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## **MULTIVARIATE ACCOUNTING IN INTERNATIONAL FINANCIAL REPORTING STANDARDS**

*The necessity of the research on the basis of the positivist model of scientific knowledge is proved. The value of the conceptual framework in the process of bookkeeping selection is analyzed. The differences of the accounting selection adjustment procedure in US GAAP and IFRS are considered. The role and importance of the qualitative characteristics of financial reporting in the implementation of accounting selection are substantiated. The structure of the qualitative characteristics of financial reporting and their limitations under the Conceptual Framework for the preparation and presentation of financial statements are examined. The correlation between the accounting rules and alternatives adopted in US GAAP and IAS / IFRS is analyzed. The necessity to discuss the issue of the feasibility of «rule-oriented» or «principle-oriented» accounting model in the context of multivariate concept is studied. The authors prove the necessity of the application of institutional theory to solve the problems of accounting opportunism that arises when using the concept of multivariate accounting in International Financial Reporting Standards.*

**Keywords:** *IFRS; conceptual framework; multivariate accounting.*

**Actuality of the research and settlement of the problem.** The development of the world accounting thought, starting with 70-th of the twentieth century, changed its direction all of a sudden that was caused by the wide use of the positivist model as the main ideological concept for carrying out scientific researches. This approach became the base for the positive accounting theory created gradually; the theory was directed not for obtaining the scientific results on what to do and how to do it for accountants, but it was directed for substantiating the features of the current accounting practice and forecasting of its further development.

According to the positivist model International Financial Reporting Standards should be considered as an objective reality and the main tasks of their researchers in this context are the following: 1) to prove the reasons of their separate rules by regulators; 2) “to decode” features of their use in practical activities of enterprises; 3) to determine how much the adoption of such regulations and information (which is formed on the base of their use) influence upon the users of accounting information and the quality of

decisions made by them; 4) to substantiate the behaviour of accounting entities and the analysis of their impact on the index of financial reporting.

In the context of the latter task, the main issue for scientists is to substantiate the reasons of appearance and essence of the concept of multivariate accounting adopted in international standards; in accordance with the concept accounting entities have a possibility to select among the alternatives indicated in the standards.

**Analysis of the latest researches and publications.** The issues of multivariate accounting in the context of applying the accounting policy of enterprises were paid attention by such domestic scientists as Baranovska T.V., Bondar M.I., Valuyev B.I., Golov S.V., Zhytnyi P.Ye., Zhyc M.V., Kostyrko R.V., Kusina R.V., Lochanova N.O., Ozeran A.V., Petruk O.M., Suprunova I.V., Harlamova O.V., Chyzevska L.V. and others.

**Purpose of the article.** The principal purpose of the current paper is to analyze the features of using the concept of multivariate accounting in International Financial Reporting Standards,

**Statement of the research.** In 1973, the International Accounting Standards Committee (further as IASC) was founded to develop the system of international accounting standards. The US GAAP model was used as the base for building standards; at that time, the model was the most completely and fully built system of standards, and their theoretical base was conceptual framework of financial reporting called FASB.

As soon as the IASC was established, it began the wide-ranging program on the development of accounting standards, which nowadays is known throughout the world. It issued 41 standards starting since 1975 and till its reorganization into the International Accounting Standards Board (further as IASB) in 2000.

After the IASB foundation (which follows different purposes than the Committee), the standards, which one began issuing in 2003, were called the international financial reporting standards (IFRS).

To understand the standards and use them in practice the best the Conceptual Framework for the preparation and presentation of financial statements (further as CFPPFS) was issued in 1989 as every system of standards or international accounting doctrine has to have its conceptual core (for example, the Conceptual framework for US GAAP, the Report on principles for UK GAAP)

Taking into account the fact that all the existing conceptual frameworks (British, Canadian, Australian, and CFPPFS) were developed on the base of the conceptual framework of FASB, all of them have the common aim, which is to create the mechanism that would allow the accounting entity to make a right accounting selection. The right selection is, in this case, that

one oriented or corresponds to the regulations of a specific conceptual framework. Such an approach was realized in CFPPFS, the developers of the standards indicate this in the introduction to IFRS 8: “Conceptual framework is also the base while making professional opinions in solving accounting problems” [2, p. 68]. It is also necessary to take into consideration that the main purpose of Conceptual frameworks is the development of the theoretical base, which forms the foundation for building accounting standards and has to be “the protective shield” for these standards from the influence of different political factors and interests of groups and persons when the standards are under development.

