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IFRS BACKGROUND ASPECTS AND STATEMENTS IN THE ACCOUNTING OF FINANCIAL INSTRUMENTS

ЗАСАДНИЧІ АСПЕКТИ ТА ПОЛОЖЕННЯ МСФЗ В ОБЛІКУ ФІНАНСОВИХ ІНСТРУМЕНТІВ

Pryimak N.V.
Postgraduate Student at Department
of Accounting and Taxation,
Kyiv National University of Trade and Economics

Some particular relevant issues are determined in the article. They are the theoretical basis as to the recognition and evaluation, accounting devaluation of financial instruments according to IFRS rules. These rules are important elements of international accounting standards' application in the practice of national enterprises. Qualitative accounting differences of IFRS 9 Financial Instruments (which entered into force and became compulsory to use from 1st January 2018) comparing to IAS 39 Financial Instruments: Recognition and Measurement are also revealed and grouped in the research. A number of issues which are related to the usage of IFRS 9 Financial Instruments are analysed throughout the research. They are: classification amendments of financial instruments, types and methods of financial instruments evaluation (in terms of financial assets and financial liabilities), issues of devaluation and derecognition of financial instruments.

Key words: *financial instruments, financial asset, financial liability, international standards of financial reporting, recognition, evaluation, fair value, depreciated cost.*

В статті розглянуто тематику обліку фінансових інструментів кредитування відповідно міжнародної практики, а саме МСФЗ. Актуальність даного питання полягає у наступному: сучасна економічна діяльність суб'єктів господарювання потребує використання власних і залучених фінансово-грошових ресурсів, саме різноманітних фінансових інструментів у певний спосіб. У більшості випадків такі процеси залучення та використання фінансових ресурсів, крім проведення відповідних юридичних процедур, потребують також ретельного аналізу суті подій і їх оцінки з точки зору бухгалтерського (фінансового) обліку та подальшого відображення результатів операцій у фінансовій звітності опираючись на міжнародний досвід. Запровадження міжнародних стандартів фінансової звітності та використання їх у обліковій вітчизняній практиці вимагає певного часу, обліково-аналітичних процедур, певного теоретико-методичного забезпечення, зокрема щодо обліку, визнання та оцінки фінансових інструментів. У статті визначено теоретичний базис щодо визнання та оцінки, обліку знецінення фінансових інструментів відповідно до правил МСФЗ як важливого елементу в забезпеченні впровадження міжнародних стандартів в облікову практику вітчизняних підприємств. Автором статті проаналізовано, розкрито та згруповано якісні облікові відмінності МСФЗ (IFRS) 9 "Фінансові інструменти" в останній його редакції, що увійшов в дію та став обов'язковим до застосування 1 січня 2018 року порівняно з МСБО (IAS) 39 "Фінансові інструменти: визнання та оцінка". Проаналізовано низку облікових аспектів, що пов'язані із застосуванням МСФЗ (IFRS) 9 "Фінансові інструменти", а саме: класифікаційні зміни фінансових інструментів, види та методи оцінки фінансових інструментів (в розрізі фінансових активів та фінансових зобов'язань), питання знецінення та припинення визнання фінансових інструментів. Висвітлено питання щодо трьох основних класів фінансових активів як ключових елементів фінансових інструментів згідно міжнародної практики та обґрунтовано моменти і підходи до їхньої оцінки в загальному вигляді. Деталізовано деякі питання щодо оцінки фінансових інструментів – оцінка за амортизованою вартістю, оцінка за справедливою вартістю з визнанням її змін в іншому сукупному доході та оцінка за справедливою вартістю з визнанням її змін у прибутку або збитку.

