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**COMPARABILITY OF FINANCIAL STATEMENT INFORMATION  
 AND ITS INFLUENCE ON USEFULNESS OF FINANCIAL STATEMENT ANALYSIS –  
 INTERNATIONAL PERSPECTIVE**

*Ця стаття піднімає проблему порівнянності інформації фінансової звітності в рамках міжнародного процесу гармонізації бухгалтерського обліку. Результати емпіричного дослідження у цій статті свідчать, що між фінансовими показниками, розрахованими на підставі даних, підготовлених відповідно до МСФЗ (Міжнародні стандарти фінансової звітності) і до Загальноприйнятих принципів бухгалтерського обліку (ЗПБО), може існувати істотна відмінність у процесі прийняття рішення. Це означає, що ми можемо порівняти фінансову звітність однієї компанії зі звітністю попередніх періодів чи зі звітністю інших компаній у промисловості, країні, регіоні або навіть у всьому світі, але лише за умови, що обидві склалися відповідно до одних і тих же стандартів. Так, якщо Національний стандарт бухгалтерського обліку встановлює дозвіл або заохочує до використання МСФЗ як альтернативи власним національним стандартам бухгалтерського обліку і цей процес не включає всі компанії на ринку, порівнянність фінансової звітності на цьому ринку падає. Емпіричні результати цікаві, оскільки вони можуть бути використані як регулюючими органами, так і портфельними менеджерами у виборі акцій.*

**Ключові слова:** МСФЗ, Національні ЗПБО, фінансова звітність, фінансові показники, показники рентабельності, показники ліквідності, показники платоспроможності, модель Альтмана.

В этой статье поднимается проблема сопоставимости информации финансовой отчетности в рамках международного процесса гармонизации бухгалтерского учета. Результаты эмпирического исследования данной статьи показывают, что между финансовыми показателями, рассчитанными на основании данных, подготовленных в соответствии с МСФО (Международные стандарты финансовой отчетности) и с общепринятыми принципами бухгалтерского учета (ОПБУ) может возникнуть существенное различие в процессе принятия решения. Это означает, что мы можем сравнить финансовую отчетность одной компании с данными в предыдущих периодах или же с отчетностью других компаний в промышленности, регионе, стране или даже во всем мире, но только при условии, что обе использовали одни и те же стандарты. Так, если Национальный стандарт бухгалтерского учета устанавливает разрешение или поощряет использование МСФО в качестве альтернативы своим собственным национальным стандартам бухгалтерского учета и этот процесс не включает все компании на рынке, уровень сопоставимости финансовой отчетности на этом рынке падает. Эмпирические результаты могут быть полезны для использования как для регулирующих органов, так и для портфельных менеджеров в выборе акций.

**Ключевые слова:** МСФО, Национальные ОПБУ, финансовая отчетность, финансовые показатели, показатели рентабельности, показатели ликвидности, показатели платежеспособности, модель Альтмана.