Considering the place of conceptual framework in the process of making bookkeeping selections, scientists underline the following value of it (table 1). The scientists’ views (table 1) bring us to the conclusion that conceptual frameworks are developed to remove the influence of accounting entities and companies’ managers on the financial reporting indices by determining the rules of making a bookkeeping selection.

At the same time, the existing world conceptual frameworks are not identical to each other, because they are oriented to satisfy various needs of the users of accounting information. That is why, every conceptual framework uses its mechanism, which determines the order of making bookkeeping selection. Unlike US GAAP, neither CFPPFS, nor IFRS uses the concept of bookkeeping selection (it is not included in the official glossary of terms used in IFRS), as a result, it is impossible to study the model of multivariate accounting adopted by IFRS. Although American researchers, for instance, Epstein B. and Mirza A. [5, p. 12], who study the problems of IFRS application, use this concept in their works. Besides, the concepts of accounting information and professional judgements are widely used in IFRS; this confirms the existing possibility of selection among the alternatives indicated in the standards.

Solovyova O.V. stresses about the existing multivariate accounting in the IFRS and mentions that IFRS have a recommendation character and in many cases allow the use of alternative approaches to solve different accounting problems [1, p. 20]. Alternative selection of accounting methods (accounting models, accounting principles, accounting policies) can also be seen in separate IFRS.

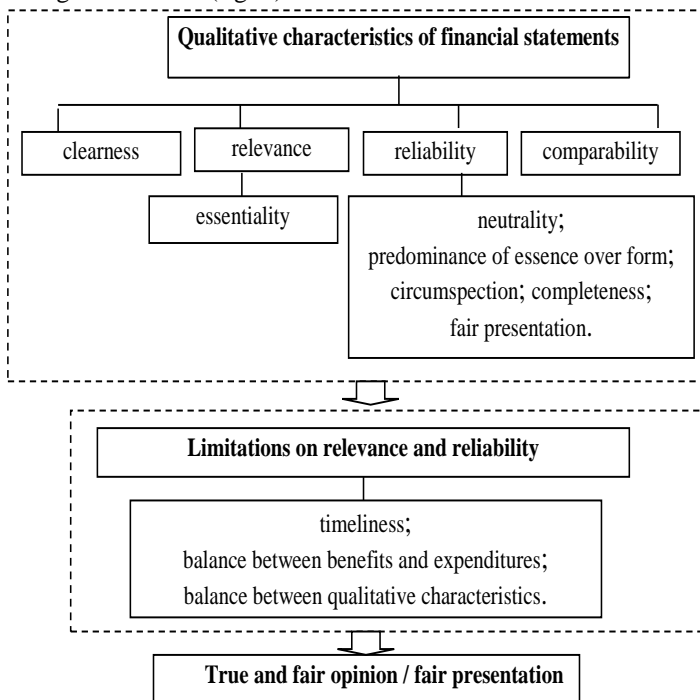
IAS 1 «Financial Statements Presentation» (item 119) says that «Disclosure of some specific accounting policies are specially helpful for users, if such policies are selected from the alternatives suggested by IFRS. Some IFRS include the special demand to disclose the information about specific accounting policies considering the selections made by management among all the possible alternatives» [2, p. 922].

*Value of conceptual framework in the process of making bookkeeping selections:  
analysis of authors' views*

Author	Value of conceptual framework in the process of making bookkeeping selections
Foster J., Johnson T.	Conceptual framework provides creation of prerequisites with the help of which it is worth examining the advantages of the indicated alternatives. Though it doesn't answer all the questions, but it reduces the amount of alternatives, removing those ones which contradict the regulations of the conceptual framework [6, p. 2]
Godfrey J., Hodgson A., and Holmes S.	Conceptual framework was created in order to solve the problem of existing possibilities to apply alternative accounting practices to the economic operations performed at various enterprises [7, p. 452]
Solomons D.	Accounting policies can be adopted only by making valuable judgements, but there is no possibility to be sure that valuable judgements of every single person or group of people are better for the society than in others [10, p. 115]. The author thinks that the development of the conceptual framework can solve this problem.
Rich G.S. and others	Conceptual framework is often criticized for its inner inconsequence and because it is not quite a complete guidance for recognition and measuring [9, p. 1337]. So, according to the authors' views, the conceptual framework has to be used by management when making bookkeeping selection among the alternatives of recognition and measuring provided by the standards.

