detail of accounting methodology for its own purposes.

Attempts to certify accountants are unlikely to save the situation because of the high level of corruption and the lack of appropriate training. The calculation of taxes based on accounting would be reasonable only after the creation of favourable economic and political prerequisites for it.

However, the main problem lies in the general marked indifference of Ukrainian society towards accounting reforms. Ukrainian social and political journals have been willing to carry articles concerning financial scandals in the USA but there is a lack of discussion concerning accounting problems in Ukraine. This may be because the periodicals do not consider these to be an issue of interest to readers.

The works of Bailey (1995), Briston (1978) and Hove (1986) have been referred to as an aid to understanding and evaluating the developments in accounting in Ukraine since 1991. This paper has, in many ways, provided a rich case study of how some of the issues that they raise have been played out in Ukraine. As Bailey (1995) suggests, taxation has become a key tool for control over enterprises as well as a basis for raising revenue. It is not possible to understand the development of accounting in transitional economies without studying the position of the tax inspectorate. As Briston (1978) and Hove (1986) suggest, much of the accounting which has been constructed in developing economies is not appropriate to those economies and has merely been a transfer of technology, as one of the conditions for the receipt of overseas aid. Unfortunately, this is the case with Ukraine and this insight is not only likely to be relevant to Ukraine, but to other transitional economies. Further research on the impact of the transfer of accounting technology into other countries of the FSU would be helpful. Hove's analysis of how local professions may react to, and develop vested interests in, this inappropriate technology is also pertinent to developments in Ukraine. Though we suggest that there should be an attempt to assess all the necessary needs of and appropriateness of particular approaches to financial reporting, as recommended by Briston (1978), this is likely to be, as has been written, a 'counsel of perfection' (Bailey, 1995, p. 611). What this previous research has underestimated is the local political context that may have a substantial impact upon accounting development. Understanding how accounting has developed in Ukraine is not possible without appreciating how the President of Ukraine has sought to appropriate power and to stifle opposition. Taxation, linked with financial reporting, has been a tool in this accretion of power. In Ukraine, the development of accounting is reflective of the *real politik* of Ukrainian economic and political development since 1991.

Postscript

Following an 'orange revolution' the Ukrainian opposition came to power at the beginning of 2005. The new authorities have declared that there will be large changes, particularly in tax policy. Such changes may have an impact on accounting developments in the near future.

Notes

[1]In 1939 Eastern Galitsia joined the Ukrainian Soviet Republic. Northern Bukhovina and Southern Bessarabia joined in 1940. During 1941–45 Ukraine was under German occupation. The Zakharpatye's region joined Ukraine in 1945.

[2]At the International Scientific Conference 'Accounting in Ukraine at the Beginning of XXI Century', which was held in Lviv (the centre of Western Ukraine) in April 2001.

[3]Except for Western Ukraine, which was influenced by Austria, Hungary and Poland.

[4]Although the independence was rather nominal as Ukraine continued to be under Moscow's control. Ukraine started to gain true independence only after the signing of the Belovezhsky Agreement in December 1991 when M. Gorbachev resigned and the USSR broke up.

[5]For example, on 4 June 1997 a paper 'All about Accounting' No. 21(152) printed the Chart of Accounts for enterprises as of 1 May 1997 issued supposedly by the Ministry of Finance. This document was without any number, so nobody was responsible for its appropriateness.

[6]CRA is equivalent to a public sector auditor.

[7]February 2004.

[8]The UFPAA does not focus on this fact (http://www.ufpaa.org/ufpaa/siteindex.jsp?item_id=116692&locale=en), but the US government's primary market information centre, BISNIS, presents the US Embassy's report (Kiev) 'Ukraine Accounting Law', which states (§ 5) that USAID/Kiev has supported accounting reform in Ukraine since 1996. The Ukrainian Federation of Professional Accountants and Auditors (UFPAA) was founded in that year, with USAID assistance, to strengthen the private accounting profession at a grass-roots level through education, training, certification programmes and support for accounting legislation (www.bisnis.doc.gov/bisnis/isa/000228LegUkrACCOUNTINGLAW.htm).

