

2.6. DOCUMENTING AND ACCOUNTING THE TRANSACTIONS BY CONSTRUCTION STAGES AND METHODS OF MAKING MONETARY PAYMENTS

Each particular sector of national economy is problematic in its own way and requires special approaches at both the legislative level and in terms of each specific company. Thus, national economy should be reformed primarily at the sectoral levels. Housing is not an exception; in addition, this subsector requires strict control over the use of funds and the ways of making payments between counterparties.

On the basis of these peculiarities of housing, Article 4 of the Law of Ukraine On Investment Activity proclaims: "Investing and financing of the housing construction using private funds (that can be involved in management) raised from individuals and legal entities, are carried out only through the construction financing funds (CFF), real estate funds (REF), collective investment institutions (CII) and corporate bonds issues. Obligations on these bonds are fulfilled through transferring the housing facility (or a part of it)" [4]. This legal framework allows construction companies and individual customers to choose their own method of payment, either direct or through the financial intermediaries (a commercial bank or investment fund). This also influences the quality of documenting the transactions.

Monetary and payment transactions require both accounting and legal documents. In order to begin the erection of any construction facility, a company must obtain such legal documents as construction permits and a license for construction. To get these documents a company must submit an application to the State Architectural and Construction Inspectorate, State Financial Inspection and other state regulatory bodies that monitor the safety of construction and installation works. In addition, the construction company is obliged to open a current account or investment bank account in order to receive investment funds and carry out monetary and payment transactions. It is necessary to submit a list of documents for opening an account and fill in some of them in the bank. Once all the statutory documents are registered, the property developer has the right to sign agreements with other counterparties on construction of housing. The economist P. Krychun identifies three

stages of construction: preparation for construction; the actual construction; and sale of construction work [2, p. 23].

Taking into account the scientist's opinion, we think that there are four stages of construction: 1) design and contractual stage; 2) site preparation stage; 3) main construction stage; 4) substantial completion of the building construction stage. Each of these stages requires the relevant primary documents and accounts transferring.

Design and contractual stage. This stage involves project development and signing agreements with customers, contractors and subcontractors. The amount of potential costs is estimated in monetary terms for the purpose of making future payment for building materials, payment of employees' salaries and rent. Payment schedules are based on the estimates and should correspond to the schedule of the amount of the work performed. The terms of making payments according to these schedules are specified by the contract between the customer and the contractor, in particular: the amount of payment and payment period.

Site preparation stage. At this stage, the initial work on the site is commenced, including cleaning of the area, transporting the building materials and installing construction equipment. Primary documents in-use pertain to the cleaning of the construction site area, transportation of building materials and installation of construction machines and mechanisms.

Main construction stage involves construction of the so-called "egg-box", the house foundation. At this stage of construction primary documents are used, including accounting records, interim reports on the amount of funds used to pay for building materials, frames, construction machinery and mechanisms renting, construction company employees' work.

Substantial completion of the building construction stage. This stage consists of two steps: 1) finishing construction i.e. work inside the building; 2) substantial completion of the residential building i.e. evaluation of the finished project by the inspection board, elimination of any identified problems and drafting of the Final Act of the acceptance and transfer of the residential building (Figure 1).

