METHODOLOGICAL APPROACHES TO ASSESSING FINANCIAL INVESTMENTS

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Abstract
The article discusses the procedure for fair valuation of assets in financial statements, which would allow, on the one hand, to present the real (and not historical) value of assets, and on the other hand, would help attract counterparties. The formation of estimated values for the category “financial investments” is shown in order to create a reserve for the depreciation of financial investments. Currently, regulatory documents on accounting do not contain methodological guidelines that would establish a detailed procedure for calculating and forming reserves.

Keywords: financial investments, financial statements, financial investment accounting, fair valuation, assets

Introduction

Financial investments are an ambiguous category and different authors approach its interpretation in their own way. Moreover, in the traditional understanding of the theory of investments (and investments are a category of an investment nature), financial investments include investments in securities, contributions to the authorized capital of other organizations, deposits and loans that cannot be capitalized in the form of long-term capital assets. The nature of such investments is associated with the formation and redistribution of cash flow, and not with the creation of productive assets. This is where all the risks in this category manifest themselves.

Analysis of the Relevant Literature

According to the Russian researcher O.R. Gorlo, financial investments are an organization’s investments in assets in order to obtain additional income in the form of interest, dividends or an increase in the value of assets.
Solodov V.V. believes that financial investments are the diversion by an organization of its free funds (or other resources) into the assets of other enterprises in order to obtain benefits not related to the main activities of this organization. Polenova S.N. characterizes financial investments as assets that are used by an organization to generate additional income through investments in government securities, bonds, authorized (share) capitals of other organizations, etc.
As you can see, all of the above interpretations link the category of financial investments with additional activities for non-financial organizations.

The current Accounting Regulation classifies as financial investments purchased securities, loans issued, contributions to the authorized capital of other organizations, and even deposits in accounts in commercial organizations. At the same time, it does not limit its action only to industrial enterprises. Paragraph 2 of clause 1 of this document extends its effect to financial market participants, including insurance organizations and Non-state Pension Funds (NPFs). Thus, it is obvious that the economic significance of various financial investments is different both for an economic entity and for users of its reporting.

Research Methodology

The article uses such methods as analysis and synthesis, induction and deduction, cause and effect, time and space, systematic approach, traditional economic analysis, economic mathematics and statistics, correlation and regression.

Analysis and Results

Let us make a reservation right away that this work does not consider the specifics of the functioning of different entities and the importance of financial investments in their book value. This is a topic for a separate study. In this work, the authors aim to propose, within the framework of the current regulatory framework, approaches to the formation of a methodology for the balance sheet assessment of various financial investments. Financial investments are classified according to various criteria (Table 1).

Table 1 Classification of financial investments

Classification sign	Types of financial investments	Classification source
By structure	- securities; - contributions to the authorized capital of other organizations; - loans provided to other organizations; - deposits in credit institutions; - receivables acquired on the basis of assignment of the right of claim; - contributions of the partner organization under a simple partnership agreement	National standard №12
By maturity date	short-term (when the established repayment period does not exceed 12 months); - long-term (when the established repayment period exceeds one year)	National standard №12
By the nature of financial investments	-equity (contributions to the authorized (share) capital of other organizations, contributions to joint activities, etc.); - debt (loans provided, bills received, bonds, receivables acquired under agreements for the assignment of claims, etc.); - combined (convertible bonds, shares with the right of redemption in a specified amount and period); - cash (deposits, cash certificates)	Gorlo O.R
By issuer	- issued by government agencies; - issued by municipal authorities; - issued by individuals or legal entities	Kurilova A.A., Kulina E.A.
In relation to the market	-financial investments by which the current market value can be determined; - financial investments for which the current market value is not determined	National standard №12
By the organization's purpose for a particular financial asset	- loans and receivables; - financial assets available for sale; - financial assets measured at fair value through profit or loss; - investments held to maturity	p. 45 IAS 39
According to the method of accounting	- valued at amortized cost; - measured at fair value	p.4.1.1IFRS 9

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The practical significance of the classification of financial investments is that the procedure for subsequent evaluation and recording of financial investments will vary depending on the relationship of the financial investment to the market. Financial investments for which the current market value can be determined (hereinafter in this work - market financial assets) are reflected in the financial statements at the current market value by directly adjusting their valuation in accounting.

Financial investments for which the current market value is not determined (hereinafter in this work - non-market financial assets) are reflected in the accounting accounts at their original cost. However, the reporting takes into account the regulatory object - the reserve for impairment in the event of a sustained significant decrease in their value.

The key point in checking whether conditions exist for a sustainable decline in the value of financial investments is to determine their estimated value.

Regulatory documents on accounting do not regulate the procedure for determining the estimated value of non-market financial assets. National standard only states that it is determined on the basis of the organization's calculations. In this regard, organizations need to independently develop this procedure and consolidate it in their accounting policies. This procedure will largely depend on the type of financial investment for which the estimated value is determined.

