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FINANCIAL INVESTMENTS IN SECURITIES: CONCEPT, ASSESSMENT, ACCOUNTING

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In the article the essence of financial investments in securities was investigated as the object of accounting in domestic and international practice. The definition of these financial instruments was proposed from the point of view of the investor and the Issuer. The order of the recognition and measurement of financial instruments was investigated. The approach to the classification of financial investments in securities in the Republic of Belarus for accounting purposes was developed taking into account the convergence with international practice.

At the present stage of development in the Republic of Belarus, the strengthening of market relations is been in the process of integration of the economy into the global market economy. In this regard, one of the forms of using available funds is financial investments that can be made in three main directions: investments in profitable types of financial instruments; investments in the authorized capital of other organizations and investments in securities. The government's measures aimed at strengthening the Belarusian market relations affect the interests of many organizations, medium and large businesses which worked with foreign banks and investors.

Such form as the investment of funds in securities, becomes the most common form of financial investments in the Republic of Belarus [1]. International standards are acquired a particular relevance for these purposes. International standards regulate the financial relationship between the organizations, which include the IFRS (IAS) 32 "Financial instruments: disclosure and presentation" and IFRS (IAS) 39 "Financial instruments – recognition and measurement". In national accounting practice to IFRS analogues can be attributed only the Instruction about the procedure for disclosure of information and provision of financial statements about financial instruments, as well as the Instruction on accounting of securities, approved by Decree of the Ministry of Finance of the Republic of Belarus of 22 December 2006 No. 164. Currently comparative characteristics of these regulations show that they have significant differences.

The rules and requirements for formation of financial statements contained in IAS 32 and IAS 39, are widely used concepts such as: a financial instrument, financial asset, financial liability, equity instrument. They also have the definition of derivative financial instruments that have identification signs, rules of recognition, measurement and disclosure. However, the definition of financial investments in securities as an economic category and as an object of accounting and financial reporting in this regulatory document is missing. It is important to note that in international practice, accounting concept financial investments is not used.

In international practice, the economic substance of financial instruments is considered as financial liabilities and financial assets, in other words, separately from the Issuer and the investor. So, in GAAP and International financial reporting standards (IAS 32), financial instruments are the contract in which simultaneously occur a financial asset of one organization and financial obligation or equity instrument of another [51].

The research of economic essence of financial investments in securities in scientific economic literature of domestic and foreign authors, as well as in the legal sources of the Republic of Belarus has allowed to formulate the definition of financial instruments as an object of accounting in terms of investors and issuers.

From the point of view of investors, financial investments in securities are short-term or long-term financial assets, certifying the monetary, commodity, debt, property or other rights that the organization intends to hold to maturity or resale on the secondary market.

From the point of view of the Issuer, financial investments in securities are short-term or long-term financial commitment, submitted in electronic or paper form, in the prescribed form and the relevant details. In the proposed definitions characteristics of securities as an object of accounting are allocated from the point of view of their reflection in the balance sheet of the investor and the issuer, including maturity. This will allow us to align the terminology used in the regulatory documents on accounting, and will also contribute to the formation of complete and reliable accounting information on financial instruments business entities close to the International financial reporting standards.

Thus, the proposed definition of "securities" reveals a mutual relationship in the types and rules of circulation of these financial instruments based on certain principles and must express these relations in the form of a logically constructed system of classification. However, in accordance with normative legal acts of the Republic of Belarus for accounting purposes, investor's and issuer's securities are classified into two categories [4]:

1. Securities available-for-sale,

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2. Securities held to maturity.

In generally accepted principles (standards) of accounting (GAAP) and International accounting standards (IAS) securities are categorized depending on the acquisition and evaluation in the following order (Fig. 1).

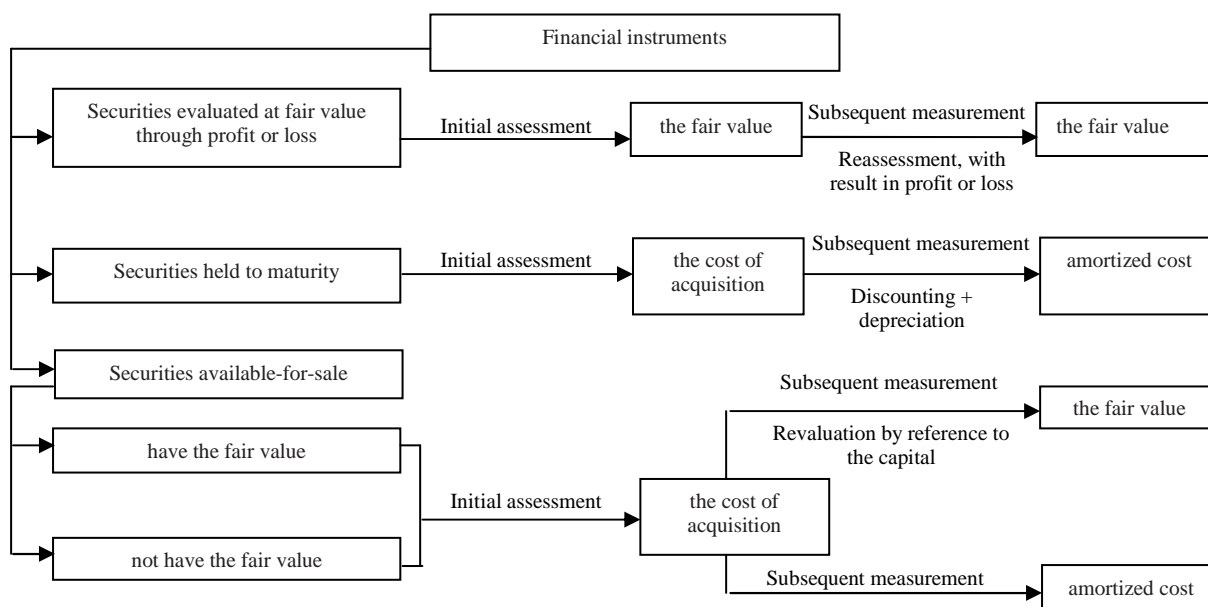


Fig. 1. Classification of financial instruments

It should be noted that the valuation at amortized cost used in simultaneous execution of two conditions:

