

## CONCEPTS OF IDENTIFYING AND EVALUATING FINANCIAL ASSETS

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mardem1@yahoo.com**Abstract**

*In the composition of the assets of the contemporary entities, an important place belongs to the free assets of their main activity. These elements, according to one concept, are recognized and presented in the balance sheet as financial investments, and according to another concept - as financial assets. The mission of the authors of this paper was the analysis of these concepts, the treatment of financial instruments by International Financial Reporting Standards (IFRS) and the European Directive 2013/34/EU, the argumentation of priorities and deficiencies, which concern the respective information in the financial statements. At the same time, the connection of the concepts of identifying the financial assets with the accounting systems and the financial reporting based on the information from the balance sheets of some countries are certified. The results of the investigations concerned can serve as a direction to improve the way of identifying, evaluating and presenting information on financial assets.*

**Key words:** financial assets, financial investments, financial instruments, recognition, accounting, evaluation.

**JEL Classification:** M41

**I. INTRODUCTION**

The elements that characterize a business entity's ability to do business are assets. According to the General Conceptual Framework of the IFRS Council (2010), the most important criteria for recognizing an element as an asset is the fact that the entity expects to derive economic benefits from it in the future and can be assessed with certainty. Thus, three main types of assets are known, which form the potential of the enterprise: tangible, intangible and financial. Financial assets are different from other assets by the complexity of their recognition, evaluation and accounting, because they are not used in the most common conditions (production, marketing), but they depend more on the development of the financial market. The notion of "financial assets" has a shorter evolution than other types of assets, being actually determined by IFRS, especially for accounting purposes. Previously, the accounting used only the term "financial investments", influenced by economic theory and corporate finance. Today, in the accounting norms of some countries (mainly with a developing financial market), we still find the notion of "financial investment" used by the authors, after the first conception, and in the countries with a capital market developed in the accounting normative acts and the European and international accounting rules are applied, the notions of "financial instruments" and "financial assets" - the second conception (IFRS conception).

From this point of view, the purpose of this paper is to determine the conception and the methods of evaluating the financial assets. Respectively, there is also a difference in the methods of valuing financial assets (financial investments), depending on whether the entities are governed by the provisions of IFRS, which give priority to fair value, or tradition, when they predominantly apply historical cost and other methods. The factors mentioned above, as well as others, influence the structure and content of the information on the investment items reflected in the balance sheet and other financial statements.

**II. CONCEPTS****II.1. THE CONCEPT OF FINANCIAL INVESTMENTS**

The notion of "investment" has a long history, since the Middle Ages and comes from the Latin term - "investment". For a period of time it had only legal character, which treated the investment as wealth (heritage). At present, the notion of investment is not only a category of private law, but primarily, it has an economic content.

There are many definitions of investments from the point of view of economic theory, but they all consist of two parts: it indicates what is being invested (for example, material or financial means) and the purpose of the investment (for example, obtaining the profit or raising the capital).

Thus, the investments are made based on practical actions in order to obtain in the future the income or other effect, called the investment process, which is an economic process of transferring the invested resources in another entity. In the specialized literature, different criteria for classification of investments are specified, but the most significant is by types - real and financial ones. *The real investments* are allocations of the means of the entity in the creation of tangible and intangible assets, in human capital, etc. *The financial investments* are investments of the entity in financial instruments, that is in shares, bonds, other securities. In the financial investments sometimes the participation quotas are highlighted, on the basis of which the investor increases his financial capital, obtaining dividends – income from securities. Therefore, it can be ascertain that the first *concept of recognition in accounting of financial assets is based on financial investments*. It has been internationally authorized by International Accounting Standards (IAS) IAS 25 "Accounting for Investments", which in 2001 was replaced by IAS 39 "Financial Instruments: Recognition and Measurement" (<https://mf.gov.md>). However, in the normative acts of some countries (such as the Republic of Moldova, Russia, Ukraine and others), the notion of "financial investments" remained, due to the limited financial markets and the simplicity of the financial instruments managed in these territories.

