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Classification and Audit of Financial Operations in Budget Organizations

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Abstract: This article describes the procedure for valuing financial assets at amortized cost and fair value in accordance with International Financial Reporting Standards, and defines the concepts of amortized cost and fair value of financial assets. The issues of business model in the selection of valuation approaches for financial assets are covered. In addition, practical procedures are used to assess the fair value of financial assets through other comprehensive income and profit and loss statements, and to determine the initial value of financial assets.

Keywords: Commercial bank, credit, investment credit, reserve, interest, resource, industrial enterprise, liability, deposit, liquidity, solvency.

Introduction

International coordination of accounts and reports is important in ensuring the sustainable growth of national economies. At present, special attention is paid to the formation of a favorable investment climate in countries, harmonization and international unification of financial reporting, the current state of accounting of financial assets, their important and integral object, classification, recognition, evaluation and improvement of reporting.

In this regard, it is important to improve the methodology for recognizing and valuing financial assets, including long-term and deferred receivables, cash and cash equivalents, tax assets, equity investments, and their presentation in the financial statements.

As a result of the introduction of IFRSs, procedures have been introduced for the assessment and reporting of financial assets of enterprises on the basis of new principles. However, despite the rapid development of financial assets in the years of independence in our country, it can not be said that the theoretical, organizational and methodological basis for the calculation of these types of property in accordance with international standards. In particular, the country has not developed national standards for the accounting of financial instruments.

The term "financial assets" is not included in the reporting forms, the essence of financial assets as objects of accounting and auditing, recognition, valuation, classification, composition, accounting and reporting procedures, methods of determining the real market value of financial assets, accounting and reporting the lack of procedures has affected the consistency and reliability of financial statements. All of the above, including the objective need to develop a modern methodology for accounting for financial assets, requires in-depth research in this area.

Analysis of the relevant literature

The principles of accounting for financial assets as part of financial instruments are set out in IFRS 7 Financial Instruments: Disclosure, IFRS 9 Financial Instruments, IFRS 32 Financial Instruments:

Presentation and other international standards.

The information on the websites contains articles and scientific-methodological recommendations on the content and application of IFRS 9. Including:

IFRS Diploma (MSFO, Dipifr) "IFRS 9: Classification and Accounting for Financial Assets" [1] provides practical examples of the classification of financial assets and their valuation at amortized cost and fair value.

Natalya Razumovskaya in her article "Balance sheet value of financial assets: IFRS 39 vs. IFRS 9" [2] divided financial assets into four categories: 1. Financial assets valued at fair value; 2. Investments held to maturity; 3. Debts and receivables; 4. Financial assets available for sale in cash. This article provides practical examples of initial and ongoing valuation of financial assets.

Elena Mikheeva in her article "Selection of the category of financial assets and liabilities" [3] in the journal Vestnik 2016 states that two tests are required to correctly select the category of financial assets: "1) Cash flow test; and 2) a test of the business model used. "

Textbooks published in our country cover the content and application of international standards for financial assets. In particular, the textbook "International Financial Reporting Standards" co-authored by the author [4] provides information on the definition, classification and valuation of financial assets on the basis of IFRS. Prof. S.Mehmonov, D.Y. Ubaydullaev [5] noted that "the financial assets of budget organizations include cash in their accounts, cash on hand, cash documents, remittances in transit, financial deposits (temporarily deposited funds)."

Analysis of the literature shows that our local scientific journals have very little weight of scientific articles on the recognition, valuation, classification and reflection of financial assets in accordance with international standards on the example of business entities. Therefore, the preparation of scientific articles on this topic is very important.

Research methodology

The scientific article used analysis and synthesis, induction and deduction, systematic approach, abstract-logical thinking, monographic observation, accounting, statistics, economic analysis and economic-mathematical methods.

