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TRANSPARENCY OF FINANCIAL REPORTING IN THE CONDITIONS OF MODERN INFORMATION TECHNOLOGY

***Abstract.** In the article, the authors carried out a theoretical generalization. They proposed a new solution of the pressing scientific and practical problem, regarding the harmonization of financial reporting of the domestic enterprises with the international standards and formation of accounting information for efficient management of the enterprise. The primary objective of this article is the study of the current state of Ukrainian financial reporting, identification and development of theoretical and organizational methodological provisions on its harmonization with international standards and requirements of management. The authors used a dialectical method, which enabled the disclosure of informational nature of financial reporting; based on the systemic approach, they generalized the scientific experience and grounded the conceptual provisions and recommendations on the improvement of the financial reporting formation methodology for meeting the needs of financial management. The complexity of data collection, processing, and aggregation, the availability of cross- and redundant information, and the complexity of its analysis as a result of incompatibility of formats of reporting, became an agent for the development of the technological tools for formation and delivery of financial reporting. The application of XBRL in Ukraine includes the development of the XBRL taxonomy according to the national P(S)FR or sector-specific extensions for enterprises of different types of activity. This promotes the expansion of informational space, increases the level of transparency of financial reporting, and ensures more reasoned and efficient management.*

***Keywords:** XBRL instruments, financial reporting, financial management, international standards*

Introduction

The process of reformation of financial reporting in Ukraine lasts for over twenty years. Nonetheless, financial reporting of the domestic enterprises is not yet compliant to the market-focused approaches to information disclosure. There is a range of problems, hindering improvement of quality of financial reporting, drafted according to Ukrainian legislation.

The most vital of them are the assignment of development functions on a state, approval of P(S)FR, and control over their implementation; the imperfection of the methodology of the transformation of information, accumulated on the accounts of financial reporting into accounting information; the prevalence of legal form over economic content; untimeliness of adaptation of domestic legislation to the changes

in IFRS, which hinders the harmonization process; insufficiency of feedback between the users of reporting information and the developers of statutory and regulatory acts in the area of accounting and financial reporting; insufficient attention to professional behaviour and the qualification level of the reporting draftsmen.

The development of the Internet has radically influenced the world business. It can be said that today digital technologies are the main engines of progress because every day in the international foreign exchange market people conclude trillion-dollar agreements using modern communication technologies, including the Internet.

Thanks to the worldwide network, individual and professional investors can be as close to the company as possible, even if they are at the other end of the world. Accordingly, investors become more demanding to accessibility, transparency, clearness, comparativeness, and speed of financial information about the company they are interested about.

The primary objective of this article is the study of the current state of Ukrainian financial reporting, identification and development of theoretical and organisational methodological provisions on its harmonization with international standards and requirements of management. Due to a big number and diversity of the studied problems, the attention is focused on those of them, which are referred to as the most relevant and important.

Literature Review

Kuzina, R.V. (2015) state: the unconditional achievement of the information disclosure system in Ukraine is that it was initially focused on the electronic form. The most active work in this direction is observed in the bodies of the State Fiscal Service of Ukraine, as well as the National Securities and Stock Market Commission (Potryvaeva, N.V., & Korenovskaya, T.O. (2015)). Nevertheless, the formats, used for reporting in these bodies are not yet compatible with each other. Therefore, the issue of drafting and application of a single format for electronic reporting to all monitoring and regulatory bodies is an urgent task today.

One of the most significant mechanisms of modernization of reporting is the integration of information technology achievements into the process of development, presentation, and analysis of this information. The distribution of financial

information through the Internet creates a new dimension in the system of corporate reporting (Ball, R., Li, X., & Shivakumar, L. (2015)). Operational, real-time, information in the near future can replace the established historical financial reporting, which is nowadays submitted by companies for interested parties (Tschopp, D., & Huefner, R. J. (2015)).

To the modern methods of financial reporting, one should include the use of web technologies for placement of reporting on the Internet, as well as the use of the flexible language of business reports XBRL (extensible Business Reporting Language) (Sanad, Z. R., Al-Sartawi, A., & Musleh, M. A. (2016)).

