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METHODOLOGY OF CORRECTION OF ERRORS IN FINANCIAL REPORTING

The procedure of correcting errors in financial reporting is regulated by P(S)A (provisions, standards of the accounting) 6 "Correction of errors and changes in the financial reporting"¹. The norms P(S)A 6 are applied in the financial statements of enterprises, organizations and other legal entities of all ownership forms (except budget institutions). Errors occur as a result of arithmetical calculations, the incorrect application of accounting principles or intentionally.

Many works of scientists dedicated to the problem of correcting errors in financial statements: F.F. Butynets, S.V. Golova, M.J. Demianenko, G.G. Kireytsev, V.V. Sopka, V.D. Slobodyan, V.A. Shevchuk, P.J. Homena, L.V. Chizhevskii and other scientists.

In accordance with P(S)A 6 errors, which made in previous years, correct by adjusting the balance of retained earnings at the beginning of the reporting year, if such errors influenced on the amount of retained earnings (uncovered loss)¹.

Correction of errors related to prior periods requires repeated reflections of the comparative information in the financial reporting's. Error correction is done with the help of an accounting reference, which should describe the error, indicate incorrect data that were made in past periods, specify the correct transaction that should have been reflected in accounting. Then according to

¹ Положення (стандарт) бухгалтерського обліку 6 «Виправлення помилок і зміни у фінансових звітах»: Наказ Міністерства фінансів України від 28.05.1999 № 137 [Електронний ресурс]. – Режим доступу: <http://zakon3.rada.gov.ua/laws/show/z0392-99>.

these transactions adjust the relevant article of financial statements according to article 4, article 5 P(S)A 6¹.

It is important to examine the impact of the errors on the financial results and derived calculations while correcting errors, such as profit tax, dividends, the formation of the reserve capital, calculating the measure of stock returns.

To correct errors, you should:

- 1) determine the amount of errors made in previous reporting periods, which results adjustments to retained earnings at the beginning of the reporting period;
- 2) reflect the amount of the adjustment of retained earnings for the previous reporting period in the Balance;
- 3) reflect the amount of the adjustment of retained earnings for the previous reporting period in the Report on own capital;
- 4) disclose information of the impact of errors and adjustments in the Notes to the annual financial statements.

The effects of changes in accounting estimates should be included in the same article of Report on financial results, which previously was used to reflect income or expenses. Effects of changes in accounting estimates should be included in the Report on financial results in the period in which the change occurred and in future periods if the change affects those periods².

All errors of the current year identified and corrected before the preparation of the financial report for that year will be included in such reporting, therefore no adjustments articles needed. Thus, according to part 2 article 13 of the law of Ukraine "About accounting and financial reporting in Ukraine"³, the intermediate reporting are quarterly cumulative from the beginning of the reporting year in the balance and the report on financial results. The balance make at the end of the last day of the quarter. In that at this point the mistakes of the previous quarters of the current year will already been fixed and held in the account, mistakes will be taken into account in the articles in the balance at this point, as well as in income and expense. Of course, in this case, balance articles at the beginning of the year will not adjusted².

¹ Єгорова Ю. Виправлення помилок у фінансовій звітності / Ю. Єгорова // Дебет-Кредит. – 2014. – №50 [Електронний ресурс]. – Режим доступу : <http://online.dtkr.ua/Book/%C2%AB%D0%94%D0%9A%C2%BB%20%E2%84%9650-2014.epub/navPoint-9>.

² Фінансовий та управлінський облік за національними стандартами [Текст] : Підручник / М.Ф. Огійчук, В.Я. Плаксієнко, М.І. Беленкова та ін. / За ред. проф. М.Ф. Огійчука. – 6-ге вид., перероб. і допов. – К. : Алерта, 2011. – 1042 с.

³ Про бухгалтерський облік та фінансову звітність в Україні : Закон України від 16.07.99 р. [Електронний ресурс]. – Режим доступу : <http://zakon2.rada.gov.ua/laws/show/996-14>.

In accordance with section 20, P(S)A 6, in the notes to the financial reporting should be disclosed information about the correction of errors that occurred in previous periods:

- 1) the nature and amount of the error;
- 2) the financial reporting of previous periods, which have been recounted for the purpose of re-presentation of comparative information;
- 3) the fact of re-publication of the corrected financial report or other re-publication.

So, there are two types of mistakes: mistakes of the past periods and the mistakes of the current year. Each of these types has its own correction features, which are governed by certain provisions P(S)A. These positions contain recommendations and guidance on the actions to take when errors occur in reporting. It is important to identification and correction of errors timely to avoid penalties.