**Table 1. The composition of financial investments in the balance sheet of some countries**

NSA*, RM: Financial investments	OMFP**, Romania: Fixed assets	ARS***, Ukraine: Financial investments
1. Long-term financial investments in non-affiliated parties	1. Shares held in affiliated entities	1. Long-term financial investments, which are accounted according to the quota method in the capital of other enterprises
2. Long-term financial investments in affiliated parties	2. Loans granted to affiliated entities	2. Other financial investments
3. Current financial investments in non-affiliated parties	3. Participation interests	3. Current financial investments
4. Current financial investments in affiliated parties	4. Loans granted to entities	
	5. Investments held as fixed assets	
	6. Other loans	
	7. Short-term investments	

Source: elaborated by authors according to NSA, OMFP, ARS

\* National Accounting Standard; \*\* Ordinances of the Ministry of Public Finances; \*\*\* Accounting Regulation (Standard) of Ukraine

The definition of this notion is sometimes formulated in accounting norms. Thus, in the NAS of RM "Receivables and financial investments", the financial investments are determined as "assets in the form of securities, shareholdings in the share capital of other entities and other investments owned by the entity ..." (<https://www.prostobiz.ua/spravochniki/dokumenty/buhuchet>). Also in the content of this standard it is specified that "financial investments are accounted for within the following groups: 1) securities and shares; 2) other financial investments". But the question arises how to ensure the connection between the current accounting and the presentation of the data regarding the financial investments in the balance sheet, if on the report we observe another grouping: according to the term of ownership and the degree of connection within the group - affiliated or non-affiliated.

In the ARS no. 13 "Financial instruments" it is indicated that one type of financial instruments is the financial asset.

A delimitation criterion is the economic content and the characteristics of the financial operation for each participant, but not the object itself (<https://eur-lex.europa.eu/legal-content/RO/TXT/?uri=CELEX:32013L0034>). At the same time, in the ARS no. 12 "Financial investments" the notion of investments is presented. These are called assets, held for the purpose of increasing the profit (interest, dividends), increasing the value of the capital or other benefits for the investor (Zhitlukhina, 2014: 93-106).

Thus, the norms in question treat in parallel the notions of financial investments and financial assets, but in the balance sheet the financial investment positions are presented.

In the Romanian regulations, the concept of "financial assets" is used, but their structure coincides absolutely with that presented by the European Directive, in which they bear the name of "financial assets".

The composition of financial assets also includes the position of "participation interests", which means the ownership of part of the capital of an entity, which exceeds more than 20% (<https://mf.gov.md/ro/lex/contabilitate-si-audit>).

However, it can be concise that the concept of "financial investments" is based more on the accounting characterization of financial investments. Not in vain in all three balance sheet presentations is the name of "short term financial investments", coming from the strict rule, which concerns the division of assets: in the long term (fixed assets) and current ones.

The structure of the financial investments presented in Table 1 for the entities from the Republic of Moldova was adopted in the CNS by the Ministry of Finance in 2013, and in 2014, according to the Moldova-EU Association Agreement, Moldova was obliged to transpose in its accounting the requirements of Directive 2013/34/EU. But in the financial statements in Republic of Moldova the posts regarding the investment elements remained with the phrase "financial investments" (<https://www.prostobiz.ua/spravochniki/dokumenty/buhuchet>), although the directive in question, close to IFRS, uses the notions of "financial instruments" and "financial assets" (<https://www.tpa-group.ro/>).

However, Figure 1 of the balance sheet, recommended by the NAS, is called "Fixed assets".

It should be mentioned that in the countries mentioned (table 1) the European continental accounting system is practiced, the methodology of which is based on the legal aspect (a stringent standardization of accounting records, of the information presented in the financial statements) and which gives priority to the "prudence" principle, according to Directive.

Financial information presented in the Balance Sheet and in the Information Notes familiarizes users with prior information about the financial investments grouped according to the holding term, the second criterion being affiliation. If the investing entity owns up to 20% of the invested company's shares, it is considered non-affiliated, more than 20% - it is an affiliate, ie with influence. In the accounting and reporting system of EU countries, this is also expressed by the position "shareholding".

Investments (also called placements) are delimited into long-term (fixed assets) and short-term ones, depending on the maturity or the holding period. Long-term investments, resulting from long-term placements, are negotiable and are held in order to produce future incomes (dividends, interest and others). Short-term investments (shares, bonds or other securities) that are held for trading purposes are negotiable and have a high degree of liquidity. They are currently producing revenues, in the form of interest or differences of favorable value.