Ключові слова: *фінансові інструменти, фінансовий актив, фінансове зобов'язання, Міжнародні стандарти фінансової звітності, визнання, оцінка, справедлива вартість, амортизована вартість.*

В статье определено теоретические основы о признании и оценки, учета обесценения финансовых инструментов в соответствии с правилами МСФО как важного элемента в обеспечении внедрения международных стандартов в учетную практику отечественных предприятий. Раскрыто и сгруппированы качественные учетные отличия МСФО (IFRS) 9 «Финансовые инструменты», вошедший в действие и стал обязательным к применению 1 января 2018 по сравнению с МСФО (IAS) 39 «Финансовые инстру-

менты: признание и оценка». Проанализированы ряд вопросов, связанных с применением МСФО (IFRS) 9 «Финансовые инструменты», а именно: классификационные изменения финансовых инструментов, виды и методы оценки финансовых инструментов (в разрезе финансовых активов и финансовых обязательств), вопрос обесценивания и прекращения признания финансовых инструментов.

Ключевые слова: *финансовые инструменты, финансовый актив, финансовое обязательство, Международные стандарты финансовой отчетности, признание, оценка, справедливая стоимость, амортизированная стоимость.*

Problem formulation. A large variety of financial instruments of crediting has become an important feature of accounting science in countries with a developed market economy in recent years. As a result, it caused a lot of problematic issues as to its evaluation and recognition; representation in accounting and financial reporting. The amendments to the Law of Ukraine "On Accounting and Financial Reporting" that were adopted on 16.07.1999 [1] have created the conditions for the widespread introduction of International Financial Reporting Standards (hereinafter – IFRS) into Ukrainian accounting practice. In these latter days, many business entities have put International Standards into practice [2, p. 266–277] in their own accounting system and transformed their financial reporting into the IFRS format. The standards of both international and national banks concerning crediting, cooperation with foreign partners, and so on are the incentive of its introduction. That means the attraction of financial and credit resources in a special way with the use of financial instruments of crediting.

In addition, it should be admitted that a large number of accounting and reporting standards in both national and international practice have always been devoted to the issue of accounting of financial instruments of crediting. Financial instruments of crediting are the subject of the most active discussions among theorists and practitioners. They are characterized by a large number of controversial aspects from the entire list of issues that are examined in IFRS and NAS (National Accounting Standards). Consequently, the introduction of international standards and their use in accounting practice requires a certain period of time, as well as skilled workers with certain experience, but the most important, it needs additional accounting and analytical procedures and certain theoretical and methodological support, especially, as to accounting, recognition, and evaluation of financial instruments.

Review of recent studies and publications. Some problems such as the introduction of the International Financial Reporting Standards in the practice of national enterprises; a number of issues of IFRS introduction, which control the accounting of financial instruments, especially aspects of recognition and evaluation, depending on the category of their further recognition; a number of questions regarding accounting and analysis of financial instruments, hedging of enterprises' cash flows; a number of questions concerning the adaptation of national and international standards as to accounting of financial instruments were investigated in the works of such scientists as: Butynets F.F. [3], Vasylenko N.K. [4], Voitenko T. [5], Gizatulina L.V. [6], Hrachova R.Ye. [7], Zamlynskyi V.A. [8], Kiiasak I.M. [9], Kostiuchenko V.M. [10], Lovinska L.H. [6], Kharlamova O.V. [2] and many others. The article is devoted to the unsolved earlier parts of the overall problem such as changes that appeared because of the adoption of a new version of IFRS 9 in 2014 (which came into force in 2018).

Emphasis on unsolved earlier parts of the general problem. Despite the wide range of studies and research, the issue of recognition and evaluation of financial instruments of crediting according to the new IFRS rules is underdeveloped and requires a modern theoretical basis for further research.

Task formulation. The aim of this study is to examine the contents of changes in the updated version of IFRS 9 regarding the classification, evaluation, and devaluation of financial instruments, their critical assessment for the creation of a new theoretical basis and putting them into practice by national enterprises.

Presentation of the main research statements. Financial instruments of crediting are traditionally and fairly considered as one of the most difficult objects of accounting. Accounting of financial instruments of crediting and representation of information in reports are regulated by several international accounting standards, in particular, IFRS 9 Financial Instruments.

IFRS 9 Financial Instruments [11] came into force on 1st January 2018 and is compulsory to use for all business entities, who make reporting according to IFRS.

