



FOREIGN EXPERIENCE IN IMPROVING THE ACCOUNTING OF FINANCIAL INVESTMENTS

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DOI: https://doi.org/10.55439/EIT/vol11_iss5/a9*

Abstract

This article is devoted to the consideration of the prospects of developing the accounting of financial investments. In addition, it studies the issues of investment policy implemented in our country, development of accounting of investments based on international experiences. In reliance upon the research results the authors have developed relevant proposals and recommendations aimed at the formation of reliable information about the objects of financial investments and their effective use. Moreover, the authors have elaborated the procedure for future evaluation. Furthermore, the method of cost distribution has been developed in order to reflect the financial results expected from financial investments in the correct accounting objects.

Keywords: investment, financial investment, investment efficiency, accounting, valuation, present value, discounting, express valuation.

Introduction

The investment policy implemented in Uzbekistan in recent years definitely covers all sectors of the economy. In this regard, “first of all, economic growth is achieved by creating competitive industrial chains and raising investments in such projects. At the same time, reducing participation of the state in implementing investment policy and increasing the share of private and direct investments” has been set as the task (Sh.M.Mirziyoyev, 2020). Expanding investment projects is the foundation of the country’s economic development. Therefore, every development and achievement of efficiency directly depends on the attracted investments and their effective use. Determining the efficiency of investments involved in economic sectors is determined by its benefit to the society and, moreover, to our people. “Each soum spent on investment should bring three times more benefit to our people, increase their income” (Sh.M.Mirziyoyev, 2021). This creates the need to improve investment accounting based on international experience.

Expansion and development of investment activity under conditions of the market economy is aimed at reviving entrepreneurship, business and other activities of individuals, legal entities and the state for the purpose of profit. In this regard, the main

aim is to bring the economy out of the crisis, stabilize it, enter the world market, strengthen global economic relations and improve the standard of living of the population with the help of investment activities.

Methodology

The methodology of the research paper is based on data collection, observation, as well as study of relevant statutory acts, general scientific principles of research, which provide for general and systematic approaches to the study of economic relations and phenomena in their development. The systematic approach has been used to research the concept of financial investment, to determine the concept of accounting of financial investments and its development level. Moreover, in reliance upon a comprehensive investigation of the experiences of developed countries in improving the accounting of financial investments it is recommended to do research on the efficient use of international financial reporting standards.

Results

Financing of investment activities in the market economy is implemented by investors by attracting financial resources in return for loans by issuing securities and bonds for circulation as determined by the applicable legislation. Privatization of the state property is performed at the expense of national sources, funds of various property owners, shares of newly established funds, foreign investments. Definitely, the investment policy of each country plays a decisive role. The stability of the national economy, conversion of the national currency unit, development of foreign economic relations, satisfaction of the population's needs at the expense of production, etc., play a crucially important role in the organization of investment sources.

Development of market relations is closely related to the internal financial policy implemented by the government. Distribution and redistribution of financial resources and spending and saving in one direction or another depends on the distribution system adopted and operating in the country. If the legislation development, the adoption of fair laws and their implementation are focused on the development of market relations, wide spread of entrepreneurship, the resources of other owners will increase due to the decrease of public funds in the structure of investment sources. It is of particular importance to establish industrial relations accurately and conduct an efficient financial policy of the state. The level of inflow of foreign capital largely depends on the country's financial policy (fiscal policy).

Therefore, in the period of globalization of the world economy, investment policy, formation of the flow of investments and improvement of accounting in their effective use is nowadays one of the essential issues.

In world practice several investigations have been conducted on the effective use of investments and improvement of the methodology of investment accounting. In particular, there are research papers of foreign scholars on the world scale dedicated to the research of the methodology of accounting for financial investments in the leading industrial enterprises and servicing entities of the economy. These issues have been comprehensively researched by some foreign scholars (Farrokh Barzideh, Soroush Lotfi, Mehdi Mousapour, Mojtaba Aghae, 2014). These scholars in their researches have interpreted accounting based on their sources in the improvement of investment

accounting and the following scholars (Zhiyun Ouyang, Hua Zheng, Yi Xiao, 2016) have done the research on the improvement of investment accounting for natural capital.