According to the survey results, held by the leading information technology consultants and financial controllers, XBRL is recognized as one of the seven advanced technologies, which is expected to have a great influence on doing business and will stage a coup in reporting of the corporation (Milanes Montero, P., Pérez Calderón, E., & Lourenco Dias, A. I. (2020)).

Here are the prerequisites that contributed to the spread of XBRL in practice:

1) severization of the requirements of the external users to transparency, volumes, and speed of the report handling (Andries, K., Gallemore, J., & Jacob, M. (2017));

2) the universality of accounting systems as a result of the convergence of the national standards of financial reporting and IFRS, due to which, one observed an increase in the need for drafting a report in the electronic format (Johannesen, N., & Larsen, D. T. (2016));

3) expenditures for publication of financial reports (Mohammadi, J., & Khozain, A. (2017)).

Before the appearance of the XBRL standard, financial reports were distributed among users in interactive digital formats (official websites of the companies), applications (MS Word, Adobe Acrobat) or in a printed version (Jatmiko, B., & Setiawan, M. B. (2020)). In the last-mentioned cases, to use reports for analysis and other purposes, one had to transform it into an electronic document first. This required additional time and caused problems when exporting data from one program to another.

Their study contributes to the development of the theory and methodology of accounting and financial reporting. At the same time, the globalization of the world economy, the European integration processes in Ukraine, the entry of the domestic enterprises into international capital markets, the changes in market conditions, permanent development of international standards, and expansion of capabilities of the Internet technologies require modernization of theoretical and methodological provisions and the development of the latest concept of financial reporting, in particular, with regard to disclosure of information. The solution of the mentioned issues will improve the quality and transparency of financial reporting, as well as ensure confidence to reported information from a wide range of users.

Methods

The theoretical and methodological basis of the study included the general scientific and empirical methods of cognition of the studied phenomena and processes.

The use of the dialectical method enabled the disclosure of the information nature of financial reporting; based on the systemic approach, the authors generalized scientific experience, justified the conceptual provisions of financial reporting, and the recommendations on improvement of the methodology of financial reports formation for meeting financial management requirements. The research also included the use of the historical and logical methods for the study of the prerequisites for the emergence and objective regularities of the evolution of the harmonization process in financial reporting with international standards. The comparative analysis made it possible to determine the differences between the requirements of the B(S)FR and the provisions of IFRS. The methodologies of synthesis and grouping were used for classification of the detected differences.

Results

In the real conditions of the information economy, the enterprises have to respond to the growing demand of society for transparency, which is largely due to the awareness of transparency as a common idea of modern civilization, a big number of investors, and rapid development of the mass media. Transparency or openness

means the creation of conditions, when information about the existing situation, made decisions, and actions is available and clear to all market participants.

Although transparency can not prevent a financial crisis, it can at least provide a restrained response of the market participants to bad news, reduce the likelihood of panic and other disastrous consequences. Financial transparency helps to attract targeted and effective investment and credit resources, which is especially important for small and medium-sized enterprises that lack sufficient collateral support. The world practice shows that enterprises which have good prospects and high-quality financial reporting but do not have collateral support, have more chances to obtain a credit since banks receive more information for making credit decisions, which makes it possible to reduce requirements collateral.

In Ukraine, transparency of financial reporting, as well as corporate reporting as a whole, is still of relative importance only for large companies, since in domestic practice, there is traditionally a trend towards the closure and non-proliferation of information, even one that is usually not referred to as confidential.

Among the main reasons of the Ukrainian companies' unwillingness to fully disclose information about their activity in reporting are: competition, high reporting costs, as well as a low culture in a matter of corporate ethics. Most companies do not pay due attention to information disclosure issues and do not consider such practices as an important component of communication with stakeholders.

Considering that information of financial reporting helps not only to establish the level of financial stability, profitability, and liquidity of the enterprise but also predict its development, one can state that: the quality of managerial decisions significantly depends on the level of transparency of the financial reporting of the enterprise. Based on the above-given details, one can speak of the importance of the concept of information disclosure in financial reporting of the enterprises as the mechanism of their transparency provision, which will contribute to the growth of confidence in them from various reporting information users.