Analysis and results

The procedure for valuing financial assets is set out in international standards. In particular, in accordance with paragraph 4.1.1 [6] of IFRS 9 Financial Instruments, financial assets are valued at the following values:

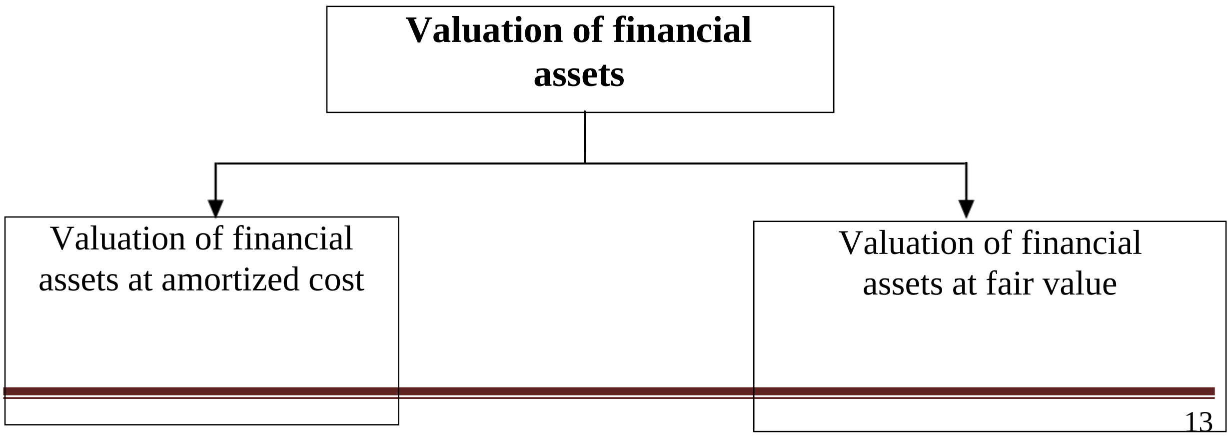
1. At the amortized cost of financial assets;

2. At fair value of financial assets:

2.1. Through other set earnings (BTD);

2.2. Through profit and loss statement (F and Z).

We can express this situation by the following diagram (Figure 1):



IFRS 32 “Financial Instruments: Provision of Information” [7] and IFRS 9 “Financial Instruments” [6] define the amortized cost and fair value of financial assets. The following are the definitions: The depreciable amount of a financial asset is the amount at which the financial asset is measured at initial recognition, minus the principal amount, plus or minus the difference between the cost of the instrument and the amortization amount calculated using the effective interest method and minus estimated reserve amount.

Fair value is an estimate that represents the amount received from the sale of an asset or the payment of a liability under an operating transaction between market participants in an organized market at the date of the valuation (IFRS 13).

To properly evaluate financial assets, it is necessary to analyze the business model of the company. A business model is an algorithm that analyzes how the funds provided for in a contract for financial assets are used to pay the principal and interest on the loan.

Valuation of financial assets at amortized cost is carried out subject to the following two conditions:

(a) The business model (objective) consists of holding financial assets to receive the cash flows provided for in the contract;

(b) the funds provided for in the contract shall consist only of the payment of the principal amount of the debt and the interest on the outstanding portion of the principal debt.

Valuation of financial assets on the basis of fair value through other sets of income is carried out simultaneously with the following two conditions:

(a) The business model (target) includes the receipt of cash flows provided for in the contract, as well as the receipt of cash from the sale of financial assets;

(b) the cash provided for in the contract shall consist only of the payment of principal on the debt and interest on the outstanding portion of the principal debt.

Under this category, the results of revaluation of assets to fair value are included in other comprehensive income (BTD) (except for gains and losses on impairment of assets and positive and negative exchange rate differences, which are recognized in the income statement).

The accumulated amount of profit or loss recognized in other comprehensive income prior to the termination of the recognition of financial assets is reclassified to the income statement. Fair value of financial assets through the statement of profit or loss in all cases, except when they are measured at amortized cost or fair value through BTDs must be evaluated.