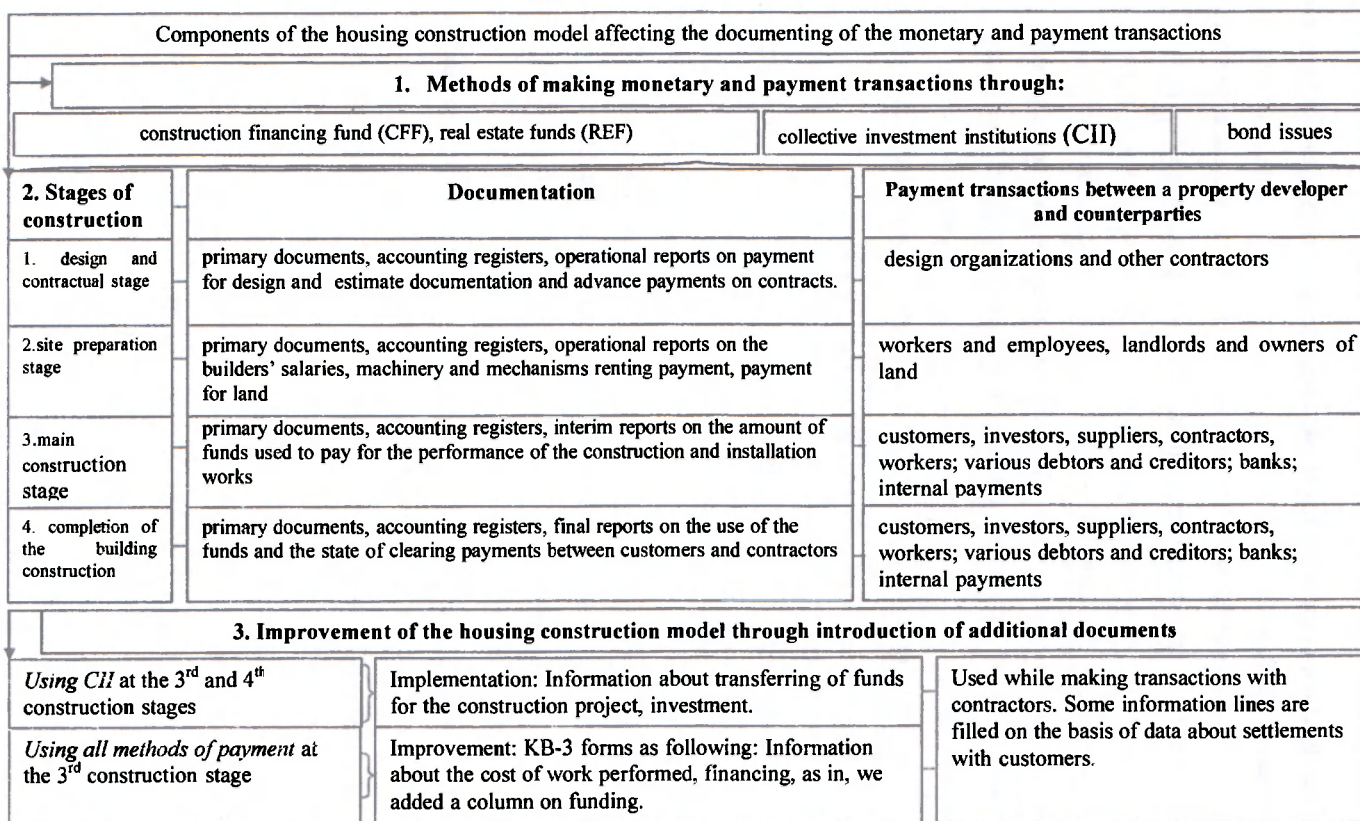


Fig. 1. Modeling of Accounting for Monetary and Payment Transactions in the Housing Construction

As aforementioned, in order to start the construction of a residential building it is necessary to select a method of payment that can be eventually used at each stage of the monetary and payment transactions.

The attention should be focused on the construction financing fund (CFF) and collective investment institutions (CII), which are the most often used in construction (Table 1).

Table 1
Comparison of payment transactions through the construction financing fund (CFF) and collective investment institutions (CII)