It should be noted that the process of transparentization will be more efficient if the enterprise voluntarily seeks to self-disclosure and building its activity according to the idea of transparency. Selective transparency is unacceptable when, for

example, the enterprise drafts a report upon IFRS, but it includes no other, non-financial, information.

The disclosure of information in financial reporting is traditionally associated with notes to financial reports. Due to the presentation of the four primary forms of financial reports in the aggregate form, the information included in them only partially reveals the enterprise's activity. Moreover, assessment of individual balance sheet items and reporting on financial results may differ in different national systems of accounting and IFRS. Therefore, the full disclosure of these sheet items in the notes section makes it possible to obtain the necessary information, needed for management and making decisions.

The analysis of the financial reporting of public companies revealed at SMIDA showed that not all enterprises of Ukraine fully compile and publish the notes to financial reports. It is worth to mention the positive dynamics in this direction, which is primarily due to the introduction of IFRS – a standards system, providing a higher level of disclosure. Despite the fact that the general requirements to the disclosure of information in financial reporting are specified in NP(S)FR 1 “General Requirements for Financial Statements,” and the requirements for the disclosure of individual assets and liabilities – in the corresponding P(S)FR, there is a fractional and chaotic nature of the published notes to the financial reports. This is due to the absence of information disclosure principles, recommendations on the assessment of the significance of information, and the layout of notes with an approximate list in the domestic regulatory framework.

The main causes, which lead to complication of the notes to financial reports and a decrease in their significance and clarity, are referred to as follows:

- severization of requirements to the disclosure of standards by the developers for increasing a transparency level of financial reporting, as it is considered that bigger quantity of information will prevent financial crises. The notes are considered as a means of compensation for non-compliance with recognition and assessment principles, rather than as a “guide” to primary financial reports;

- the complication of business operations, which resulted in severization of requirements to financial reporting and provision of more information in it;

- complexity of the practical application of professional judgment on significance of information that should be disclosed;
- the choice of reporting by the draftsman and the approach to “control list” (“checklist”) of requirements by the regulating bodies, etc.

The above-given information highlights the need for development and substantiation of the requirements to the disclosure of information in the notes section at the same level as it is with the requirements to recognition and assessment of elements of financial reports.

Sorting of principles and requirements to the disclosure of information in the notes section to financial reporting requires a comprehensive solution. We consider two equally possible ways of its implementation:

1-st variant (recommended): the development of a separate document, for example, provision (standard) of financial reporting titled “Disclosure of information in the notes section to financial reporting” or

2-nd variant (alternative): presentation of NP(S)FR 1 “General requirements to financial reporting” in the new section titled “Disclosure of information in the notes section to financial reporting.”

The mentioned document should provide the flexibility of requirements to the disclosure, avoidance of repeated data in financial reporting, and active application of judgment on the significance or make notes to financial reports more informative, coordinated, and concise.

Alongside the problem of handling electronic-financial reporting in a single resource, there is also a need for solving the problem of a single format for drafting a report, which would make reporting more comparative and suitable for analysis by software.

The environment of the XBRL use covers all parts of the Corporate reporting supply chain (CRSC), which is related to people and processes, involved in the preparation, approval, audit, analysis, and use of financial reporting (Figure 1). All links in this chain should be of high quality and closely interconnected.

The XBRL technology allows software tools, supporting XML, to automatically read any information, in particular, annual financial reports, drafted in

accordance with requirements of IFRS, U.S. GAAP or other national accounting and financial reporting standards; sort, analyze, store, and exchange it with other computers. In other words, XBRL is a technical tool that collects information, presented in a specified form and transmits it over the Internet (or internal corporate network) in a form that is clear to any end-user.

