



## Financial Reporting of Pawnshops: Ways to Harmonize Reporting Data

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**Abstract.** Business entities' reports are to provide users with full and qualitative information about its business activity, results of assets usage and state of liabilities. The financial reporting of the pawnshops, regulated by the current legislation, has two significant drawbacks. First, it doesn't take into account the specifics of these financial institutions, resulting in partial disclosure in the financial statements and, therefore, violates the principle of full disclosure. Secondly, reporting data to be submitted to the National Commission for State Regulation of Financial Services Markets (hereinafter – the National Commission for Financial Services), duplicates the financial statements of the pawnshops, which increases the workload on accounting personnel, and is considered to be impractical in terms of efficiency. In this regard, the harmonization of financial reporting forms of the pawnshops with the reporting data to be submitted to the National Commission for Financial Services, as well as bringing both in compliance with IFRS is of particular relevance under the present-day economy and financial services market development in Ukraine.

The carried out study of reports, namely Balance Sheet and Statement of Assets and Liabilities of pawnshop in the context of meeting the informational request of the users has allowed us to identify a number of problems related to the violation of the principles of financial reporting, requirements to the information disclosed, and duplication of information in different reports and so on.

**Keywords:** reporting the pawnshops; reporting data of the pawnshops, the Balance Sheet, Statement of Assets and Liabilities of a pawnshop.

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## Фінансова звітність ломбардів: шляхи гармонізації звітних даних

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**Анотація.** Розглянуто шляхи гармонізації показників фінансової звітності і звітності, яку подають до Національної комісії, що здійснює державне регулювання у сфері ринків фінансових послуг, на основі чого запропоновано єдиний пакет фінансової звітності ломбардів, що задовольнятиме інтереси різних груп користувачів.

**Ключові слова:** звітність ломбардів, звітні дані ломбардів, Баланс, Звіт про склад активів і пасивів ломбарду.

Формул: 0; рис.: 0; табл.: 1; бібл.: 4.



## Финансовая отчетность ломбардов: пути гармонизации отчетных данных

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**Аннотация.** Рассмотрены пути гармонизации показателей финансовой отчетности и отчетности, предоставляемой Национальной комиссией, осуществляющей государственное регулирование в сфере рынков финансовых услуг, на основе чего предложен единый пакет финансовой отчетности ломбардов, удовлетворяющий интересы различных групп пользователей.

**Ключевые слова:** отчетность ломбардов, отчетные данные ломбардов, Баланс, Отчет о составе активов и пассивов ломбарда.

Формул: 0; рис.: 0; табл.: 1; библ.: 4.

**The problem.** Business entities' reports are to provide users with full and qualitative information about its business activity, results of assets usage and state of liabilities. However, the enterprises, institutions or organizations, depending on kind of their activities, have their own specific features and characteristics that reflect the economic, legal, and other aspects of the conditions of their functioning. In this regard, the issue of introducing of the non-standardized financial reporting form, which will be based on the recommendations of the International Financial Reporting Standards (hereinafter – IFRS), is becoming more and more relevant for the financial institutions, namely pawnshops being the entities with the specific economic activities.

The financial reporting of the pawnshops, regulated by the current legislation, has two significant drawbacks. First, it doesn't take into account the specifics of these financial institutions, resulting in partial disclosure in the financial statements and, therefore, violates the principle of full disclosure. For example, data on liabilities of the borrowers on loans, accrued interests, penalties are represented in statements in total as an overall indicator, and, therefore, in addition to the principle of full disclosure, the principles to the information disclosure in the financial statements, such as the availability and relevance, outlined by NS(S)A 1 [4], are being violated as well.

Secondly, reporting data to be submitted to the National Commission for State Regulation of Financial Services Markets (hereinafter – the National Commission for Financial Services), duplicates the financial statements of the pawnshops, which increases the workload on accounting personnel, and is considered to be impractical in terms of efficiency.

In this regard, the harmonization of financial reporting forms of the pawnshops with the reporting data to be submitted to the National Commission for Financial Services, as well as bringing both in compliance with IFRS is of particular relevance under the present-day economy and financial services market development in Ukraine.

**Analysis of recent research and publications.** Many national and foreign scholars, namely P. Atamas, L. Bernstein, F. Butynets, L. Bila, Y. Veryga, S. Golov, A. Zahorodniy, V. Kulyk, S. Legenchuk, N. Ostapiuk, V. Paliy, I. Sadovska, Y. Sokolov, O. Solovjova, P. Khomyn, L. Chyzhevskaya, paid attention to the research problems of the enterprise's reporting. An important contribution to the development of the outlined issues in regard to the activities of pawnshops has been made by M. Geds, O. Goncharenko, G. Liutova.