**Introduction.** The role of financial reporting is to provide information about performance, financial position and changes in the companies' financial position that is useful to a wide range of users in the economic decision-making. On the other hand, *the role of financial statement analysis is to use the information in a company's financial statements, along with other relevant financial and nonfinancial information, to evaluate the past, current and prospective performance, and financial position of the company as a purpose of making investment, taking credit and other economic decisions.* In drawing up financial statements, a clear objective has to be that the accounts reflect fairly the results of business operation. Therefore, the theory of accounting has developed the concept of a *"true and fair view"*. To support the application of the "true and fair view", accounting has adopted certain concepts and methods which help to ensure that accounting information is presented accurately and consistently. However, one challenging aspect of international business is the fact that there are no two countries which have exactly the same accounting standards or procedures [3]. Diversity in accounting standards is caused by historic, cultural, economic, legal, political and educational reasons, and unfortunately is one of the main barriers to the cross-border flow of the capital. Despite the forces favoring international diversity of accounting systems, there are also a number of strong forces favoring harmonization of the various national accounting systems. Some of these factors include the explosive growth in the cross-border financing, improvements in communication technology, the formation of cross-national economic blocs such as the European Union and NAFTA, and efforts by the United Nations [4, p. 48–71]. Accounting harmonization is defined as "... a process of increasing the comparability of accounting practices by setting limits on how much they can vary. Harmonized standards are free of logical conflicts, and should improve the comparability of financial information from different countries..." [1]. The greatest benefit that flows from harmonization would be the comparability of international financial information. Such comparability would eliminate the current misunderstandings about the reliability of foreign financial statements and would save time and money that is currently spent to consolidate divergent financial information when more than one set of reports is required to comply with the different national laws or practice [2]. As a consequence, attempts have been made to encourage accounting harmonization at the international level. A milestone in the march toward accounting harmonization was the formation of the International Accounting Standards Commission (IASC) in 1973, which in April 2001, was restructured and renamed the International Accounting Standards Board. Its objectives include: (1) developing a set of high quality, understandable, and enforceable global accounting standards; (2) promoting the use and rigorous application of these standards; and (3) bringing about convergence of National Accounting Standards and International Accounting Standards. The IASB has no authority to enforce compliance with these standards, but many National Accounting Standard-setting bodies have permitted or encouraged use of IFRS as alternatives or supplements to their own National Accounting Standards. For example, the European Union passed laws in 2002 imposing the requirement, but only for listed companies, to prepare their consolidated financial reports in accordance with IFRS from 2005. Such situation creates another problem – dualism of balance sheet law on the same market. National Accounting Standards are obligatory for not listed companies and nonconsolidated financial statement and IFRS is obligatory for consolidated reports. Therefore, the purpose of this article is to examine how such situation influences on comparability of financial statement and usefulness of financial statement analysis. To achieve this purpose, the study focuses on comparing commonly used financial ratios calculated for a sample of

6 companies, from different countries and continents, listed on NYSE. Data for a three-year period, from January 1, 2008 to December 31, 2010 - were collected from financial statement prepared by these companies in accordance with National GAAP and IFRS, available on their websites.

**Comparability of profitability ratios in the context of different accounting standards.** Main aim of any kind of economic activity is earning profit. The ability to generate profit from invested capital is a determinant key of the company's overall value and the value of securities it issues. Profit ability reflects company's competitive position on the market, and by extension, the quality of its management. Earnings can be distributed among shareholders or reinvested to the company. Reinvested earnings enhance solvency and provide a 'cushion' against short - term problems.

One of the most widely-used profitability ratios is net profit margin, also known as return on sales. ROS provides a measure of the bottom-line profitability. For example, a net profit margin of 10 percent means that for every dollar in sales the firm generated ten cents in net income. The other two most important measures of the firm's profitability are return on assets and return on equity. Return on assets (ROA) is a percentage of the after-tax income as compared to the total assets of the company. ROA of 11 percent would mean that for each dollar in assets the firm generated eleven cents in profits. Return on equity (ROE) measures the net return per dollar invested in the firm by the owners or the common shareholders. ROE of 20 percent means the firm is generating a twenty cent return per dollar of net worth.

Regarding to table 1, for each dollar in sale Glaxo Smith Kline PLC generated about 55 cents in 2008, 56 cents in 2009 and 35 cents in 2010 in net profit while we analyzing financial data prepared in accordance with UK GAAP. In comparison, whereas we analyzing financial data prepared in accordance with IFRS, the company generated about 19 cents in 2008, 20 cents in 2009 and about 7 cents in 2010 in net profit. As we can see, the average amount of ROS under IFRS is about 33% lower than under UK GAAP. Similar effect can be seen in the ROA and ROE ratios. Under IFRS the average amount of ROA is about 47% lower, and the average amount of ROE is about 28% lower than under UK GAAP. Additionally this problem affects all examined companies. However, some of them present higher rate of profitability under National GAAP other under IFRS. In this context the analyst may put a reasonable question: 'What is the "real" profitability of the company?'

Table 1

**Differences between profitability ratios calculated on the basis of accounting data prepared in accordance with National GAAP and IFRS**