[9]http://www.ufpaa.org/ufpaa/siteindex.jsp?item_id=111037

[10]Social Democratic Party of Ukraine (united) (SDPU (u)) – pro-presidential party with its leader Victor Medvedchuk the Head of the Presidential Administration. The department is not provided by the Ukrainian Constitution but it had large powers. In November 2003, President Kuchma issued Edict No. 1387/2003 which gave still more powers to the Presidential Administration. As suggested by the Business Information Agency in its article 'Context's Opinion this Edict Constricts Ministry of Foreign Affairs' this has reduced the autonomy of the Foreign Policy Department to an organisation which just collects information, while the Presidential Administration has become the centre of decision-making in the area of foreign policy (http://www.context-ua.com/articles/politicnews/42127.html).

[11]Earlier Yaroslav Khendzior had appeared on Lviv's television stating that Lviv's Social Democrats use the local tax administration's auspices while forcing Lviv's businessmen to sponsor the party through tax audits. He also hinted at cooperation between the SDPU (u) and Lviv's Tax Administration. (From 1998 until 2003 Serguey Medvedchuk, the brother of the Head of the President Administration, was the Head of Lviv's Tax Administration.)

[12]The Methodological Board was actually created in October 1997 according to the order of the Ministry of Finance of Ukraine No. 230.

[13]Here we mean accountants, not auditors.

[14]The journal-order form is the form of accounting where accounting operations are systematised in the special registers (journal-orders) which are made up on a credit principle, i.e. business

transactions are recorded on credit of *an account* correspondingly to debits of *different accounts.* The total sum of a credit turnover is transferred to the General ledger's account (one can always find detailed information about credit turnover of an account in journal-orders). The journal-order form of accounting helps avoid multiple repeated records. It unites synthetic accounting with analytical accounting.

[15]Mikola Azarov, the former Head of the State Tax Administration, was the Region Party's leader for some time.

[16]Yuri Kravchenko was retired during anti-presidential actions in 2001. The Ukrainian opposition blamed him for his involvement in the assassination of the journalist Georgy Gongadze and provoking disorder in Kiev through police action on 9 March 2001 (http://news.bbc.co.uk/2/hi/europe/1227436.stm).

[17]As a comparison: 38.7 million hryvnia is budgeted for national theatres. This is about a quarter of that of the Tax Administration.

[18]World Bank's Acting Chief in Ukraine O. Kaliberda said that the World Bank intends giving credit at LOBOR + 0.75% interest (http://foreignpolicy.org.ua/ua/headlines/globalization/worldbank/index.shtml?id=1707).

[19]www.worldbank.org.ua/ECA/Ukraine.nsf/ECADocByLink/WORLD+BANK+SUPPORTS+UKRAINE+TAX+SERVICE+REFORM+?Opendocument

[20]http://www.sta.gov.ua/news.php3?2970

[21]With separate accounting records for fiscal and financial accounting.

[22]The letter No. 051-291-205/1222 of July 2002.

[23]http://www.transparency.org/pressreleases_archive/2002/2002.08.28.cpi.en.html

[24]Session No. 64, The Room of Session of Verkhovna Rada of Ukraine, 1 June 1999 at 10 o'clock in the morning (http://www.rada.kiev.ua/zakon/skl3/BUL143/71_1.htm).

[25]Hryvnia (hrn.) is a Ukrainian national currency. For example, on 3 January 2002 US$1 was equal 5.2985 hrn. (http://www.bank.gov.ua/kurs/engl/last_kurs1.htm).

[26]The value of collateral is usually 200–250% of the amount of credit granted.

[27]The interest rate on credit in Ukraine is about 35% for credit in national currency and about 20% in US dollars.

[28]http://www.sec.gov/rules/other/34-45855.htm; http://www.sec.gov/rules/other/34-48063.htm

[29]As commented by one of the referees, perhaps references to a 'patriotic-minded accounting elite' is 'too utopian, given also the experiences of other countries regarding their accounting professions?' We agree, but note it as an aspiration and the barest necessity for a new state such as Ukraine.

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