**The purpose of the article** is to improve the way the pawnshops' reporting is prepared and communicated in order to address the problems of duplication of reporting data and the low value of information for the users of the pawnshops' financial statements.

**Grounds of the obtained scientific results.** Since 2013, the financial reporting of the pawnshops is to be prepared in compliance with IFRS; however, the issue of incomplete disclosure of the pawnshops' activities has remained unresolved as forms of financial statements in Ukraine have been set out by the legislation. The financial statements are mostly oriented on the manufacturing and trading companies, as well as they do not provide for the possibility of communicating the specific information in regard to the peculiarities of the business activity of financial institutions.

Sergiy Golov stresses the problems that arise in the result of keeping the unified forms of financial reporting in Ukraine as the standardized financial statements mean 'form over substance' principle, and this contradicts with the principles of reporting. Unification of the financial reporting forms leads to a number of negative consequences, including: increasing the number of additional lines; extra charges for enterprises to disclose information according to international standards; the lack of disclosure of the branch features of the enterprises' activity [1, p. 32].

Using IFRS recommendations in the part of financial reports preparation by the pawnshops and elimination of their standardization will enable to avoid the problematic



issues and eliminate the duplication of information presented in the different statements.

It's necessary to consider the problems of preparing the Statement of Financial Position of a pawnshop and methods for their solution.

IAS 1 «Presentation of Financial Statements» [2] requires to disclose the information about assets and liabilities in statement of financial position using three variants:

- 1) Presentation of a classified Statement of Financial Position, separating current and non-current assets and liabilities – for those entities which supply goods and services within one operating cycle, which can be easily determined;
- 2) Presentation of assets and liabilities based on liquidity increase or decrease – for some financial institutions; and
- 3) Presentation of some assets and liabilities, being classified into current and non-current, and others based on liquidity – for those entities with different kinds of activities.

Based on the above-mentioned requirements of IAS 1 a pawnshop is to use the second option for preparing a Statement of Financial Position. However, the activity of

the pawnshop institution does not exclude the financial and investment activities, such as the acquisition of the fixed assets or intangible assets, as well as obtaining the bank loans and additional contributions of founders (participants). Therefore, the best option is to present certain assets and liabilities classified into current/non-current, and to present others in order of their liquidity.

Comparison of the complete set of financial statements of the pawnshops has revealed that reporting data submitted to the National Commission for Financial Services is more detailed in nature and contains information about specific services of the pawnshops. Moreover, Balance Sheet (Statement of Financial Position) and Statement of Assets and Liabilities of pawnshop are prepared under the same principle, but disclose information in different ways. As a result of carried out comparison it has been proposed to improve the form of Balance Sheet based on the Statement of Assets and Liabilities of pawnshop, by adding more lines that will display information about the specific operations of the pawnshops and replace the reports, which are to be submitted to the National Commission for Financial Services, with the financial statements, presented in *Table*.

Table

Suggestions on improvement of the Balance Sheet  
(Statement of Financial Position) of a pawnshop and methodic for its preparation

<i>Assets</i>	<i>Line code</i>	<i>Account Balance</i>
<b>I. Non-current Assets</b>		
...		
Non-current financial receivables	1041	Debit 181 «Receivables on property leased»
Other non-current receivables	1042	Debit 183 «Other receivables»; Debit 39 «Prepaid expenses» (non-current component)
...		
<b>II. Current Assets</b>		
...		
Goods, including:	1104	Debit 28 «Goods»
Property	1104	Debit 281 «Goods in stock (Property)»
Movables		Debit 281 «Goods in stock (Movables)»
Precious metals		Debit 281 «Goods in stock (Precious metals)»
Securities		Debit 281 «Goods in stock (Securities)»
Non-property rights		Debit 281 «Goods in stock (Non-property rights)»
Others		Debit 281 «Goods in stock (others)»
...		
Accounts Receivable on financial loans	1146	Debit 377 «Settlements with other debtors», sub-account «Settlements on financial loans»
Accounts receivable on settlements on financial loans interest accrued	1147	Debit 373 «Settlements on revenues accrued», sub-account «Settlements on revenues accrued on financial loans»
Accounts receivable on settlements on financial loans penalty accrued	1148	Debit 374 «Settlements of claims», sub-account «Settlements on penalty accrued»
Accounts receivable on settlements with insurance companies	1149	Debit 377 «Settlements with other debtors», sub-account «Settlements of property insurance»
...		
<b>III. Current Liabilities and Provisions</b>		
...		
Current payables:	1615	...
on settlements with insurance companies	1646	Credit 685 «Settlements with other creditors», sub-account «Settlements with insurance companies on pledged property insurance»
on accrued interest	1647	Credit 684 «Accrued interest payable»
...		
<b>Equity</b>		
...		
<b>Account Balance</b>		

Source: development of authors.