Features	Making payments through	
	construction financing fund (CFF)	collective investment institutions (CII)
Participants	1) Shareholders (individual customers) 2) Venture capital mutual fund, managing monetary fund; 3) Real estate developer	1) Grantors (individual customer) 2) Manager (bank, financial institution managing monetary funds); 3) Real estate developer
Accounting types	Accounting for construction company Accounting for venture capital mutual fund	Accounting for construction company Accounting for commercial banks
Legislative basis	The Law of Ukraine (On Collective Investment Institutions (Mutual and Corporate Investment Funds) [5].	Regulations for construction financing fund of YF e A [3]
Documents	Agreement or memorandum on cooperation and service; A letter of guarantee for apartments, Agreement on share participation in financing of the investment construction facility; Copies of permit documentation for construction of the investment project; Agreement on booking the apartment; Contract of guarantee; Written order of the Real estate developer; Payment documents; Act of delivery-acceptance of the construction project Purchase and sale agreement on the invested apartment	CFF Agreement; Agreement on construction Certificate of participation in CFF Schedule of funds transferring into CFF Information on construction financing fund transactions Payment documents Accumulator cost report (KB 3) Act of acceptance of construction work (KB 2v) and other documents

According to these two methods, accounting is carried out both by the financial intermediary and the real estate developer. These methods are regulated by the Law

of Ukraine On Financial and Credit Mechanisms and Management of Property in Housing Construction and Real Estate Transactions [6].

While comparing these two methods of accounting in Ukrainian practice, it should be noted that a financial intermediary, making payments through CFF, acts as “an outside legal entity” (e.g. a bank). However, when making payments through CII, a financial intermediary often acts as “an internal entity” of the construction company. Due to this fact, funds of the investors could be better protected by an “outside entity” rather than by an “internal entity”. However, this assertion is also be doubtful, as banks in Ukraine are unstable. That’s why, it’s rather risky to use them as financial intermediaries and keep financial assets there.

The main advantage of carrying out monetary and payment transactions through the CII it is at the main construction stage that a payment schedule under the contract of apartment booking (reservation) and a schedule of the investor’s payment to the real estate developer are formed.

1. A payment schedule under the contract of apartment booking (reservation) is made by the real estate developer and the venture capital mutual fund acting as one party and the shareholders acting as the other.

2. A schedule of the investor’s payment to the real estate developer is prescribed in the Procedure for Funding Approval Protocol, providing the parties to the contract are a real estate developer, a venture capital mutual fund and an investor. This schedule is used when an investor provides funding for the investment project.

These schedules are effective as they allow shareholders to make partial payments within specified periods instead of paying a full amount of money at once. In addition, these schedules can cause the real estate developer to increase control over the construction process.

Carrying out monetary and payment transactions through the CFF some Ukrainian banks (for example *Ukreximbank*) use the Information on Construction Financing Funds Transactions, as there is a risk of non-transferring of all the funds to the construction company. In this case, control funding formula is used:

$$- \sum \Gamma K \phi = \sum \Gamma K \phi \phi \delta - K_{3.n} - K_{\partial.n} - 10\% \sum \Gamma K \phi \phi \delta, (f. 1)$$

where $\sum \Gamma K \delta$ – the total volume of funds transferred to the construction (UAH); $\sum \Gamma K \phi \phi \delta$ – the total volume of the funds attracted to the CFF (UAH); $K_{\partial.n}$ – the commission received from the real estate developer since the beginning of the current year (UAH); $K_{\partial.n}$ – the commission received from the grantors since the beginning of the current year (UAH); $10\% \sum \Gamma K \phi \phi \delta$ – 10% of the total volume of the funds attracted to the CFF (UAH).

The last indicator is the so-called reserve fund. Despite a number of disadvantages of this accounting method, it is also beneficial as the financial intermediaries can create a reserve fund.

We consider that this method can be applied by banks as well as other financial intermediaries and real estate developers. Therefore, we propose to introduce a new account to the Chart of Accounts of assets, capital, business operations of companies and organizations.

It could be a subaccount “Guarantee funds” and may be recorded by Ukrainian companies under the designation “337”. It could contain the following analytical accounts: “Equity funds of legal entities” (3371); “Budget funds” (3372); “Loans and other borrowed funds” (3373); “Funds of individuals” (3374); “Funds of foreign investors” (3375); “Other funds for construction financing” (3376).

