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# **Quantitative Methods in Accounting and Finance**



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**TOPICAL ISSUES  
OF THE DISCLOSURE OF INFORMATION  
ABOUT FINANCIAL INVESTMENTS  
IN FINANCIAL STATEMENTS**

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**Summary:** In the article the main methodical aspects of forming information about financial investments in financial statements are investigated. The requirements concerning the publication financial statements data are analyzed.

**Key words:** financial investments, financial statements, promulgation of information about financial investments.

## **1. Introduction**

Accelerated economic development causes an increase in the investment activities of enterprises and organizations that significantly affects their economic status. Due to investment activities, enterprises obtain additional income. Thus, some enterprises, those which allocate funds, have a need for obtaining reliable information about investment objects, and other enterprises, those which obtain funds, have a need to provide truthful but partial data. Therefore, there emerge questions concerning the requirements of information disclosure about financial investments in financial statements, which can meet the needs of both parties.

The results of the studies on accounting problems and the formation of the information about financial investments in financial statements are represented in the works of Ukrainian scientists, including I.O. Blank, F.F. Butynets, S.F. Holova, N.I. Dorosh, A.A. Peresada, M.S. Pushkar, V.V. Sopko, N.M. Tkachenko, V.H. Shvets. Among foreign scientists who deal with the problems of financial investment, one should note H. Anderson, J. Blake, B. Needles, W. Sharpe, A.D. Sheremet and others. At the same time, the methods of information disclosure about financial investments in financial statements of enterprises require more

detailed studies. of the aim of the research is to analyze information disclosure about financial investments in the financial statements of enterprises.

Securities transactions affect the result of the financial and business activities of the enterprises of processing industry. This result is represented in financial statements, which are a system of generalized parameters. By means of the generalization of the data of current accounting, their entry to relevant financial statements is realized, which allows for an analysis and adoption of certain administrative decisions.

Financial statements, which are made by the enterprises-issuers of capital issues and which are publicized by the State Commission on Securities and the Stock Market of Ukraine, shall comply with The Provisions of information disclosure by the issuers of capital issues approved by the State Commission on Securities and Stock Market of Ukraine, dated 19 December 2006, No. 1591 [The regulations of disclosure... 2006].

Accounts balances, on which the financial investments are registered, are entered into the appropriate forms of financial statements (balance sheet, income statement, statement of cash flows, statement of capital equity). The convention of information disclosure in financial statements is governed by the following Accounting Standards: AR (S) 2 “Balance Sheet” (regulates the balance sheet of an enterprise), AR (S) 3 “Income Statement” (regulates the report on financial results), AR (S) 4 “Statement of Cash Flows” (regulates the report of cash flows), AR (S) 5 “Statement on capital equity” (regulates the report on capital equity).

## **2. The procedure of the representation of the financial investments in the balance sheet**

According to the current legislation of Ukraine, to show the financial investments in the form No. 1 “Balance Sheet”, several lines as in the asset are stipulated. In particular, in the balance asset, capital issues can be represented in the lines: 040 “Long-term financial investments, which are recorded according to the method of participation in capital of other enterprises”; 045 “Other financial investments”; 220 “Current financial investments”; 230 “Cash and cash equivalents”.

When disclosing information about financial investments in the balance sheet, it is necessary to define the term circulation of financial investments. Thus, if the period of financial investments circulation does not exceed one year, they can be easily sold at any time and are not cash equivalents, then such financial investments are represented in current financial investments. If the period of financial investments circulation exceeds one year, they cannot be easily sold at any time and their accounting is realized through the method of capital subscription; those financial investments should be represented in long-term financial investments.

Accounting Regulations (Standards) do not contain recommendations on methods for determining the value of financial investments for which they are to be displayed in enterprises' balance sheets. Thus, accountants independently choose and decide on which value financial investments should be represented.

According to the International Accounting Standards, namely IAS 1, IAS 28, IAS 31 and IAS 39, in the balance sheet one has to disclose, as separate articles, the amount of investments that are recorded through the method of capital subscription, investments in associated companies, investments in joint ventures and other financial investments and highly liquid financial investments, the amount of which is cited in cash equivalents.

The investigation of the balance sheet structure according to the National and International Accounting Standards showed differences regarding information disclosure about the cost of long-term financial investments in associates. Thus in accordance with IAS 28 and IAS 1, such information should be disclosed in the balance sheet as a separate item. According to the AR (S) 2 "Balance Sheet" there is no separate article which should have details about the cost of long-term financial investments in associates. This information is provided in the article "Long-term financial investments, which are recorded through the method of capital subscription".

### **3. The procedure of representing financial investments in the income statement**

In order to summarize and systematize information about income and expenses from the operations with financial investments, AR (S) 3 "Income Statement" provides the use of the income statement. The representation of the data about financial investments is realized in the second section of the statement "Income Results". In the Statement, the calculations of the activities of shares profitability are systematized and grouped as the third section (average quantity of ordinary shares, adjusted average quantity of ordinary shares, net income suiting one ordinary share, dividends per one ordinary share).