In the latest version of IFRS 9, "Financial Instruments", which was adopted in 2014, the procedure of accounting of financial instruments is described in a simplified way comparing to IAS 39 Financial Instruments: Recognition and Measurement. Questions that are regulated by IFRS 9 concern the requirements of recognition and evaluation of financial instruments, determination and accounting of their devaluation, hedging accounting [11]. The general differences between IFRS 9 and IAS 39 are grouped and presented in Table 1.

IFRS 9 Financial Instruments completely provides a complex approach in order to envisage the main aspects of financial instruments accounting. We consider it necessary to recall the main components of the financial instruments of crediting and their explanations for further studying of this issue.

Table 1

Comparative accounting aspects of the main statements of IFRS 9 and IAS 39

Statements of regulatory document	Comparative description
Sphere of usage	The sphere of usage of IFRS 9 is the same as that one of IAS 39 but IFRS 9 is supplemented by the option of certain contracts inclusion that would otherwise be excluded on the basis of "use for own needs"; certain credit liabilities and contractual assets as well.
Recognition and derecognition	IFRS 9 contains (with only a few amendments) the requirements of IAS 39 as to recognition and derecognition of financial instruments (business entity should recognize a financial asset or a financial liability in the balance sheet only when the business entity becomes a party to the contractual statements regarding the instrument).
Classification of financial assets and financial liabilities	IFRS 9 provides three main classification categories for financial assets, which are measured by depreciated cost, by fair value with its changes composed of other comprehensive income (hereinafter – FVOCI (fair value through other comprehensive income) and fair value with the representation of changes in profit or loss for certain period (hereinafter – FVTPL, fair value through profit or loss). The three categories of assets which are envisaged by the current IAS 39: "held-to-maturity", "loans and receivables" and "available for sale" are cancelled; – a financial asset is further classified by the category of instruments that are measured by depreciated cost if the purpose of asset retaining (business model) is to obtain contracted cash flows. Under the terms of the contract, the mentioned flows represent the payment of only the principal amount and interest (hereinafter – the SPPI criterion, solely payments of principal and interest) for that financial asset; – the financial asset is further classified by evaluation in the category of instruments that are measured by FVOCI if it corresponds to the SPPI criterion and is held within the business model, which involves both the receipt of contractual cash flows and the sale of financial assets; – all other financial assets are further classified in the category of instruments that are measured by FVTPL. In addition, an entity at its own discretion may refer the financial asset to the FVTPL category (without the right to reclassify it further) under a condition of its initial recognition, if accounting mismatch is eliminated or significantly reduced; – the entity may pass the decision (without the right to reconsider it) to represent the following changes of the investment's fair value of other comprehensive income (OCI) when the initial recognition of the investment refers to the instrument of own fund which is not intended for trading; – the requirements of current IAS 39 in the version IFRS 9 are kept in the classification of financial liabilities.
Embedded derivative instruments	The requirements of current IAS 39 regarding the derivative instruments are kept in IFRS 9. The main contract there is not a financial asset within the IFRS 9 usage, for instance, a financial liability, lease receivable or an insurance contract; – however, derivative instruments which are embedded in financial assets within IFRS 9 usage cannot be separated in any circumstances. Instead of this, the entire hybrid instrument is evaluated for its classification.
Reclassification	Reclassification of financial assets is necessary if the purpose of their retention within the business model is changed after the initial recognition of these assets and also if this change is significant in relation to the entity's transactions. It should be expected that such changes won't occur frequently. Reclassification under other reasons is not allowed.
Evaluation	Evaluation after initial recognition: – in general, the requirements of current IAS 39 are preserved in IFRS 9 regarding the evaluation of financial instruments at their initial recognition. Financial assets represent further evaluation: – the assets that were classified to the category of instruments for the further evaluation are recognized in profit or loss for the period. These assets are those ones that are measured by depreciated cost, by interest income, by expected credit losses and profits or losses of the exchange rate changes. Any profit or loss which arises while the asset's derecognition is recognized in profits or loss for the period; – the assets that were classified to the category of FVOCI for further evaluation are recognized in profits or loss for the period. They are interest income, expected credit losses and profits or losses of the exchange rate changes. Other profit and losses, which arise at the revaluation of these assets as to fair value, are recognized in the OCI (other comprehensive income). The accumulated amount of profits or loss which was earlier recognized as a part of the OCI now needs the reclassification from the category of own asset to the category of profits or loss for the period. – assets that were classified to the category of FVTPL for further evaluation have all profits and losses recognized in profit or loss for the period.