While using the subaccount 337 “Guarantee funds” the following correspondence can be used:

✓ DR 337 «Guarantee funds» CR 31 «Bank accounts» while creating guarantee monetary funds;

✓ DR 31 «Bank accounts» CR 337 «Guarantee funds» while using the funds.

In reporting, data from this account could be shown in a row 1168 “Guarantee funds” of the Statement of Cash Flows (Form 3). This row would be optional and used by a company if needed. Therefore, a row 1168 «Guarantee funds» should be included in the legislative framework, namely the Annex 3 of the National Accounting Standards 1 “General requirements for financial reporting”.

Despite the elaborate system of documenting monetary and payment transactions using these methods of payment, there are certain disadvantages of CFF and CII. Among them are the following:

- a large amount of monetary and payment documents and dual contracts can cause disordered flow of documents and difficulties in control over the entire volume of attracted funds;
- at the state level there is no standard form of a document that would display the use and transfer of funds of the grantors at the construction stages (excepting payment orders);
- on the one hand, a financial intermediary increases control over the construction process and, on the other hand, complicates carrying out accounting of funds and payments; due to this, a construction company cannot always use the funds efficiently in case of an urgent need. This may cause delay in construction and installation works.
- making payments through the CFF, a bank is entitled to terminate the Contract for the construction with the real estate developer if the construction company did not deliver the project within the specified period. A bank can do it even if the construction and installation works have been completed up to 80%. According to L. I. Danchak, the disadvantage of the CFF and real estate funds is that real estate developers become dependent on the conditions set by the banks for their services [1, p. 490].

Despite the disadvantages of documenting monetary and payment transactions through the CFF and CII, there are certain advantages that protect the rights of shareholders and grantors (individual customers) and give them guarantees for increased control over the rational use of funds transferred for construction.

The choice of accounting method affects the scheme of documenting monetary and payment transactions between the real estate developer and the customer (shareholder, grantor, investor) through the financial intermediaries. Transferring of funds by the customer in full amount and within the specified period (according to

contracts and schedules) allows construction companies to make payments to other contractors of the construction (suppliers and other debtors and creditors).

Thus, modeling the documenting process involves facts of economic life, which should be shown in the certain appropriate documents that are developed at certain stages and during each period of construction and depend on the methods of payment.

We suggest improving this model, introducing new documents and improving available ones (as shown in Figure 1), namely:

- ✓ while making payments through CII to use A Notice of Fund Transferring to construction or investment project;
- ✓ to improve Accumulation cost report (KB-3), adding three new chapters to it:
1. Total cost of construction works on site; II. Total amount of funds; III. Excess of received funds over the amount of construction and installation works.

Following these proposals while conducting the activity of construction companies can lead to significant increase in efficiency of the inspection of funds and payments accounting.

Thus, as there are high risks of unfinished housing for construction companies, it is necessary to improve the documentary basis while carrying out monetary and payment transactions through collective investment institutions and construction financing funds in order to eliminate the possibility for embezzling or misappropriation of funds.

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2.7. IMPROVING METHODS OF ACCOUNTING COSTS OF MAINTENANCE AND OPERATION OF CONSTRUCTION EQUIPMENT

Adaptation of construction companies to the growing needs of consumers, high competition in the field on the price of the end product lead to demand for accurate and reliable information on all the expenses for the purpose of their optimization. Accounting provides such information.

According to E.V. Zubareva, "Market economy requires new approaches to operational accounting and monitoring construction companies. Effective management of the organization activities is impossible without rational use of resources. Operational accounting and control system is an integral part and a kind of drive for the management system of an economic entity. Its efficiency depends on the degree of integration into existing management systems" [3, p. 202].

Grouping costs in accounting of construction industry is conducted in terms of construction contracts and carried out according to Regulation (Standard) 16 "Expenses". The Regulation (Standard) 18 "Construction Contracts" determines the composition of the cost of a construction contract, which is classified as:

- costs directly related to the execution of this contract (direct);
- general production costs are allocated between construction projects (depending on the specific work performed) in proportion to the direct costs, revenues, direct labor costs, construction period, machines and mechanisms, etc. [11].