The fair value of a company's financial assets plus (if the financial asset does not fall into the fair value category through profit or loss) is recognized directly at cost based on the transaction costs directly attributable to the acquisition of those financial assets.

Transaction costs include incentives and amounts paid to agents (including employees who act as sales agents), consultants, brokers, and dealers; amounts paid to regulatory authorities and stock exchanges; and taxes and levies on the transfer of property.

Transaction costs do not include premiums and deductions on debt obligations, financing costs, internal administrative expenses or storage costs. The elements of the initial cost of financial assets can be represented in the following diagram (Figure 2):

Initial cost of financial assets

Fair value of financial assets

The transaction costs include:

- Incentives paid to intermediaries, consultants, brokers and dealers
- Amounts payable to regulatory authorities and stock exchanges

In order to implement the guidelines for the application of International Financial Reporting Standards [1] in the assessment of financial assets at amortized cost and fair value (reflected in the income statement or other comprehensive income), we consider the following examples:

Example 1 (Valuation at amortized cost). As of January 1, 2017, Alfa has issued 100,000 bonds with a face value of 10,000 soums per bond. Beta has bought all of Alpha's bonds and intends to hold it until the payment is made. 20,000,000 to record this transaction soums incurred additional costs.

The price of one bond is set at 12,000 soums and will be repaid at face value until January 1, 2019. The interest rate for the bond is 12% and is expected to be paid by December 31 of each year. The effective annual interest rate is 5%.

As of December 31, 2017, there was no significant increase in credit risk. The 12-month credit risk is estimated at 80,000,000 soums.

Based on the results of this operation, the bonds will be required to be assessed in accordance with international standards and reflected in the financial position of Beta as at 31 December 2017.

Terms and Conditions:

1. The amount of issued bonds - 100,000;
2. Nominal value of one bond - 10,000 soums;
3. The term of the bond is 2 years (from January 2017 to January 1, 2019).
4. The selling price of one bond is 12,000 soums;
5. Payment for bond registration - 20,000,000 soums;
6. Interest rate set for the bond - 12%;
7. Effective annual interest rate - 5%;
8. The estimated credit risk for 12 months in 2016 is 80,000,000 soums.

Solution:

1. For Beta, the purchase of bonds over a period of 2 years is a long-term financial investment, so the bonds are recognized as a financial asset.

2. The initial value of the bond. In this example:

 Initial value = fair (fair value) + record the bond pay for

 In that case, the initial value of the bond as of January 1, 2017:

 100,000 bonds x 12,000 soums + 20,000,000 = 1,220,000,000 soums.

3. Amount of annual interest payment for the bond:

 (100,000 bonds x 10,000 soums x 12%) / 100% = 120,000,000 soums

4. Financial income based on effective annual interest rate:

 (1,220,000,000 x 5%) / 100% = 61,000,000 soums

5. Depreciable amount of a financial asset:

Depreciable amount of financial asset = Initial cost annual payment + financial income - estimated reserve amount

In that case, the depreciable amount of the financial asset is:

1,220,000,000 soums - 120,000,000 + 61,000,000 - 80,000,000 soums = 1,081,000,000 soums.

Amounts reflected in the financial statements on the basis of these calculations:

Extract from the statement of financial position as of December 31, 2017 (in thousands of soums):

Financial asset. 1,081,000

Extract from the statement of comprehensive income for 2017:

Financial income 61,000

Damage from impairment 80,000

In valuing a company's financial assets at fair value, let us examine the procedure by which differences in the change in its value are reflected in the profit and loss statement and in other cases by other comprehensive income.

In accordance with the procedures established by international standards and best international practices:

1. If a company intends to obtain cash from the sale of financial assets (active sale (sale or repurchase of financial assets) and economic gain as a result of an increase in its fair market value), the change in the fair value of such assets is recognized in profit or loss. should be measured at fair value in the financial statements. An example of this is investing in stocks. In such cases, the purpose of the business model is not to receive interest income, dividends are not the main source of financial income, but to receive cash from its sale in the event of a beneficial change in the value of the share. Such assets are measured at fair value through profit or loss in the statement of financial position.