The issues of accounting investments, especially financial investments, have been investigated by scholars of the CIS. For example, M.V. Levina in her research paper investigated the methodology of economic analysis in the effective use of financial investments (Levina M.V., 2011). The peculiarities of developing the concept of financial investments and their reflection in accounting and financial statements have been revealed by O.G. Jitlukhina (Jitlukhina O.G., 2010). A.V.Pasechnik studied the issues of development of accounting of financial investments by enterprises (Pasechnik A.V., 2010).

Moreover, accounting of financial investments has also been studied by economists from Uzbekistan. Their research papers are mainly focused on improving the accounting of investments based on national standards, including research on improving the accounting of financial investments made by enterprises under conditions of market relations and the financial results obtained. Recently some scholars have studied the issues of the organization of accounting and auditing of investment activities in enterprises (Sh.I. Ilkhamov, 2015). Other studies have also examined the issue of accounting for investment real estate objects as long-term securities in the structure of long-term investments and other long-term investments.

At the same time, accounting and audit of investments in our country in compliance with international financial reporting standards and auditing standards serves to enhance their efficiency and provide reliable information to investors (Khamdamov B.K., 2020; Ergasheva Sh.T., 2021).

Analysis and Results discussion

The research papers demonstrate that the ways of improving accounting of financial investments based on international experience have not been comprehensively studied. Taking into consideration the changes occurring in the practice of improving the accounting of financial investments the analysis requires creation of techniques based on the improvement of its theoretical and methodological issues.

Below we will consider the methods of accounting of investments made by entities in shares and bonds from a practical point of view. It should be noted that in accounting practice investments in securities can be accounted for in several interrelated areas:

- formation of purchase value;
- determining the method for evaluating attracted financial investments;
- formation of accounting value;
- revaluation issues;
- formation of the financial results of transactions with them and the method of writing-off from the balance.

Formation of the purchase value of financial investments is of great importance because in relation to the composition of costs included in the purchase value, their accounting value and the final financial result are determined. Such expenses should include only expenses on transactions related to the purchase of securities. The main part of these expenses is the value of the securities paid to the seller. It is necessary to include the expenses on transactions related to the purchase of securities, which are necessary for the implementation of this transaction. The applicable regulatory framework effectively defines the composition of expenses that influence the valuation cost of purchasing

securities. The investor will be able to determine the fair value of his purchase by identifying such expenses.

The next step is to compare the nominal value of securities with the actual costs. When entering securities into the accounts of book-keeping, the question arises: at what price should securities be entered into the books? Herewith the international practice and national legislation, including international standards for accounting securities, should be considered. As a result, it is necessary to create a single methodological framework that will enable efficient accounting of securities. Unification of the method of accounting for different forms of securities, which differ in terms of the activity and goals of investors in the market, creates possibility of a unified approach to the analysis of the investment portfolio and providing users with timely and accurate information.

International practice determines the use of two types of valuations for the accounting of securities: the lowest actual prime-cost or by the market value. The valuation method by the lowest cost method reporting the actual purchase value or current market prices, whichever is lower. This valuation method also does not allow determining the nominal value of the purchased debt securities and cannot determine the amount of private capital of the issuing company in the part of the shares owned by the investor.

All investment processes consist of making investment decisions by the investor, and their investment volumes and periods are determined according to the following five stages:

1. Selecting an investment policy.
2. Market analysis.
3. Developing a portfolio.
4. Review of the portfolio.
5. Evaluation of the portfolio efficiency.

The first stage implies selecting an investment policy, which consists of determining the investor's goal and the amount of invested funds. For rational investment strategies it is not necessary to choose the goal of “making big money” because of the direct relationship between risk and return. Moreover, it should be noted that the pursuit of large profits can result in huge losses. Thus, it is necessary to define the objectives of investment taking into account profitability and risk. This stage of the investment process ends with the selection of financial instruments to be included in the main portfolio.

The second stage of the investment process, known as security analysis, involves study of certain types of securities within the framework of the above-mentioned main categories. One of the goals of such research is to identify the shares that are mispriced at that time.