The offered improvement of Statement of Financial Position will enable to increase the availability of information about the activities of pawnshops, to avoid the

information duplication, and will ensure the compliance with the principle of full disclosure. In addition, the titles of Section I «Fixed Assets» and Section II «Current



Assets» are a subject to changes as well. Such change can be explained with the fact that the pawnshops do not carry out production activities and, therefore, the proposed titles comply with IFRS requirements concerning the classification of assets into current and non-current, as well as we believe they better correlate with the titles of Liabilities sections.

The item «Non-current receivables» has been divided into two items with distinguishing financial component, as required by IFRS 7 «Financial Instruments: Disclosures» [3]: «Non-current financial receivables» and «Other non-current receivables».

The second section of the Statement of Financial Position has been prompted to expand in terms of information disclosure on the various groups of goods, due to the fact that the goods of pawnshop refer to the property pledged, which is not further recorded on the off-balance sheet accounts in default by the borrower. This clarification will improve the analyticity of Balance Sheet regarding the information about unredeemed pledge at a pawnshop.

To calculate the accrued charges for pledged property storage, accrued charges for property evaluation, charges under agency agreements with insurance companies the separate lines have not been allocated, as not all the pawnshops provide these kinds of related services. To comply with the relevance principle the mentioned above kinds of receivables can be disclosed as «Other current receivables».

It has been proposed to exclude an item «Prepaid Expenses» from the Balance Sheet. This item is normally used by the pawnshops to disclose the costs connected with prepaid lease payments, subscriptions to periodicals, monthly fees for communication facilities etc. However, in accordance with IFRS such payments should be classified as current or non-current receivables. Current component of such prepayments should be attributed to the item «Receivables on settlements for advances paid» and non-current component should be disclosed as «Other non-current receivables».

The third section of the Balance Sheet equity «Current liabilities and provisions» has been offered to supplement with the items «Current payables on settlements with insurance companies» and «Current Payables on Accrued Interest», which is due to the emergence of the debt in the financial institutions. Moreover, this will ensure compliance with the full disclosure principle.

It has been offered to exclude an item «Deferred income» from the Balance Sheet as received advance

payments for leased premises, items or other services are, in accordance with IFRS, to be reclassified as non-current or current liabilities, and, therefore, will be disclosed as «Other non-current liabilities» and «Current payables for advances obtained».

To sum up the results of the study of the pawnshops (on the example of Balance Sheet (Statement of Financial Position) in the context of a comparison the report of the composition of assets and liabilities of the pawnshop with the financial statements in accordance with both national and international accounting standards, it's worth mentioning that the duplication of data has been revealed as well as the methodic inaccuracy of presenting the indicators has been evinced. In this regard, a number of amendments and changes to the Balance Sheet have been suggested, taking into account the specifics of informational requests of users of the pawnshops' reporting as well as the requirements IAS/IFRS. The changes are to decrease the workload on accounting personnel while preparing the statements by bringing into accordance Balance Sheet and the report of assets and liabilities of a pawnshop.

**Conclusions.** The carried out study of reports, namely Balance Sheet and Statement of Assets and Liabilities of pawnshop in the context of meeting the informational request of the users has allowed us to identify a number of problems related to the violation of the principles of financial reporting, requirements to the information disclosed, and duplication of information in different reports and so on.

First of all, to eliminate duplication of data, taking into account that the pawnshops are required to prepare financial statements under IFRS it has been proposed to abolish the unified financial statements prepared in accordance with IFRS and unite the Balance Sheet and Statement of Assets and Liabilities of pawnshop. In terms of improvement of the Balance Sheet for the pawnshops a series of changes has been introduced that will surely assist users in getting more full and accurate information about the financial condition of an organization. The improved and reviewed statement displays those peculiarities of pawnshops, which were brought to a focus in the Statement of Assets and Liabilities of pawnshop.

Implementation of the recommendations is to improve the informational content of the financial statements (as evidenced through the principle of full disclosure) without violating the principle of materiality. Improved form of Balance Sheet provides the users with all the necessary data about the financial and related services of the pawnshops, thereby increasing the value of the financial reporting itself.

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