2. If the investment in the company's shares is not intended to sell them, but has a bright future for the invested company or is intended for long-term maintenance (profit in the form of dividends is the main goal), then the difference in the fair value of financial assets is different. the portfolio is measured in the financial statements at fair value through an income statement. In the event of a disposal of this instrument, gains and losses accrued on changes in the fair value of financial assets in other comprehensive income may be reclassified to profit or loss or retained earnings in the manner specified in the company's accounting policies.

We illustrate these two cases in practical examples.

Example 2 (Valuation at fair value through profit or loss statement). As of January 1, 2017, Beta has acquired 100,000 shares of Alfa. The fair value of one share on the date of purchase is 5,000 soums. Beta paid 15,000,000 soums to register the deal.

According to the business model of the beta company, this share was purchased for sale and provides for the receipt of funds from it.

As of October 1, 2017, the fair value of the share (on the stock exchange) increased to 5,500 soums.

Required: How the results of this transaction will be assessed in the interim financial report as of October 1, 2017.

Terms and Conditions:

1. The amount of purchased shares - 100,000 shares;
2. The fair value of one share purchased as of January 1, 2017 is 5,000 soums.
3. Payment for registration of the transaction - 15,000,000 soums.
4. The purpose of the business model is to raise funds from the sale of shares.
5. As of October 1, 2017, the fair value of one share is 5,500 soums.

Solution:

1. A purchased share is a financial investment, so that asset is recognized as a financial asset.
2. The business model assumes cash inflows, so the value of the shares is measured at fair value in the financial statements by reflecting changes in the income statement.
3. The fair value of the share at the date of purchase, ie as of January 1, 2017:

   100,000 shares x 5,000 soums = 500,000,000 soums
4. Payment for registration when purchasing the transaction - 15,000,000 soums
5. Fair value of the share as of October 1, 2017:

   100,000 shares x 5,500 soums = 550,000,000 soums
6. Change (profit) in the fair value of shares reflected in the statement of comprehensive income

   550,000,000 - 500,000,000 = 50,000,000 soums
7. Amounts reflected in the financial statements on the basis of these calculations:

From the statement of financial position as of October 1, 2017 statement (in thousands of soums): Financial asset. 550000

Extract from profit and loss statement for 2018: Expenses related to registration of financial asset 15 000

Profit from change in fair value 50,000

Conclusions and suggestions

Based on the above assessment of financial assets at amortized cost and fair value and the study of the methodological order of their reflection in the financial statements based on international standards, we can draw the following conclusions:

1. At a time when international financial reporting standards are widely recognized and implemented today, it is necessary to adopt a national accounting standard for accounting of financial instruments called “Financial Instruments”.

2. We consider it expedient to include the term financial assets in the current balance sheet [9], to develop their components in accordance with international standards, ie to carry out its restructuring, bringing it into line with modern requirements, calling the current balance sheet a statement of financial position.

3. It is necessary to move from the current statement of financial performance [9] to the statement of comprehensive income, which consists of two parts. It is appropriate to call the first part of this report “Profit and Loss Statement” and the second part “Statement of Other Total Income”. At the same time, it is proposed to include in these reports the item "Profit or loss from revaluation of financial assets" to bring the reports in line with international standards.

4. Based on the study of best international practices [10] it is necessary to develop an algorithm model of the business model of enterprises, through which the company will be able to choose the valuation at amortized cost or fair value of financial assets. The business model allows for the correct application of the requirements of international standards for financial instruments.

5. The widespread adoption of the above methodology for valuing financial assets at amortized cost and profit and loss at fair value through other comprehensive income will lead to the widespread introduction of international standards in practice, as well as improving the quality of information reflected in the reports.

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