Company	2010		2009		2008		Average value (National GAAP)	Average value (IFRS)	Average value - Differences
	IFRS	National GAAP	IFRS	National GAAP	IFRS	National GAAP			
	ROA								
Glaxo Smith Kline PLC	4,38	49,19	13,22	65,12	11,96	54,9	56,4	9,85	46,55
	ROS								
	6,52	35,33	19,98	55,95	19,34	55,31	48,86	15,28	33,58
	ROE								
	20,85	70,84	56,66	76,66	59,41	74,01	73,84	45,64	28,2
	ROA								
Siemens AG	4,11	3,95	2,57	0,0002	2,41	6,23	3,39	3,03	0,36
	ROS								
	8,74	5,35	5,65	3,25	5,46	7,61	5,4	6,62	-1,21
	ROE								
	94,55	13,98	16,04	9,37	16,23	21,98	15,11	42,27	-27,16
	ROA								
BRF Brasil Foods SA	0,44	2,9	0,37	0,46	0,69	0,48	1,28	0,5	0,78
	ROS								
	0,54	3,54	0,60	0,75	0,67	0,47	1,59	0,6	0,98
	ROE								
	0,90	5,90	0,77	0,96	2,24	1,57	2,81	1,3	1,51

Alumina Limited	ROA								
	-0,76	0,97	17,91	-0,66	0,89	4,30	1,54	6,01	-4,48
	ROS								
	-128,57	241,42	170,36	-481,48	8,55	4,8	-78,42	16,78	-95,2
	ROE								
	-0,87	1,12	8,94	-0,79	1,35	6,01	2,11	3,14	-1,03
								0	
TATA Motors Limited	ROA								
	6,76	5,91	3,78	-5,86	13,44	10,28	3,44	7,99	-4,55
	ROS								
	6,29	2,72	3,90	-3,47	7,06	6,26	1,84	5,75	-3,91
	ROE								
	14,96	30,66	8,18	-41,49	25,88	25,69	4,95	16,34	-11,39
Gold Fields Limited	ROA								
	2,6	6,24	6,46	2,54	-0,20	8,42	5,73	2,95	2,78
	ROS								
	2,87	13,53	7,16	6,37	-19,45	20,93	13,61	-3,14	16,75
	ROE								
	2,99	10,01	6,89	4,12	-0,22	12,89	9,01	3,22	5,79

Source: Own elaboration based on data from examined company's financial statements.

**Comparability of liquidity and solvency ratios in context of different accounting standards.** *Liquidity ratios* provide information about firm's ability to meet its short-term financial obligations. They are of particular interest to short-term creditors, but managers must also monitor the firm's ability to meet short-term obligations because it can help uncover weaknesses in the financial position of the business. There are two commonly used ratios that help to evaluate this: the *current ratio* and the *quick ratio*. Current ratio expresses current assets (assets expected to be consumed or converted into cash within one year) in relation to current liabilities (liabilities falling due within one year). Short-term creditors prefer a high current ratio, what indicates a higher level of liquidity and reduces their risk. Shareholders may prefer a lower current ratio because it means that all assets of the company are working in order grow the business. The current ratio of 1.5× indicates that for every dollar in current liabilities the firm has \$1.50 in current assets. Such assets could, theoretically, be sold and the proceeds used to satisfy the liabilities if the firm ran short of cash. A ratio below 1,0 means that current assets are less than current liabilities what is a clear indication that the company may have liquidity problems. However, some current assets are more liquid than others. Obviously, the most liquid current asset is cash. Accounts receivable are usually collected within one to three months, but it depends on firm and industry. The least liquid of current assets is often inventory. The quick (or acid test) ratio incorporates this concern. By excluding inventories, the quick ratio is more strident liquidity measure than the current ratio. It is more appropriate measure for industries that involves long production cycles, such as manufacturing. Analysts generally consider an acid-test ratio of about 1 as a minimum healthy level.

Regarding to table 2, the current ratio for the Gold Fields Limited company is stated as 1,01 in 2008, 1,10 in 2009 and 0,88 in 2010 (when we analyzing financial data prepared in accordance with National GAAP). This means that the firm could meet its current (short-term) debt obligations about 1times over only in the first two year. In 2010 the company's current assets could cover only 88% of the short-term liabilities, what can be determined as a negative indicator of the firm's future liquidity. On the other hand, the same ratio calculated on the basis of financial data prepared in accordance with IFRS shows that the company could have serious problems to repay short-term debt. Average value of CR for this company was 0,25, what means that for every dollar the company was owe in the short term it had only 25 cents available in assets that could be converted to cash in the short term. Similar effect can be seen in the Quick Ratio. Under IFRS average amount of QR is about 0,25 while under UK GAAP is only 0,74. So, again analyst may put a reasonable question: 'Does this company have (or not have) serious liquidity problem?'

The same interpretative dilemma affects all examined companies.