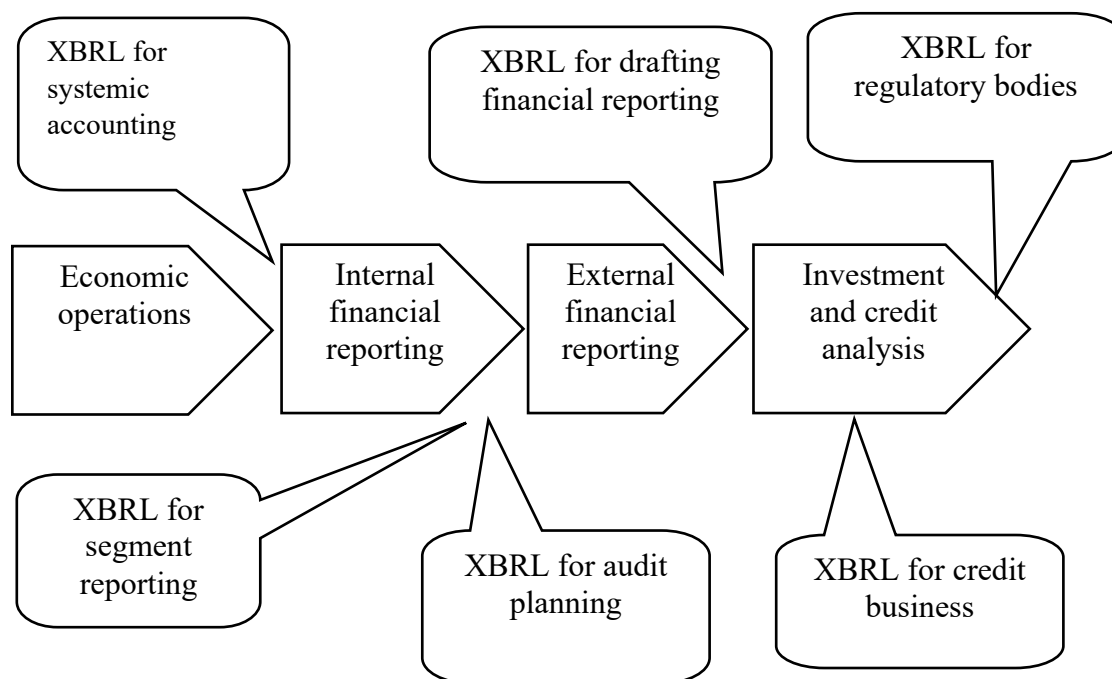


Figure 1. XBRL in the chain of ensuring corporate reporting
(systematized by the author)

It is important to note that the Notes to financial reporting are one of the most important information sources for making managerial decisions regarding the business entity. This requires the development and substantiation of requirements to the disclosure of information in the notes section at the same level as it is with requirements to recognition and assessment of the elements of financial reporting. The unit discusses a number of ideas on establishing such requirements for prevention of duplication of information in financial reporting as a whole and eliminate irrelevant disclosures, but achieve clarity, comparability, and efficiency of information, included in the notes section to the financial reports. The foundation of information disclosure in the notes section should ground on the concept of appropriateness and its subelement – significance, which will mean the following:

- orientation of the notes' content at the needs of specific users;

- disclosure of information that will meet and provide achievement of the objective of the financial reports and notes to them;
- elimination of template disclosure, individualization of information;
- reduction of the load on the notes due to the establishment of commensurate requirements to them;
- promotion of the active application of professional judgment, demonstration of creativity and innovation.

Support by various institutions (regulators, draftsman, auditors, and scientists) and the development of the given requirements and principles will contribute to improvement of the process of transferring financial information about the enterprise to users of reporting, improvement of its transparency, which will make it possible to make adequate economic decisions.

The key concepts in the XBRL standard include taxonomy and sample of a document.

XBRL taxonomy is the categorical instrument by means of which one determined and arranged the XBRL-tags; it is a kind of a dictionary of terms that should be clearly understood by all users and programs. Such accounting notions as assets, cash, and depreciation are represented in taxonomy. The taxonomy also establishes their relationship, semantics, used formulas (for example, $\text{Assets} = \text{Commitment} + \text{Equity}$), way of their reflection, and other descriptive characteristics. Physically, the taxonomy consists of a set of the XBRL files.

The taxonomies are distinguished by the objectives of reporting, type of reported information, and requirements to its presentation. Hence, the company can use one of the taxonomies for handling a report to a stock exchange and another one – for reporting to the Securities and Stock Market Commission.