IAS 1 (item 122) also says that «Using the brief review or other notes on the main accounting policies the enterprise has to disclose the information about professional judgements made by management in the process of applying the enterprise's accounting policies...» [2, p. 922]. For instance, IAS 40 «Investment property» (item 32 A) says directly that enterprises have to select between two models (fair assessment or the assessment based on expenditures), which can be used for assessment of investment property [2, p. 2303]. The examples of IAS 1 and IAS 40 prove the IFRS system is built on the base of the multivariate accounting concept that makes it necessary to carry out the bookkeeping selection using the standards, which include the alternative approaches to the assessment and accounting reflection of the results of economic life facts.

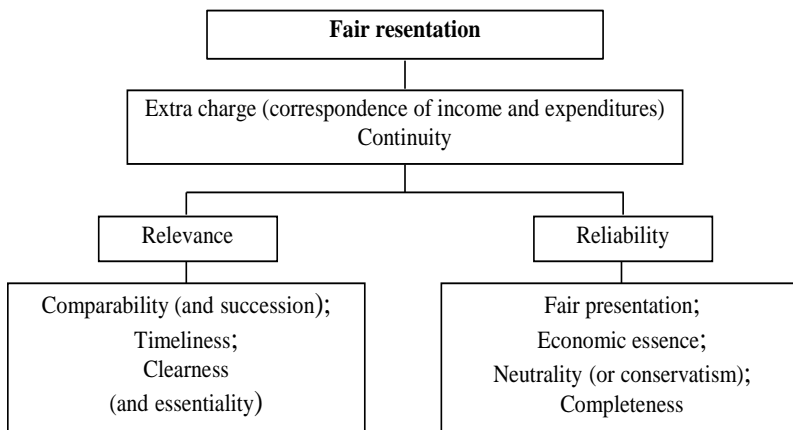
The CFPPFS guideline for making bookkeeping selection is qualitative characteristics of financial statements and their limitations, the application of the latter ones provide the true and fair opinion / fair presentation of accounting information (fig. 1).



*Fig. 1. Structure of qualitative characteristics of financial statements and their limitations according to CFPPFS (2001 year) [2]*

Though the CFPPFS are not the component of the IFRS system, however its developers consider that the applying the qualitative characteristics mentioned above in figure 1, when making bookkeeping selections, will allow to provide such accounting information, which would guarantee the true and fair opinion on the company's financial state, its changes, and the results of the company's activities that will provide taking effective management decisions as a whole.

On D.Alexander, and C.Nobes's opinion, the structure of the qualitative characteristics described in the CFPPFS has to be the following (fig. 2).



*Fig. 2. Structure of qualitative characteristics included in CFPPFS according to D.Alexzander and Knobbs's opinion [3, p. 38]*

The authors consider the structure drawn in figure 3 can explain all the concepts and assumptions existing in the CFPPFS. Their main goal is to give the fair presentation about the company's activities and financial state so that the users of accounting information could take effective management decisions. To reach this the information must be relevant and reliable; the majority of other conceptions set in the CFPPFS can be explained with the help of these two characteristics. General aim of the CFPPFS to provide the fair presentation is explained by the fact that the current demand is determinant for the countries of the European Union and the countries, which are under British influence.

In 2006, IASB and FASB made the decision to implement the big project on the development and improvement of their conceptual frameworks by creating a common document. The general purpose of this

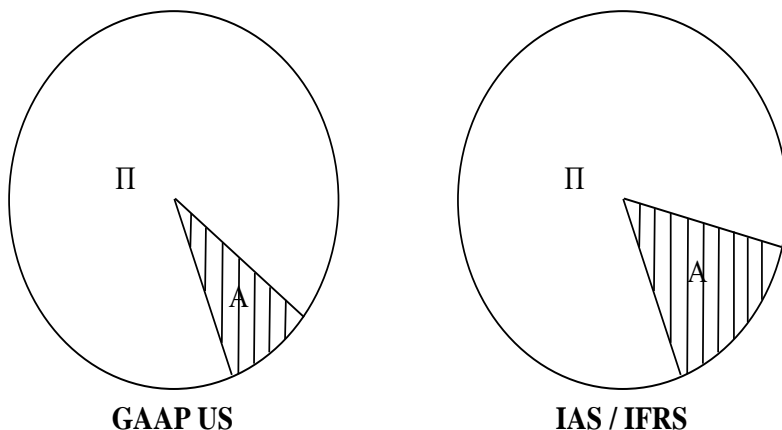
project was to form solid motives for building the system of principle-oriented accounting standards that would be inner successive and internationally converted. In September 2006, the phase A of the project was completed and the separate elements of the future Conceptual framework for financial reporting were published. In particular, issue 1 «Aim of financial statements of general direction» and issue 3 «Qualitative characteristics of useful financial information» were published.