The calculation can be made based on the data of an independent appraiser or independently. The organization itself decides which method to choose. However, it is not a fact that the first option will be more objective. The valuation services market is governed by its own rules, which sometimes do not correspond to the purposes of valuing assets and liabilities in financial statements. In fact, from the point of view of generating information, a independently developed calculation standard will be more objective and consistent with the requirements of accounting regulation. Let us remember that one of the levels of regulatory regulation of accounting is the standards of an economic entity, and not the standards and rules of other industries and professions. In addition, fixing the calculation of the market value of these assets in the organization's local acts establishes the accountant's behavior model, assessing which users of the financial statements (directly or through auditors) can form an opinion about the objectivity of the data presented. The evaluator's action model will not be disclosed to users, and therefore cannot be subject to verification by users.

Another significant point is approaches to valuation: the rules of work of professional appraisers are in no way related to accounting requirements, which means that, a priori, they will be inconsistent with the goals of assessing assets for the formation of financial statements.

It is also perhaps impossible to say that the self-assessment approach will be less expensive. After all, the calculation will be carried out by a specialist from the organization with the involvement of both external data and the organization's management, which will require additional time

Some organizations also believe that a negative factor is that once the framework has been established, it will require regular implementation of assessment and calculation procedures, the results of which will not always be beneficial to the organization itself. However, this is precisely where the authors see the objectivity of this approach.

After determining the estimated value of non-marketable financial assets, the organization must assess the simultaneous fulfillment of the given conditions for a sustainable decline in the value of financial assets.

it is necessary to establish possible signs of impairment for selected groups (types) of financial investments, taking into account the specific characteristics of each group. Such signs will serve as the basis for checking compliance with the conditions for a sustainable significant reduction in their value.

We propose to use the following indicators of impairment for certain groups (types) of financial investments (Table 2).

Table 2 Signs of impairment of financial investments

Types of financial investments	Signs of impairment of financial investments	Information required for calculation
Equity securities	-there is no or significantly reduced income in the form of dividends with a high probability of further reduction of these income in the future;	-Statement of financial results; – Register of shareholders; – Minutes of the meeting of founders; – Official websites of issuing companies; – Exchange websites; – Mandatory disclosure sites
	- the appearance of signs of bankruptcy in the organization - the issuer of securities owned by the organization or its declaration of bankruptcy;	Official websites of issuing companies; – Arbitration practice
	significant decreases in the liquidity and solvency indicators of the borrowing organization as of the reporting date;	Balance sheet
	availability of accessible information about facts of violation by the issuer of concluded contracts (facts of non-payment, etc.)	Business correspondence
Debt securities	There is no or significantly reduced income in the form of interest with a high probability of a further reduction in these income in the future;	Statement of financial results
	negative cash flow from the current activities of the borrower organization for the previous reporting year;	Cash flow statement
	-for the previous reporting year, the financial result of the activities of the borrower organization is a loss;	Statement of financial results
	- increase in accounts payable without increasing the amount of revenue for the previous reporting year;	-Balance sheet -Statement of financial results
	- the appearance of signs of bankruptcy in the organization - the issuer of securities owned by the organization or its declaration of bankruptcy;	- Official websites of issuing companies; -Arbitration practice
	-significant deterioration in the liquidity and solvency indicators of the borrowing organization as of the reporting date;	Balance sheet
	availability of accessible information about facts of violation by the issuer of concluded contracts (facts of non-payment, etc.)	Business correspondence
Contributions to the authorized (share) capital of other organizations (including subsidiaries	- the value of the organization's share in the authorized capital of the LLC, calculated based on the net assets of the LLC, has a negative trend and is lower than the accounting value of financial investments;	– Background information for the balance sheet
	- there is no or significantly reduced income from the LLC - as part of net profit with a high probability of a further decrease in these income in the future	- Minutes of the meeting of founders; – Recommendations of the company's board of directors on profit distribution

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and dependent business companies)		
Loans provided to other organizations	- the loan debt has not been repaid within the terms established by the agreement, and the delay is more than 12 months;	– Accounting data
	- negative cash flow from the current activities of the borrower organization for the previous reporting year;	– Cash flow statement
	- for the previous reporting year, the financial result of the activities of the borrower organization is a loss;	Statement of financial results
	- increase in accounts payable without increasing the amount of revenue for the previous reporting year;	– Balance sheet -Statement of financial results
	- the borrower has been declared bankrupt or external administration has been imposed on him; - the liquidation procedure of the borrower organization has begun;	Official websites of issuing companies; – Arbitration practice
	- significant deterioration in the liquidity and solvency indicators of the borrowing organization as of the reporting date	Balance sheet

Conclusions and Suggestions

It is recommended to determine the estimated cost separately for each type. Such a calculation can be made based on data from an independent appraiser or independently. Self-assessment can be carried out on the basis of approaches established by the accountant.

Possible approaches to assessing the estimated value of financial investments may be as follows:

equity securities - calculation of net asset value or market value trend;

debt securities - the probability of timely repayment of the nominal value;

contributions to the authorized (share) capitals of other organizations (including subsidiaries and dependent business companies) - calculation of the value of net assets or calculation of the redemption price of a share;

loans provided to other organizations - the likelihood of timely repayment of the loan in full;

deposits in credit institutions - the probability of return of the deposit;

receivables acquired on the basis of assignment of the right of claim - solvency of the debtor

Such a calculation must be documented, and market or stock information, business correspondence, extracts from registers of security holders or statements of bank accounts, information from their state registers, etc. can be used.

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