Taxonomies allow you to realize three capabilities of XBRL:

- 1) usual translation from the national language into English, which was laid as the foundation for the standards;
- 2) adaptation, i.e. bringing the conceptual reporting apparatus to a single standard;

3) transformation of reporting. If the company maintains the accounting and drafts a report upon the national standards that do not comply in all material aspects to IFRS, when integrating XBRL into the accounting system, it is possible to quickly generate records in accordance with the requirements of IFRS.

A sample document (XBRL instance document) is an XML document that corresponds to an XBRL format and usually contains the necessary information in a specific financial report. It includes articles (tags), corresponding to the terms and relationships, described in the taxonomy. The company's annual report, full or partial, and press release, which contains financial information or operational data, is referred to as a sample document.

Taxonomies can be created both at the level of national financial reporting standards and the level of accounting standards, applied in specific market segments and consider requirements of accounting standards in a particular industry. This makes it possible for enterprises to draft reports in a single standard for this industry, while for investors and other users – to effectively assess the results of companies' activity by comparing them within the industry. In this case, XBRL works as a technological mechanism for transmission and analysis of the information at the macroeconomic level.

One can also create taxonomies at the level of individual departments within an individual company. In this case, we are talking about XBRL as an effective technological instrument of management accounting, used at the microeconomic level.

XBRL becomes a global standard for corporate reporting. It is developed by an international consortium of 450 global companies, including regulators, government agencies, information agencies, and software suppliers. As of today, taxonomies have been formally developed and approved in 18 countries: Australia, Belgium, Great Britain, Germany, Denmark, Ireland, Italy, Spain, Canada, Korea, Luxembourg, the Netherlands, OAE, USA, France, Sweden, South Africa, and Japan. A taxonomy of IFRS has also been developed. The interactive scheme of XBRL application in the world can be monitored regularly on a special website <http://www.xbrlplanet.org>.

The active process of convergence of IFRS and U.S. GAAP strengthens XBRL's position as a single standard for electronic reporting. To this end, a group of XBRL has been established under the IFRS Board. The aim of the group's activity is the creation of a conceptual basis of sequential decisions and implementation of XBRL with the help of high-quality taxonomy of IFRS, developed by the IFRS Foundation simultaneously with the development of international standards.

Stages of XBRL implementation in financial reporting of Ukraine are presented in Figure 2.