In accordance with IAS 28 and IAS 31 in the income and losses statement, which is analogous to the income statement, one should represent separately the share of the profit or loss of associates or joint ventures that are registered according to the method of capital subscription. Also in accordance with IAS 33 in the income and losses statement of an enterprise data that are related to the calculation of profit shares should be disclosed separately.

### **4. The procedure of representing the financial investments in the statement of cash flows**

Information about income and expenses that were obtained from operations with financial investments according to Accounting Standards 4 "Statement of Cash

Flows” is positioned in the form No. 3 “Statement of Cash Flows”. In the mentioned statement the amounts of income and expenses that arise from investment activities of an enterprise are represented.

For the cash flow from investing activities, the second section of the statement is provided. In particular, the section presents the following articles:

a) “Sale of financial investments”: representing the amounts of the cash inflow from the sale of shares or debt liabilities of other enterprises, as well as the equity in other enterprises capital (other than the income on instruments that are recognized as cash equivalents or that are held for trading purposes);

b) “Earned interest”: representing cash inflow in terms of interest for loans that are granted by other parties (other than the loan made by financial institutions) on financial investments in debt securities, for the use of noncurrent assets, which were transferred in financial, etc.;

c) “Received dividends”: representing the cash inflow in the form of dividends as a result of shares obtaining or equity in an other enterprises’ capital (except for payments on those instruments that are recognized as cash equivalents or kept for dealing or trading purposes);

d) “Other income”: representing the cash income from the repayment of advances (except for the advances that are concerned with operating activities) and loans that are granted by other parties (income other than advances and loans of financial institution), the cash income from future contracts, forwards contracts, options, etc. (except for those contracts which are concluded for the main activity of an enterprise, or when the income is classified as financing activities), etc.;

e) “The buyout of financial investments”: representing cash payments for shares buyout or debt liabilities of other enterprises, as well as equity share in joint ventures (other than payments on instruments that are recognized as cash equivalents or that are held for dealing and trading purposes);

f) “Other payments”: showing advances (except for those that are associated with operating activity) and cash loans that are granted by other parties (except for the advances and loans of financial institutions); cash payments for futures contracts, forward contracts, options, etc. (except for the case when such contracts are concluded for the operational enterprise activity or payments are classified as financing activities);

g) “Cash flow from the extraordinary events”: representing respectively income or cash expense, concerned with extraordinary events in investing activities;

h) “Net cash flow from investing activities”: representing the result of the cash flow from investing activities, taking into account the cash flow from extraordinary events.

In accordance with International Financial Reporting Standards, similar to the requirements of Accounting Standards, in statements of cash flows, information about cash flows from investing activities is represented as a separate section,

specifically, separately disclosed data on revenues and expenses of an enterprise as a result of investment activities. Herewith, the data on long-term and short-term financial investments is disclosed.

## **5. The procedure of representing financial investments in the statement of owners' equity**

The changes in the owner's equity of an enterprise are represented in the form No. 4 "Statement of Owners' Equity". The statement contains data from the accounts of accounting concerning the amount of paid dividends, the amount of treasury shares from owners, the amount of resold treasury shares, the amount of canceled shares, the amount of reduction of the nominal value of the shares.

The difference in information disclosure about financial investments in financial reporting between International Standards and National Accounting Standards consist in displaying the reappraisal of long-term financial investments that are available for sale. According to International Financial Reporting Standards, such financial investments are recommended to be represented within owner's equity. According to the Accounting Standards 12 "Financial Investments", the results of the reappraisal of long-term financial investments, which are available for sale, are recommended to be represented within incomes or expenses.

## **6. Conclusions**

Summing up, it should be noted that the harmonization of national accounting regulations (standards) and International Financial Reporting Standards significantly promotes the European integration of Ukraine. Such harmonization will lead to positive consequences for Ukrainian enterprises. The improvement and facilitation of the cooperation of domestic enterprises with foreign partners, especially when realizing financial investments, will become the main positive side of harmonization. Another important aspect of harmonization of the accounting standards is the increase of transparency of financial statements that improves users' confidence with respect to information and data that are publicly available.

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## **AKTUALNE PROBLEMY UJAWNIENIA INFORMACJI O FINANSOWYCH INWESTYCJACH W SPRAWOZDAWCZOŚCI FINANSOWEJ**

**Streszczenie:** W artykule zbadano główne metodyczne aspekty kształtowania informacji o finansowych inwestycjach w finansowej sprawozdawczości przedsiębiorstw. Przeanalizowano wymagania dotyczące ujęcia informacji o finansowych inwestycjach w finansowej sprawozdawczości.

**Słowa kluczowe:** inwestycje finansowe, sprawozdania finansowe, rozpowszechnianie informacji o inwestycjach finansowych.