Table 2

**Differences between liquidity ratios calculated on the basis of accounting data prepared in accordance with National GAAP and IFRS**

Company	2010		2009		2008		Average value (National GAAP)	Average value (IFRS)	Average value - Differences
	IFRS	National GAAP	IFRS	National GAAP	IFRS	National GAAP			
Glaxo Smith Kline	CR								
	1,25	0,11	1,44	0,24	1,72	0,18	0,18	1,47	-1,29
	QR								
	0,95	0,11	1,11	0,24	1,31	0,18	0,18	1,12	-0,95
Siemens AG	CR								
	0,79	1,22	0,92	1,19	0,95	1,01	1,14	0,89	0,25
	QR								
	0,29	0,85	0,38	0,81	0,47	0,67	0,78	0,38	0,4
BRF Brasil Foods SA	CR								
	1,96	1,73	1,71	1,77	0,87	1,94	1,81	1,51	0,3
	QR								
	0,25	1,35	1,18	1,24	0,63	1,39	1,33	0,69	0,64
Alumina Limited	CR								
	0,23	0,56	43,57	40,73	3,35	0,35	13,88	15,72	-1,84
	QR								
	0,23	0,56	43,57	40,73	3,35	0,35	13,88	15,72	-1,84
TATA Motors Limited	CR								
	0,78	1,02	1,08	1,31	1,19	1,70	1,34	1,02	0,33
	QR								
	0,58	0,74	0,83	0,89	0,91	1,41	1,01	0,77	0,24
Gold Fields Limited	CR								
	0,24	0,88	0,22	1,10	0,28	1,01	1	0,25	0,75
	QR								
	0,24	0,65	0,22	0,82	0,28	0,72	0,73	0,25	0,48

**Source:** Own elaboration based on data from examined company's financial statements

Another very important group of financial ratios are solvency ratios. These ratios are of interest to long-term creditors and shareholders. Solvency refers to a company's ability to fulfill its long-term debt obligations. Assessment of a company's ability to pay its long-term obligations generally includes an analysis of the components of its financial structure. Table 3 presents basic solvency ratio – debt to assets ratio - calculated for the examined companies. In every case the differences between debt ratio calculated on the basis of financial data prepared in accordance with IFRS and National GAAP can be seen. Additionally some of those differences are significant for a decision-making process. For example, the average value of debt ratio for Siemens AG is 0,36 (under IFRS), what means that the company involved only 36% of debt in the business. Creditors prefer low debt ratios because the lower ratio means the greater 'the cushion' against creditors' losses in the event of liquidation. In this case creditors should not be afraid to lend the company more money. But analyzing the data prepared in accordance with National GAAP, the company's average debt ratio is 0,84. In this case creditors may be reluctant to lend the firm more money because a high debt ratio is associated with a greater risk of bankruptcy (table 4).

Table 3

**Differences between debt ratio calculated on the basis of accounting data prepared in accordance with National GAAP and IFRS**

Company	2010		2009		2008		Average value (IFRS)	Average value (National GAAP)	Average value - Differences
	IFRS	National GAAP	IFRS	National GAAP	IFRS	National GAAP			
Glaxo Smith Kline PLC	0,76	0,82	0,74	0,31	0,78	0,63	0,76	0,59	0,17
Siemens AG	0,36	1,11	0,35	0,71	0,37	0,71	0,36	0,84	-0,48
BRF Brasil Foods SA	0,18	0,50	0,22	0,48	0,20	0,63	0,20	0,54	-0,34
Alumina Limited	0,13	0,13	0,09	0,16	0,33	0,28	0,18	0,19	-0,01
TATA Motors Limited	0,52	0,80	0,41	0,74	0,70	0,62	0,54	0,72	-0,18
Gold Fields Limited	0,31	0,33	0,37	0,34	0,39	0,32	0,36	0,33	0,03

**Source:** Own elaboration based on data from examined company's financial statements

Table 4

**Altman's model z-score calculated on the basis of accounting data prepared in accordance with National GAAP and IFRS**

Firm	Altman model					
	2010		2009		2008	
	IFRS	National GAAP	IFRS	National GAAP	IFRS	National GAAP
Siemens AG	1,78	1,6	1,82	1,59	1,9	1,06
BRF Brasil Foods SA	2,3	2,61	2,04	1,53	2,65	1,5
Alumina Limited	3,93	3,76	3,06	6,07	1,64	1,67
TATA Motors Limited	2,67	1,94	1,86	1,99	3,29	3,52
Gold Fields Limited	2,06	4,03	1,77	9,23	2,16	8,01
Glaxo Smith Kline PLC	2,62	7,24	2,8	10	2,66	7,53