Ending of Table 1

Evaluation	Financial liabilities represent the further evaluation: – almost all the requirements of current IAS 39 as to further evaluation of financial liabilities are preserved in IFRS 9. However, in the part where profits or losses of financial liabilities, classified by the entity's decision to the category of FVTPL, are caused by entity's own credit risk, they are automatically recognized as part of the IAS. The other part of the fair value change of such a liability is represented as a part of profit or loss for the period.
Depreciated cost and interest recognition	– the definition of the term "depreciated cost" is similar to that one which is used in IAS 39; – generally, the interest income is calculated by multiplying the effective interest rate (EIR) to the gross balanced value of the financial asset. The term "gross balanced value of a financial asset" means its depreciated cost together with the evaluated provision in case of depreciation. However, when an asset is a credit depreciated, the interest income is calculated by multiplying the EIR to the depreciated cost, that means without an evaluated provision in case of depreciation; – interest expense is calculated by multiplying the EIR to the depreciated cost of the financial liability.
Depreciation	– IFRS 9 intends to replace the model of "incurred loss" used in IAS 39 by the model of "expected loss". The new model is applied at financial assets that are not evaluated at the FVTPL, including loans, receivables from trading and leasing, debt securities, contractual assets according to IFRS 15, as well as some financial guarantees and liabilities of lending activities. It is not applied for investments in instruments' asset; – this model expects a double-counting approach, according to which the value of the loss provision is determined either by the amount of expected credit losses within 12 months or by the amount of expected credit losses within the validity period of the financial asset; – the evaluation basis usually depends on whether there was a significant increase in credit risk since the initial recognition of the financial asset.
Hedge accounting	The general statements of hedge accounting are preserved at new standard and were initially published in 2013.

Compiled by the author referring to [11; 12]

So, according to the international standards, a *financial instrument* is any contract that results in a financial asset of one entity and a financial liability or instrument asset of another entity [13]. *A financial asset* is any asset that is in cash; instrument of own asset of another entity; the contractual right to receive cash or another financial asset or to exchange financial instruments with another entity under conditions that are potentially favourable; a contract according to which the payment can be affected by own shares [13]. A *financial liability* means any liability that is a contractual obligation to provide cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity, which are favourable for them; a contract according to which the payment can be affected by own instruments of the entity's asset [13].

The initial evaluation of financial instruments is measured according to the paragraph 5.1.1 of IFRS 9 by fair value. Expenses of the transaction are accounted with addition or deduction in the case if a financial asset or financial liability is bought by fair value through the representation of profit or loss changes [14]. The further evaluation of financial instruments depends on their type, or rather on their classification.

According to the paragraph 5.2.1-2 of IFRS 9 Financial Instruments, the three main classes of financial assets are distinguished and they have their own evaluation rules and recognition of profits or losses:

• by depreciated cost;

• by fair value with recognition of changes in other comprehensive income;

• by fair value with recognition of changes in profit or loss.

In addition to this, the standard imposes a certain limit on the ability to evaluate the asset by the depreciated cost. It may only apply to those financial assets which are subjects to the following conditions:

• the holding of an asset corresponds to a certain business model whose purpose is to hold the asset in order to collect contractual cash flows;

• the contractual conditions of a financial asset envisage the income of cash flows which are the only repayment of the principal amount of a debt and interest payment of unrepaid principal amount [11].

As we can see, the new version of IFRS 9 provides a clear classification of financial assets, which is related to the method of accounting and disclosure of information in financial reporting (1).