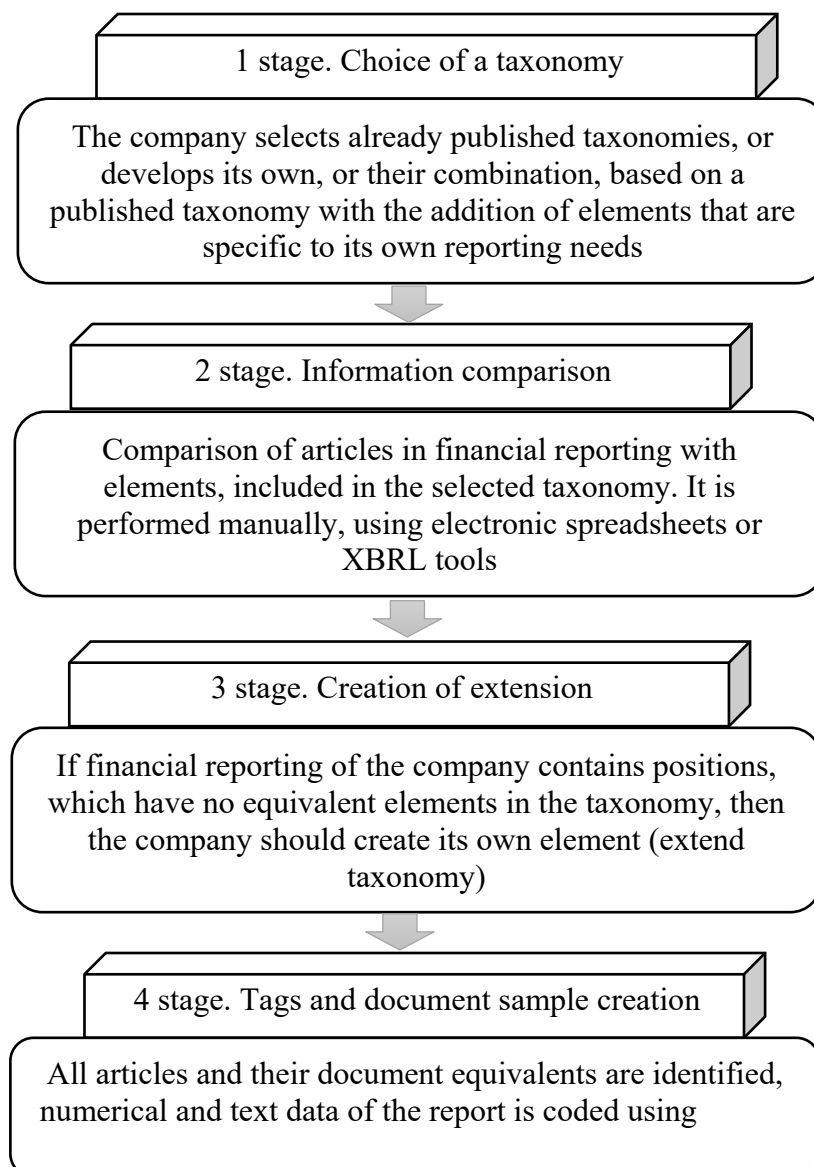


Figure 2. Stages of implementation of XBRL in financial reporting of Ukraine
(systematized by author)

For successful implementation of the latest technologies, including XBRL, drafting and transmission of financial reporting, the following prerequisites are required:

- 1) the developed infrastructure of telecommunication facilities;
- 2) availability of consumers interested in financial information.

As of today, in Ukraine, only the state operates in the field of electronic reporting standards. The enterprises-economic entities, investors, auditors, and software developers only respond to the introduction of new forms and formats of reporting.

Alongside this, preparation and analysis of financial reporting regardless of the size of the company is a difficult task for Ukrainian enterprises. The difference in the formats of the handed reporting and the mistakes of made by personnel, which is responsible for figures preparation and verification, results in non-coincidence of the final data of the annual report with the figures of the reports, submitted to the supervisory authorities or with information, published on the company's website, – this is a platform for a shift to XBRL.

Respectively, the main obstacles on the way to implementation of XBRL will be the same as on the way to implementation of IFRS, namely, “immaturity” of the domestic financial markets, and, as a result, absence of demand for financial information; disinterest of owners and management of enterprises in the disclosure of financial information, in particular, its publications on the Internet; non-transparency of business; deficiency of culture and trust to electronic documents; the existence of distrust to the Internet as a source of information for analysis, forecasting, etc .; absence of experience and knowledge of the technological aspects of XBRL from the accounting and financial professions.

Despite the listed difficulties, Ukraine is becoming increasingly involved in the process of globalization, and an increasing number of international exchanges strongly recommend that companies submit financial statements in the XBRL format. The complexity of the corporate structure and the development of e-commerce also determine the need for a shift to XBRL.

The nature of regulation of the accounting and financial reporting system is an important factor, affecting the development and approval of accounting and financial reporting standards. An analysis of accounting regulatory systems in economically developed countries shows a significant increase in government control in the countries with an Anglo-Saxon accounting model and an increase in participation of public-professional organizations in the regulation of financial reporting in the countries with a continental accounting model. This leads to the fact that when developing and approving statutory regulations by professional organizations, one primarily considers the interests and requests of the priority user group. The functions of the state body reside in monitoring over implementation of legislation and protection of interests of reporting users.

Despite significant achievements in the process of accounting reformation, the question, regarding the degree of correspondence of financial reporting, compiled based on P(S)FR, to the one, which is compiled based on IFRS, remains an open question. This is not so much due to subjective as to objective reasons, caused by the differences in socio-economic relations in Ukraine and the countries with developed economies.