**Source:** Own elaboration based on data from examined company's financial statements

A great deal of academic and practitioner research has focused on determining which ratios are useful in assessing the credit and bankruptcy risk of the company. Altman (1968) found that financial ratios could be combined in an effective model for predicting bankruptcy. His initial work involved creation of Z - score that was able to predict correctly the financial distress [5]. This model was later modified to the Altman (1993) model that uses the same variables multiplied by different, however, factors. The Z - score was computed as:

$$Z = 1.2x(\text{Current assets} - \text{Current liabilities})/\text{Total assets}$$

$$+1.4 x (\text{Retained earnings}/\text{Total assets})$$

$$+3.3 x(\text{EBIT}/\text{Total assets})$$

$$+0.6 x(\text{Market value of stock}/\text{Book value of liabilities})$$

$$+1.0 x(\text{Sales}/\text{Total assets})$$

In his initial study, Z - score of lower than 1.81 predicted failures and the model was able to accurately classify 95 percent of companies studied into a failure group and a no failure group.

Evaluating the credit and bankruptcy risk of the examined companies by using the Altman (1993) model we find out that Z - score significantly differs depending on accounting standards involve in drawing up financial statement. For example, in case of Gold Fields Limited in 2009 Z - score calculated on the basis of accounting data prepared in accordance with IFRS is 1,77, what indicate high risk of bankruptcy. But when we analyzing accounting data prepared in accordance with National GAAP, Z - score is 9,23 what, this time, means that

bankruptcy risk is not likely. So, again we facing the problem of comparability of accounting data prepared in accordance with different accounting standards.

**Conclusion.** Comparability is one of the key qualities which accounting information must have. Comparable accounting information is useful because it tells us the ‘story’ of the business. We can compare financial statements of the company with its prior financial statements to see whether performance and position have been improved or deteriorated. We can compare the company’s financial statements with other companies in the industry, region, country or the whole world. But diversity in accounting standards between countries unfortunately is a considerable barrier to such comparison. As a consequence, many National Accounting Standard-setting bodies have permitted or encouraged use of IFRS as alternatives or supplements to their own National Accounting Standards. Without any doubt this process has a positive influence on comparability of financial statement in international perspective. But negative consequence of this process is that some companies on a domestic market drawing up their financial statement in accordance with IFRS, some under National GAAP. This study indicates the possibility of large differences in financial ratios for companies when reporting under IFRS versus National GAAP. The differences are not constantly higher or lower, so there is no easy conversion method to use to convert ratios from one standard to what you would expect under another. These results are interesting since they can be used by regulatory authorities and by portfolio managers in stock selection.

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#### ВИКОРИСТАННЯ ПОКАЗНИКІВ МОДЕЛІ В ОЦІНЦІ ЯКОСТІ ПРИБУТКУ

*Целью данной статьи является представление возможности использования модели М.Д. Бениша как метода оценки «качества» финансовой отчетности, а также исследование того, возникает ли взаимосвязь между «качеством» прибыли и ее прогностической способностью. В связи с этим, проанализировав финансовую отчетность компаний, которые составляют основу Индекса UX (Ukrainian Exchange), было показано соотношение между качеством информации и изменениями прибыли (увеличением либо уменьшением). Результаты исследования могут быть пригодными для участников рынка капиталов в процессе принятия инвестиционных решений.*

**Ключевые слова:** модель М.Д. Бениша, манипулирование, финансовая отчетность, качество, индекс UX, креативная бухгалтерская техника, доходность.

*The aim of this article is to present the possibility to apply M.D. Benish’s model as a method of estimating the quality of financial statements and to show the relations between profit quality and its predictive ability. Based on financial statements of the companies listed on Ukrainian Exchange (UX), the relations between information quality and profit changes (increase or decrease) have been researched. The results of the research can be useful for Capital Market players in investment decision-making process.*

**Key words:** M.D. Benish’s model, manipulation, financial statements, quality, Index UX, creative accounting techniques, profitability.