Issue 3 introduced the new structure of qualitative characteristics of useful financial information that completely coincides with the similar structure presented in SFAC 8. However, if the SFAC 8 was published officially (as the conceptual framework of FASB consists of some documents), then, in accordance with the IASB, only separate issues of the new conceptual framework were published. Besides, the published components of the new conceptual framework say that further amendments may be added to the issues published already according to the regulations, which will be published in in other issues of the conceptual framework.

So, nowadays, though there is no Conceptual framework for financial reporting as a separate and valuable document issued according to the IASB, the new mechanism (based on the new set of the qualitative characteristics of useful financial information) which it will be worth using in future by accounting entities who apply IFRS for making bookkeeping selection.

The other aspect that requires our attention and considers the concept of multivariate accounting, is the proportional correlation between the rules and alternatives of accounting adopted in US GAAP, IAS / IFRS. Such characteristics of international accounting models as US GAAP (called «rule-oriented»), and IAS / IFRS (called «principle-oriented») (fig. 3) are very often used in .accounting literature.

These characteristics (fig. 3) mean that the US GAAP system is more detailed and complicated in comparison with the IAS / IFRS one because the former one has in its structure a great amount of detailed rules. IAS / IFRS has simpler demands to conducting accounting and presentation of financial reporting. At the same time, Holgate P. and Buckley E. consider with some caution, their IASB and UK ASB to be built on the base of the principles, unlike the American approach, and to be more detailed and normative. However, this statement is relatively reliable, but more detailed rules are introduced in their systems by both developers of the standards simultaneously [8, p. 38].



Note:

R – rules

A - alternatives

*Fig. 3. Conventional structure of US GAAP and IAS / IFRS concerning rules and alternatives of conducting accounting*

Therefore, the rules continue to be rather considerable part in comparison with alternative versions of accounting reflection even in the principle-oriented models of accounting reflection.

Using the present difference between two the most influential models of accounting regulation in the world, after long scientific discussions, scientists formulated the scientific problem of expediency of using the «rule-oriented» or «principle-oriented» accounting models.

It is worth pointing out that on the first stages of the IAS / IFRS formation this system of accounting standards was much more liberal. Davis-Friday P. and Rueschhoff N. mention on the matter that the IASB issued 22 standards to the end of 1983. These early standards were significantly criticized, because they provided too much flexibility for making accounting decisions. Studying the uniformity of these 22 IFRS has showed that almost 14 % regulations concerning the standards used flexibility in practice [4, p. 45]. However, in response to the critics of the versions of early standards IASB started the project on their improvement (in 1987) that resulted in shortening the quantity of the alternative versions of accounting reflection of economic operations and possibility of making bookkeeping selection.



**Conclusions and perspectives of further researches.** 1. Nowadays, the concept of multivariate accounting that allows the possibility of making a bookkeeping selection among the alternatives adopted by the standards is widely used in international financial reporting standards. Such competence in management or entities of conducting accounting impose the considerable imprint on their role in the process of preparation and formation of financial reporting that is the research object for scientists-positivists. The bookkeeping selection in the conditions of predominance of the positivist concept of scientific researches has to be examined as the basic one; solution of most scientific problems in the field of accounting, especially about reaching the desirable characteristics of information used in financial reporting (trustworthiness, relevance, comparability, and quality).

2. The entities authorized for making bookkeeping selection have to use the set of qualitative characteristics of financial information showed in the conceptual framework of IASB in 2010. But, in spite of such a limiting factor when making bookkeeping selection, the entities of its implementation have «space for a game», that is performed by fulfilment of opportunistic behavior directed on satisfaction of own interests, but not interests of users of accounting information. The existing misunderstanding of the problem that is inherent to the majority of domestic researchers in the field of accounting and economics was caused by the peculiarities of historic development of national accounting system, in particular, “its «Soviet past».

3. One of the perspectives for further researches is to ground the procedural aspects of making bookkeeping selection on the base of applying the regulations of institutional economic theory and search of the ways of improvement of accounting system normative regulation in the direction of solving the problems of accounting opportunism.

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