All differences, appearing in financial reporting upon P(S)FR and IFRS can be united into three large groups: regulatory, declarative, and conceptual. Regulatory differences are conventionally divided into three groups:

- 1) non-essential, which will not affect the usefulness of the information in financial reporting and, therefore, do not require elimination or harmonization;
- 2) essential, which can be excluded through application of the corresponding changes and additions to the text of P(S)FR;
- 3) essential, which can be excluded only through the transformation of information when preparing financial reporting. Nonetheless, any transformational adjustments can significantly affect the analytical indicators, in particular, the profitability of the enterprise, its liquidity, and other indicators, which are calculated based on financial reporting, which can cause significant consequences when assessing the financial condition of the enterprise and making managerial and investment decisions.

The priority direction of reforming the domestic accounting and reporting system, which will ensure the transparency and reliability of reporting data, the financial stability of the enterprise, is the improvement of the domestic regulatory framework in the field of accounting and its further harmonization with IFRS, as well as education of a new generation of accounting and reporting professionals in Ukraine, which would meet modern challenges of postindustrial economy.

Despite the fact that today there is an increasing criticism towards financial reporting and indicators, for which it acts as a source, that it has lost value for management and investors, the survey, held by the author confirmed the usefulness of its information. Nevertheless, the developments on solving the problem of low information content of existing forms of reporting remain relevant.

The priority ways for increasing the usefulness of financial reporting are recognized as follows: provision of stability of accounting standards, strengthening of comparability of reporting indicators, simplification of reflection of its key indicators, the introduction of various types of forecast information, and highlighting of trends in the growth of profitability, as well as disclosure of information on risk management. This demonstrates the need for the development of a concept of financial reporting, oriented at the accountability of all participants of economic relations at all levels of government for decisions made on managing all types of resources.

Discussion

We consider the priority direction to reside in the development of the XBRL taxonomy for financial reporting in accordance with the national P(S)FR. These taxonomies can be developed for trade and industrial enterprises, non-profit organizations, share investment funds, and other large business formations. It is a continuous process because it is very important that the taxonomies develop according to the changes in the market and be kept up to date.

Although XBRL demonstrates the possibilities of presenting the quantitative and descriptive data in a digital form, reflecting financial reporting, there is a problem of processing information, included in other sections of corporate reporting, in particular, in the notes section to financial reports, management reports, etc.

Since XBRL capabilities make it possible to improve financial analysis and risk management, the software providers are required to provide for the development of artificial intelligence software agents and informants, which are used for removal of the XBRL-encoded data from the corresponding sources for prediction, for example, the financial condition of the enterprises.

Finally, coding of accounting data in XBRL should promote the effective institutionalization of the process of continuous monitoring and report in the enterprises. This, in its turn, will improve the efficiency of the business and help with the implementation of business objectives. All participants of the business process – accountants, regulators, financial analysts, investors, lenders, government, software suppliers – and many other people will benefit from the use of XBRL.

The development of instruments of financial reporting transfer with the help of the Internet technologies directly influences the expansion of the information space and enables the making of more reasoned economic decisions. As of today, the academic community of Ukraine is offered great plenty of interesting prospects for research during study of the possibilities of XBRL.

Conclusion

The study revealed that to the modern ways of formation and reporting, one should also include the use of the web-technologies for placement of reporting on the Internet as well as the use of the extensible business reporting language of XBRL, the biggest advantage of which is the reduction of the information asymmetry due to incompatibility of the reporting formats.

The priority directions of work for the successful application of XBRL in Ukraine are regarded as follows:

- the development of the XBRL taxonomy with consideration of the legal framework of Ukraine separately for trade and industrial enterprises, non-profit organizations, share investment funds, and other large business formations;
- solution of a problem of processing information, given in other sections of corporate reporting, in particular, in the notes to financial reports, management report, etc.;

- development of software agents and informants of artificial intelligence, which are used to for extraction of the XBRL-encoded data from relevant sources for forecasting, for example, of the financial condition of the enterprises;
- coding of accounting data in XBRL which will promote efficient institutionalization of the process of continuous monitoring and reporting in the enterprises.

The development of instruments of financial reporting delivery with the help of the Internet technologies directly influences the expansion of informational space and ensures making of reasoned managerial and investment decisions.

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