We consider that the capacity of the placements made by the entity to produce income in the form of dividends, interest, differences in value, determined the notion of financial investments.

## II.2. THE CONCEPT OF RECOGNITION OF FINANCIAL ASSETS BASED ON FINANCIAL INSTRUMENTS

In accounting, this concept was introduced by IAS 39 in 2001, which, as mentioned, replaced IAS 25. In this context, the notion of "financial instruments" first appears, for exposing the problems of recognizing, evaluating and presenting the information for which, in addition to IAS 39, the standards were developed by the International Accounting Standard Board (IASB): IAS 32 "Financial Instruments: Presentation", IFRS 7 "Financial Instruments: Disclosures" and IFRS 9 "Financial Instruments", by virtue of the significance, complicity and wide scope of operations related to these elements (<https://mf.gov.md>).

It should be noted, however, that even though the notion of "financial instruments" is the attribute of IFRS, they are not recorded directly in current accounting. As explained in IAS 32, the financial instrument represents a contract, and as it is known, the contract amount is not sign up in the accounting. And only when, based on the contract, a financial asset, a financial debt or an equity instrument is identified, their value becomes the object of accounting. That is, the financial instrument consists of three elements, which obliges the accountant to have high professionalism in order to delineate each element correctly. To this it may be added that, according to IAS 39, financial instruments are further divided into basic and derivative ones, which further complicates the understanding, recognition and accounting of certain categories of financial instruments.

It can be argued that this concept does not know the notion of investment. But this is not true, because, as it is revealed in IAS 32, the financial instrument (the contract) can generate, first of all, a financial asset, for an enterprise (<https://mf.gov.md>). But the financial asset is expressed concretely through securities purchased (shares,

bonds, etc.), which denotes from the beginning a financial investment, and at its cost is also evaluated, the initial cost of the financial asset that is recorded in the accounting. At the same time, the direction of investment must be taken into account. IFRS 9 (<https://mf.gov.md>), in the context of elaborating the algorithm for the evaluation of financial assets, delimits two investment directions: in capital instruments (shares) or in debt instruments (bonds) of another enterprise (Table 2).

**Table 2. Investment direction and financial asset appearance**

<b>The investing company</b>	<b>The invested company</b>
1. Grants a loan to an entity - investment in debt instruments (recognizes a financial asset)	1. Issues and sells own bonds (recognizes a financial debt)
2. Acquires shares of another entity or shareholding - investment in equity instruments (recognizes a financial asset)	2. Issues and sells own shares (recognizes an equity element)

Source: elaborated by authors according to IFRS 9

Hence the financial asset occurs due to investment, the purchase of a financial instrument, based on the contract, one of the parties being the investor, who procures the financial instrument (shares, bonds) from another company. Thus, in this conception, the notions of financial instruments and investments (which have financial economic character) appear, which give rise to the financial asset, the value of which is recorded in accounting and is reflected in the financial statements. However, in our opinion, the recognition of the financial asset can only be when the supporting document for the receipt of the financial instrument will be prepared, for example, the certificate when purchasing the shares.

It has already been emphasized that financial assets are the product of international standards, therefore their conception of recognition can also be called - IFRS conception. In this context, we present the structure of financial assets adopted by IAS 32, accompanied by explanatory comments (Table 3).

**Table 3. Composition of financial assets according to IFRS**

<b>Name</b>	<b>Explanatory comments</b>
1. Cash	Monetary assets that are the result of short-term investments (shares, bonds or other securities) that are held for trading purposes and have a high degree of liquidity
2. Equity instruments of an entity	An equity instrument means any contract, which certifies and highlights the existence of a residual interest in the assets of a company after deducting all its debts
3. The contractual right to receive cash or other financial assets from another entity	This right arises when the entity becomes party to the contract and, as a result, has the legal right to receive cash. The asset itself will be recognized when one of the parties acts under the contract
4. The contractual right to exchange financial instruments with another entity under potentially advantageous conditions	Contracts related to exchanges of assets give rise to a financial asset. It is evaluated at the fair value of one of the two elements, the estimate of which is more reliable
5. The contract that will be or can be settled in its own equity instruments	It represents: a) a non-derivative instrument, for which the entity may receive a variable number of its own equity instruments; b) a derivative instrument, which can be settled with a fixed number from its own equity instruments.