Not included in the costs of a construction contract and recorded as an expense in the period in which they were made: administrative costs; sales costs; other operating costs; maintenance costs (depreciation, security, etc.) of unused construction vehicles, machinery and other fixed assets that are not used on a construction contract.

As practice of construction organizations shows, cost accounting is carried out by a project in the context of the relevant items mentioned in Table 1.



Ministry of Education and Science of Ukraine
Ternopil National Economic University

**CONCEPTUAL APPROACH TO
REFORMING OF THE NATIONAL
ACCOUNTING SYSTEM**

MONOGRAPH

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The monograph presents the characteristics of the current state of accounting in Ukraine and the ways of improving its certain objects within international trends of harmonization of financial reporting and modern requirements for the economy management. The authors provided suggestions for harmonization of accounting in Ukraine, improvement of accounting information, particularly, under the conditions of computer communication accounting. The importance of accounting in the implementation of the company social activity was shown, recommendations on solving the problems of accounting reforming and the company's assets and costs were given. The issue of accounting and the company's reporting transformation according to the international requirements is considered as one of the ways of the investment climate improvement in Ukraine.

The monograph is intended to be used by researchers, lecturers, teachers, doctoral and post-graduate students of economic specialties of higher education institutions as well as for managers, accountants and economists at the enterprises.

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INTRODUCTION TO THE MONOGRAPH

The Ukrainian economy reforming is impossible without increase in attractiveness for the foreign investments, systemic changes in tax and budget legislation, conducting the reform for the state and municipal administration, sequential implementation of IT technologies, enforcement of everything new and progressive. These conditions cause the need to update the requirements to accounting system as it consists the base of information for the end-users to make effective management decisions.

The accounting reforming in Ukraine started immediately after Ukraine got its sovereignty. One of the first legislative directives of the first President of Ukraine was «On the Transformation of Ukraine to the Generally-Accepted in International Practice System of Accounting and Statistics» (May 23, 1992, № 303/92). Over long time after this Directive was adopted the demand for the corresponding Law was required. Law of Ukraine “On Accounting and Financial Reporting in Ukraine” was adopted in 1999 and entered into force January 1, 2000. A number of changes and amendments were introduced to this Law of Ukraine. They were connected with changes in the national economy, vectors of its development, and requirements of international and European institutions. A new version of this Law of Ukraine will be soon adopted by the Supreme Council of Ukraine. However, in spite of fairly improved new version, the conceptual basis of the accounting system’s development in Ukraine cannot be reflected there. There are problematic issues related to the transformation of accounting in Ukraine to the international reporting standards, requirements of the European Union, imperfections in the National Accounting Standards, directives and regulations in the realm of accounting.

The monograph consists of three chapters. Chapter 1 «General Theoretical Problems in Modernization of National Accounting and Audit Systems» focuses on the issues concerning harmonization of accounting system in Ukraine, the role of accounting information for calculation of the indicators of the firm’s activity, valuation in the conditions of the programming and communication forms of accounting registration, the role of accounting in execution of firm’s social

responsibility function, institutional and legal bases of forming external audit system in Ukraine, and the like.

Chapter 2 «Problematic Issues of Reformation of Assets and Costs Accounting of Enterprise» deals with controversial questions pertinent to accounting for fixed assets, inferior assets, goodwill, non-tangible assets, and also the ways to improve accounting of costs at manufacturing and constructing enterprises.

Chapter 3 «Transformation of Enterprise Statements to International Standards as One of the Ways of Improving the Investment Climate in Ukraine» investigates the ways to improve investment attractiveness of Ukrainian enterprises, so that they can receive more foreign investments. Discussion also concentrates on transformation of financial reporting to the international standards, implementation of the international standards of state financial control, enhancement of accounting for alternative financing sources for innovations, corporative social responsibility and its influence on the firm's commercial results, accounting and analysis at agricultural enterprises.

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