Financial liabilities are also a very important component of financial instruments of crediting.

In paragraph 4.2 of IFRS 9 Financial Instruments, financial liabilities are divided into:

• financial liabilities measured by depreciated cost;

• financial liabilities measured by fair value with the representation of the revaluation result as profit or loss;

• others [11].

Accounting of financial liabilities measured by depreciated cost is similar to the accounting of financial assets measured by depreciated cost. Financial held-to-maturity liabilities refer to the financial assets, as well as to the financial liabilities measured by depreciated cost. The only difference is that at initial recognition of financial liabilities measured by depreciated cost, the direct expenses which are related to appearing of such liabilities are deducted from the amount of their fair value.

As it is mentioned in paragraph 5.1 of IFRS 9, financial liabilities are initially recognized by their fair value minus cost which is directly related to the acquisition of a financial liability [11].

A financial liability evaluated by fair value with the representation of revaluation result of profit or loss is considered to be a financial liability that satisfies one of the following conditions:

• the liability corresponds to the definition of "held for trading";

• the liability is appointed to the entity as that one, which is evaluated by fair value with the representation of revaluation result of profit or loss according to the paragraph 4.2.2 or 4.3.5 of IFRS 9 after its initial recognition;

• the liability is appointed either after initial recognition or subsequently as that one, which is evaluated by fair value with the representation of revaluation result of profit or loss according to the paragraph 6.7.1 of IFRS 9 [11].

While studying the IFRS 9 regarding financial liabilities, we may mention that its accounting has not changed significantly compared to IAS 39. The only difference that should be noticed is the *modification* accounting. That means that changes in contractual terms of liability do not lead to the derecognition of the liability (in the case if the contract is not changed). Previously, the effect of such modifications was accounted in IAS 39 by updating the effective interest rate and was recognized in