- 1) the acquisition and ownership of the financial asset is made within the framework of the business model, aiming to receive cash flows under the contract;
- 2) agreement on the acquisition of a financial asset provides cash flow, including solely payments of principal and accrued on the remaining amount of interest.

In all other cases the measure at fair value is applied. Thus, we can conclude that the fair value measurement is the basis of the vast majority of financial instruments. The only exception is securities, held to maturity. In practice, however, the volume of investments in this category of securities is insignificant in the reason of weak development of markets for long-term resources and tools. From this follows that the accuracy of the accounting and reporting of financial instruments is based on the reliability determine the fair value.

However, it should be noted that in the special literature and normative documents of the Republic of Belarus there are various, often contradictory, definitions of the specified categories which, in turn, are not consistent with international practice, which leads to a distortion of the authentic value of financial investments in the account and violation of the principle of comparability of accounting information of various business entities. For the application of the legislation of the Republic of Belarus the concept of fair value should state the fact of the need to develop one universal model of its calculation, and applied in international practice methods of recognition and measurement of financial assets should be the basis for the development of Belarusian accounting standards, but adaptation to national characteristics. The introduction of a domestic standard would ensure the comparability generated in the financial statements of information with the foreign canons ensure its clarity and representativeness, and will contribute to attracting foreign investment in the real sector of economy of the Republic of Belarus.

Account 06 "Long-term financial investments" and 58 "Short-term financial investments" are designed by chart of accounts. To summarize the information about the presence and movement of investments in securities of other organizations, bonds of state and local loans, the statutory funds of other organizations, etc., and also provided to other organizations of loans, contributions of members of the agreement on joint activities in the common property of the simple association.

Based on the conducted research, it seems necessary in the Republic of Belarus to systematize financial instruments of the investor and the Issuer, taking into account their maturity and purpose for accounting purposes and reporting the following categories (classes, groups), presented in figure 2.

In the category of financial investments that are measured at fair value, with such changes in its profit or loss includes financial investments, the current for which fair value can be reliably determined including held-for-trading. This category includes financial investments acquired for sale to gain profit from price fluctuations in the short term. It is basically listed securities. All derivative securities are included in this category except when they are used for hedging.

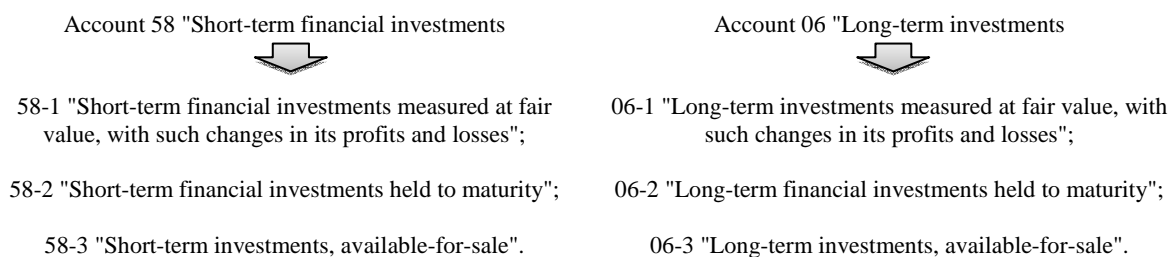


Fig. 2. Classification of financial instruments as objects of accounting

Financial investments available-for-sale, are designed to retain in the organization for an indefinite period and can be sold for the purpose of increasing the organization's liquidity, when a sudden change in interest rates, currency exchange rates or equity prices. These are securities which acquisition cannot be determined in any two categories we have discussed. They can either be sold when necessary, or be held an unlimited amount of time. This includes all equity securities, except those which belong to the first category (group). Any asset may initially be attributed to this group other than trading (group).

Financial investments held to maturity are non-derivative financial investments with fixed or determinable (deterministic) payments and fixed maturities that the organizations hold until their maturity.

If the organization sells or transfers them to an amount exceeding the "a negligible amount" (more than insignificant amount of assets), this category of securities is considered as "destroyed" and the organization is obliged to transfer all the remaining financial investments of this category to the category "available for sale". After that, organization is prohibited from classifying any financial investments (securities) as held to maturity during the following two annual periods will not recover until the credibility of the organization. Equity securities cannot be classified in this category, since for them there is no fixed date of repayment.

Thus, we can conclude that at the present time, there are not only necessity, but also the preconditions of perfection of normative regulation of financial accounting of securities and their reflection in the financial statements in the process of convergence with IFRS. Their implementation will allow to improve the quality of accounting for financial instruments and also will have a positive impact on improving the investment attractiveness of market economy of the Republic of Belarus. The proposed improvement of accounting of operations with securities will allow to organize analytical and synthetic accounting of economic operations at a higher level, and also to get uniform information to a wide range of users required for analysis of indicators of economic activity of enterprises and the relevant International financial reporting standards.

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