Source: elaborated by authors according to IAS 32

As noted, the structure of financial assets by IFRS is determined by the types of contracts, but not by the types of assets, because the financial instrument is identified with a contract. Thus, according to this concept, the entity recognizes an asset if it is part of a contract. At the same time, in this presentation the assets are not delimited according to the criterion of the holding period (long term and short term), procedure performed when elaborating up the balance sheet.

### III. PRINCIPLES OF EVALUATING ASSETS

Recognition is also known as the process of incorporating in the Balance Sheet or in the Profit and Loss Situation certain elements that meet the recognition criteria and can be evaluated. These have effects on the financial position and the result, in other words, on the active relationship, debt and equity.

The financial assets satisfy all the requirements of an asset that is included, first of all, in the Balance Sheet, but in the recognition process it is important to identify a purchase of financial assets: the trading date or the settlement date. *The trading date* is the date on which the entity commits itself to buy an asset, and the *settlement date* – the date on which an asset is delivered by the company. It should be noted that most financial assets for sale/purchase are accompanied by quite serious contracts. That is why the recognition of financial assets at the trading date is more real and is not accompanied by the risks that appear at the settlement date.

At the same time, the date of transfer of the financial asset as a property must be specified, which must be corresponding to the date of recognition. But it is necessary to consider the fact that the transmission takes place the economic approach, because the control over the asset is transformed, and the transformation of the property is a legal approach, while the recognition concerns the economic approach and not the legal form.

In order for financial assets to be recorded in accounting and financial statements, they must be evaluated. IFRS pays particular attention to the process of assets evaluation, including financial assets.

Upon entry and holding, the financial assets must be evaluated at fair value. However, because the financial assets are different, according to the provisions of IFRS 9 "Financial Instruments", a special algorithm is recommended for their evaluation (<https://mf.gov.md>). Thus, the bonds will be evaluated at their depreciable value, and the shares - at fair value, taking into account other circumstances: the deadline set, the interest rate, the way of recognizing changes in fair value.

These criteria are called SPPI (solely payments of principal and interest), FVTPI (fair value to profit or loss), FVOCI (fair value other comprehensive income) (Table 4).

**Table 4. The methods of evaluating the financial assets**

Evaluation category	Type of evaluation	Modality of evaluation	Recognition of the result of the investment evaluation
SPPI – in debt instruments	of income	depreciable value	in the composition of profit or loss (interest income, credit losses, exchange rate differences)
FVTPI – in debt and equity instruments	of market	fair value	in the composition of profit or loss
FVOCI – in debt instruments	of market	fair value	in the composition of the global income
FVOCI – in equity instruments	of market	fair value	in the composition of the global income (dividends and other items)

Source: elaborated by authors according to IFRS 9

When applying this algorithm, the entity's management must carry out a thorough analysis of the financial instrument to determine the type of investment, and then also the way of evaluating the financial asset. We mention that the main provisions regarding fair value are stipulated in IFRS 13 "Fair Value Measurement" (<https://mf.gov.md>).

### IV. BIBLIOGRAPHY ANALYSIS

The bibliographic sources demonstrate the division of the authors, who examine the subject in two teams, as well as the presented concepts: those who support the conception of financial investments, and those who support the conception of financial instruments (of IFRS). However, there are some authors (Dobre, 2006), who use multiple notions: securities, financial instruments, financial investments, financial assets and others, to the characteristic of one and the same subject.

Some authors describe in their works the accounting of financial investments, as provided by the accounting rules of the country, without any criticism (essence, classification, evaluation and accounting). Ghedrovici (2017) reveals the Moldovan accounting system regarding the financial investments, which to be accounted for, are

divided into two groups: securities and shareholdings; other financial investments. Financial investments are evaluated: at entry - at the cost of entry; at the reporting date - at the entry cost, at the adjusted cost, at the fair value; at the exit - according to the weighted average cost method or FIFO method. In the cases of evaluation of securities at a value other than fair value, the author specifies, at each financial reporting date, the entity determines whether or not there are basis for the depreciation of these assets.