In international practice there are many approaches to financial investments, related laws and analysis of their effective use and these approaches concern two main focus areas. The first area is called technical analysis and the second is called fundamental analysis.

According to its simple form, the first technical analysis includes the study of the share price conjuncture in order to predict the growth of the stock price in joint-stock companies. First, courses from the past period are investigated to identify recurring trends or categories in course dynamics. Next, the next period share prices are analyzed to

identify the same current trends observed earlier. Such a comparison of these areas with the previous one is due to the possibility that price trends will repeat themselves from time to time.

Thus, the analyst hopes to identify the current trends and determine the perspective of the dynamics of the future courses of the shares under consideration.

Fundamental analysis states that the “net” (or internal) value of any financial asset equals the present value of all future cash flows that the owner of the asset expects to receive. Accordingly, the analyst tries to determine the timing of cash inflows and the size of those cash flows and then calculates their quoted price using an appropriate discount rate.

The third stage of the investment process is portfolio construction, which includes determining the assets for investment, as well as the ratio of the distribution of the invested capital among assets. In this case, the investor challenges the problem of selectivity choosing the time of operation and diversification.

Selectivity is called “micro-forecasting” and it refers to the analysis of securities and is related to predetermining the increase in the price of certain types of securities. Timing, or setting a macro perspective, involves determining in advance whether share prices will move by comparing share prices with their fixed returns (bonds) and fixed prices for fund instruments. Diversification involves developing an investment portfolio while reducing risk within specified limits.

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The fourth stage of the investment process is the portfolio consideration, which is related to the time-to-time repetition of the previous three stages. That is, after some time investment goals may change, as a result of which the current portfolio loses its efficiency.

In this case, the investor will have to create a new portfolio, buy some of the existing securities and some new ones. The change in the share price over time can also be the reason for this. The decision to reconsider the portfolio depends on, among other factors, the amount of transactional holdings (withholdings) and the expected increase in the return on the revised portfolio.

Thus, technical and fundamental analysis is considered as a factor in the emergence of markets, it can be said as a condition for their normal functioning. If there was no developed market, there would be no conditions for applying technical and fundamental analysis. This fact, that is, until a later period in the country, not adequate attention was paid to the practical development and application of the methods of technical and fundamental analysis of the market.

After making investment decisions in joint-stock companies, they begin to formulate investments in reliance upon their aims. NAS 12 “Financial Investments” is used in national accounting practice to account for the purchase of financial investments. In international practice, there are several standards on financial investment, each of them includes the areas related to investments. In particular, as an example we can mention such standards, as “Investment property” (IAS 40), “Financial Instruments” (IFRS 9), “EPS” (“Earnings per share”, IAS 33).

For example, if joint-stock companies present a separate financial statement prepared in accordance with IAS 10 “Consolidated financial statements” and IAS 27

“Separate financial statements”, then “EPS” (“Earnings per share”, IAS 33), the information required to be disclosed by the standard should be presented only on the basis of consolidated reporting data. A company that chooses to disclose earnings per share in its separate financial statements should only present such earnings per share information in its statement of comprehensive income. A company should not present such earnings per share information in its consolidated financial statements.

The interest share for the period up to the time of receiving financial investments is entered in the books by the purchase value, subtracting the amount of interest paid by the buyer to the seller on the purchase value including accrued dividends.

The difference between the purchase value of the investment and the repayment value of the securities under loans (discount or premium at the time of purchase) is written off from the time of purchase until the time the loan is paid off, so that there is a constant return on investment by the investor.

For the revaluation of financial investments it is necessary to determine the periodicity of the revaluation including the categories of long-term investments.

In case of a decrease in the value of investments, with the exception of a temporary decrease in the book value, the book value of all long-term investments is reduced. Such reduction is implemented for each financial investment.

Long-term investments are accounted for at the purchase value. In case of inevitable decrease in the value of long-term investments, the book value of these investments should be reduced separately for each investment. In such cases the type of risk and the investor’s stake in the subject being invested are taken into account.