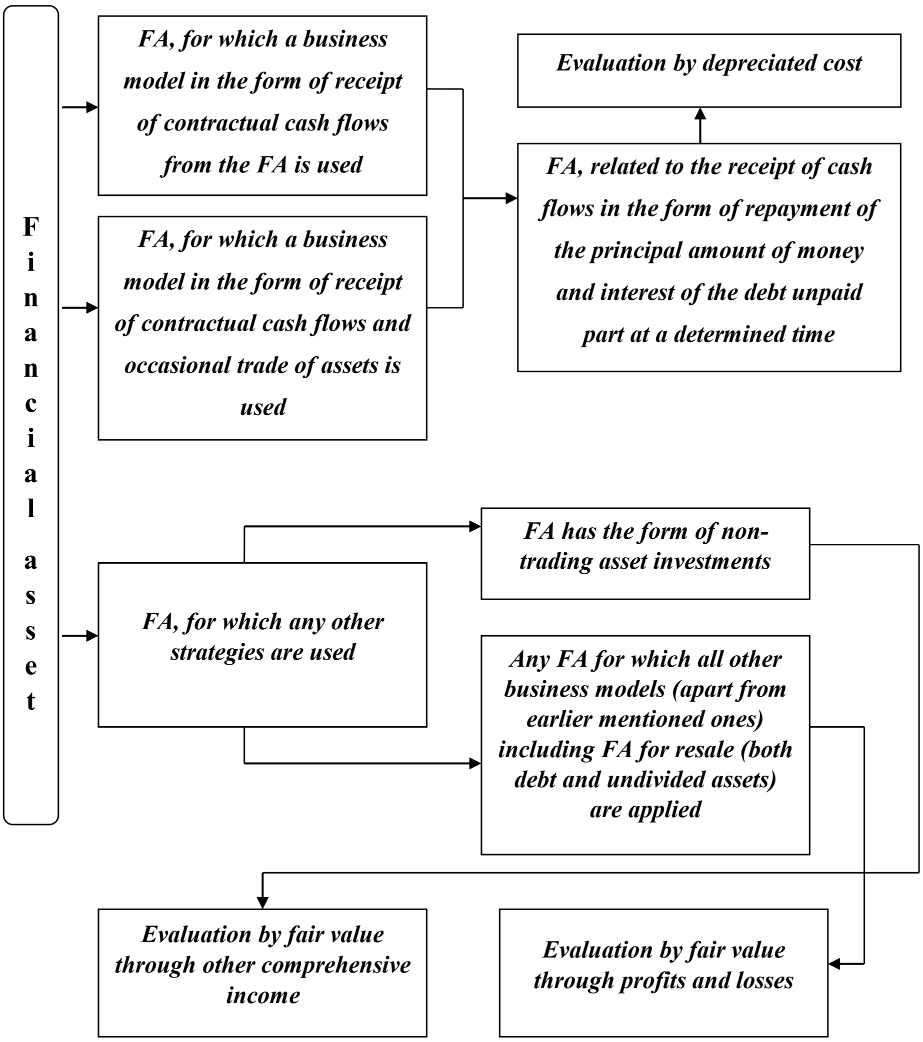

Fig. 1. General classification of financial instruments according to the amendments of IFRS 9 [14; 15]

such a way within the rest of the liability period as a decrease or increase of interest expense.

However, such an effect should be recognized in profit or loss immediately at the moment of modification according to the paragraph B3.3.6 of IFRS 9. For that, we should update the carrying amount of the liability and subsequently account the liabilities at the original effective rate.

This change is relevant for many Ukrainian enterprises that use various financial instruments of crediting for their activities. Namely, they have loans or other borrowings from banks and they keep on reviewing their terms by changing interest rates, maturities, payment schedules, etc. [16].

The innovation of a new IFRS 9 version is a technique of devaluation accounting of financial instruments. The standard explains the order of such devaluation in a detailed way and specifies the main aspects, which determine the nature of its practical application.

The devaluation model is based on the premise that the company expects potential losses from a financial instrument. IFRS 9 states that the devaluation model can be applied to:

• financial assets that are measured by depreciated cost;

• financial assets that are compulsorily measured by fair value with changes application to other comprehensive income;

• credit liabilities when there is a current obligation to provide a loan (apart from those that are measured by fair value through profit or loss);

• financial guarantee contracts (contracts which apply IFRS 9);

• receivables of leasing contracts;

• assets of the contracts that come under IFRS 15 Receipts from Customer Contracts.

According to the general approach mentioned in paragraphs 5.5.3 and 5.5.5 of IFRS 9, expected credit losses should be measured by loan losses in the amount equal to either twelve month's expected credit losses or full validity time of expected credit losses [11].

This approach is applied for financial assets apart from those, which appeared or were bought as credit depreciated assets. In that way, the loan losses for full time period of validity of expected credit losses are determined for financial instruments, if the credit risk of this financial instrument increased a lot comparing with its initial recognition, as well as for the concluded contracts with assets or trade receivables that do not represent financial operations according to IFRS 15 (IFRS 9 paragraphs 5.5.3 and 5.5.15) [15].

The evaluation of the expected depreciated amount according to IFRS 9 should reflect an objective, probable, and considered amount that is determined by the definition of the range of possible losses based on the value of money. We won't describe the technique of devaluated financial instruments' representation in detail. We only note that IFRS 9 and its appendix sufficiently describe the cases of the devaluation of financial assets and the procedure of losses recognition caused by devaluation. That knowledge is very important in the conditions of modern financial and economic instability [11].

The fact of financial instrument derecognition is also important at the description of financial assets.

According to paragraph 3.2.2 of IFRS 9 Financial Instruments, an entity should derecognize a financial asset if: it has passed cash flows' contractual rights; the enterprise passes the asset and don't participate in it anymore; an entity passes an asset and continues to participate therein, but the person who passed the asset has the practical opportunity to pass the asset in order to obtain its own benefit [11].

Conclusion. The main statements of accounting, recognition, and evaluation of financial instruments according to IFRS are determined within the research. This is an important part of the theoretical and methodological support of International Accounting Standards and financial reporting introduction in the practice of national enterprises.

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