In the specialized literature from Ukraine there are many sources that expose the issues regarding financial investments. Thus, Leonova (2014: 155-161) treats financial investments as an object of accounting and in this context, explains their essence and classification. Almost the same approaches are in the work of author Hareeva (2010), who also paid attention to the problem of creating and presenting information on this field. Zdrenek (2013) has researched, in details, the information content and operations related to financial investments and how they influence the financial reporting of the company. Almost all authors classify financial investments as assets owned by the enterprise in order to obtain income, improve the financial situation and execute control over another enterprise.

Afinoghenov (2009) explains why in some countries the term "financial investments" is still used. The reason is that the legal content of the accounting objects is the basis of the normative regulation in such countries. The author points out that, given the change in the purpose of financial information, which is aimed at satisfying the requirements of the wide circle of users, the application of the notion of financial assets and specific methods of evaluation becomes an inevitable necessity.

Many authors support the conception of IFRS methodology.

The Romanian researcher Dobrea (2006) states that in the format harmonized with European norms and international standards, the financial instruments that generate securities, appear in the form of financial assets:

- a) within the fixed assets, as financial assets (equity securities held in the companies within the group, securities in the form of participation interests, securities held as fixed assets, own shares, etc.);
- b) in the composition of current assets, as short-term investments (equity securities held in the companies within the group, own shares, other short-term investments).

Another Romanian author Duțescu (2003) specifies that the initial recognition of a financial asset, takes place only when the company becomes a party to the provisions of a contract. But since when? Either when acting under the contract, to receive an asset, or when, in the case of the forward contract, the commitment is recognized as an asset at the trading date.

A problem of financial assets is the identification of patrimonial rights, which persist in financial instruments, reports Zhitlukhina (2014: 93-106). In the context, the author indicates that the use for the characterization of the asset only of the legal treatment is unsatisfactory, because the contract as a fact of the economic life cannot be registered in the accounting. In accounting, only the elements of financial instruments are reflected: financial assets, financial liabilities and capital instruments. Such a position of the nominated authors denotes the rejection of the traditional understanding of securities as financial investments and the use of the term "financial assets".

Țurcanu & Golocialova (2015) analyze the provisions of IFRS 9 and stress that financial investments give rise to a financial asset, to an enterprise, and this, depending on the direction of investment, can give rise to a financial debt or an element of equity. Depending on this, the financial assets can be evaluated, according to IFRS 9, at the depreciable or the fair value, and as an argument for the above, it presents the scheme of the algorithm for evaluating financial assets.

The issue of evaluating financial assets is also of concern to some scientists from developed economies countries. Thus, Thauvron (2013), in his work "Valuation of the enterprise" revealed the model of evaluation of financial assets (MEDAF). It is a theoretical model that allows the determination of the price of a risky asset in a balanced market. The essence of this model is the coefficient  $\beta$ , which measures the risk of the title studied, the risk-free rate and the market risk premium.

Other researchers ask the need to adapt in practice the evaluation model to the fair value of financial assets. According to Wayne and Landsman (2006), this model is based on two considerations: it allows to structure the accounting and financial reporting framework of these assets in such a way that:

- a) to ensure the efficient management of the investment portfolio;
- b) to offer the possibility of full presentation of the information in the financial statements as compared to the method of using the fair value as a whole of the financial assets.

We consider tougher the position of the team of European scientists on this issue: Bischof, Briiggmann, Dasc (2017), which states that the EU has modified the model of evaluation of financial assets under the pressure of the IASB. Analyzing the essence of the categories of the evaluation model (SPPI, FVOCI, FVTPI) and studying the reclassification of financial assets, they launched a pessimistic forecast: "The practical application of the new system of evaluation and accounting of financial assets will lead to the decrease of the value of the real capital". We believe that this is just a hypothesis, which requires concrete evidence and needs to be discussed further.

## V. CONCLUSION

The study of the two concepts of the notions of invested means, denotes that the concept of financial investments for accounting is not successful. In accounting, only the creation of new values is recorded as assets, but investments are the product of the investor and not the company invested. It can be used in the field of finance, management, law. The concept of financial assets is closer to the modern accounting terminology based on the IFRS methodology, which treat fixed assets as capitalized expenses, or as economic resources. Based on information presented by the investor company it allows to analyse the effectiveness of the use of financial assets. Regarding the evaluation of financial assets, however, we believe that the evaluation model recommended by IFRS 9 raises to a higher level the scientific aspect of accounting and convincingly argues the necessary to apply the modality of evaluation financial assets at fair value.

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