Long-term investments are not reflected in the accounting of a temporary decrease in the book value. The amount of additional appreciation resulting from the revaluation of long-term financial investments is added to one’s investment as a revaluation gain. In the event of a decrease in the value of financial investments, this reduction is made at the expense of the valuation value of those investments reflected in the capital. If the amount of reduction in the value of financial investments is greater than the amount of income from revaluation, this difference should be considered as an expense. The amount of additional valuation of impaired investments is reflected as an increase in own capital after the losses from these investments are covered. The amount of additional valuation of impaired investments is reflected as an increase in their own effect after the losses from these investments are covered.

Formation of the purchase value of the securities is crucially important because in relation to the composition of expenses included in the purchase value, their accounting value and the final financial result are determined. Such expenses should include only expenses on transactions related to the purchase of securities. The main part of these expenses is the value of the securities paid to the seller. It is necessary to include the expenses on transactions related to the purchase of securities, which are necessary for the implementation of this transaction. The applicable regulatory framework effectively defines the composition of expenses that influence the valuation cost of purchasing securities.

Conclusion

The effectiveness of any investments made by entities is measured by the amount of income they receive. In such circumstances it will not be possible to determine the initial,

increased, discount or premium amounts in financial calculations at all times and under any circumstances. This problem does not enable to predict the returns from financial investments. We have developed the technique for determining the future and current value of financial investments by applying the express evaluation model of determining the current and future value of investments using discounted cash flows.

In this case, discounting allows the enterprise to determine how much the investor will spend the most financial resources and how much income he will receive at the maximum level. In this case, the discounting formula is determined as follows:

If the current value is clear,

$$FV= CV *(1+IR)^Y$$

Here,

FV-value of future period

CV-current value

IR- interest rate

Y- years.

In order to effectively use financial investments and determine the efficiency of their expected income we have developed an express evaluation model for determining the current and future value of financial investments by applying the above discounting formula (table 1).

Table 1

Express-evaluation model of financial investments*

Year %	15	16	17	18	19	20	21	22	23	24	25	26
1	1,15	1,16	1,17	1,18	1,19	1,2	1,21	1,22	1,23	1,24	1,25	1,26
2	1,32	1,35	1,37	1,39	1,42	1,44	1,46	1,49	1,51	1,54	1,56	1,59
3	1,52	1,56	1,6	1,64	1,69	1,73	1,77	1,82	1,86	1,91	1,95	2
4	1,75	1,81	1,87	1,94	2,01	2,07	2,14	2,22	2,29	2,36	2,44	2,52
5	2,01	2,1	2,19	2,29	2,39	2,49	2,59	2,7	2,82	2,93	3,05	3,18
6	2,31	2,44	2,57	2,7	2,84	2,99	3,14	3,3	3,46	3,64	3,81	4
7	2,66	2,83	3	3,19	3,38	3,58	3,8	4,02	4,26	4,51	4,77	5,04
8	3,06	3,28	3,51	3,76	4,02	4,3	4,59	4,91	5,24	5,59	5,96	6,35
9	3,52	3,8	4,11	4,44	4,79	5,16	5,56	5,99	6,44	6,93	7,45	8
10	4,05	4,41	4,81	5,23	5,69	6,19	6,73	7,3	7,93	8,59	9,31	10,1
11	4,65	5,12	5,62	6,18	6,78	7,43	8,14	8,91	9,75	10,7	11,6	12,7
12	5,35	5,94	6,58	7,29	8,06	8,92	9,85	10,9	12	13,2	14,6	16
13	6,15	6,89	7,7	8,6	9,6	10,7	11,9	13,3	14,7	16,4	18,2	20,2
14	7,08	7,99	9,01	10,1	11,4	12,8	14,4	16,2	18,1	20,3	22,7	25,4
15	8,14	9,27	10,5	12	13,6	15,4	17,4	19,7	22,3	25,2	28,4	32

**This table has been developed by the author during the research process.*

It has been proven that by using this express-valuation model that it is possible to determine the current value of financial investments and the amount of total capital that should be received in the future. Herewith absolute and relative indicators are used to quantitatively assess the dynamics of financial investment indicators and absolute growth, growth rate, absolute indicator increase by 1 percent. As a result, it is possible to calculate

income (dividends) from financial investments allocated by economic entities and to determine their amount.

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