

THE LEVERAGES OF ACCOUNTING PROCEDURES IMPROVEMENT FOR INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

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The article focuses on the analysis of current accounting procedure for investments in associates and subsidiaries by using three methods of accounting due to method of subsequent measurement. The research results in suggestion of two directions of actual accounting methodology improvement for investments in associates and subsidiaries to comply international accounting standards.

Keywords: associate, subsidiary, consolidation method, equity method, consolidated financial statement, separate financial statement.

Formulation of the Problem and its connection with significant scientific and practical goals. One of the types of bank investment activities refers to equity instruments purchase in quantity, enough to manage an investee. In case of significant influence availability, investment is classified as associate, while the evidence of control results in subsidiary formation. The method of accounting for such investments is determined by three factors: the level of influence on an investee, reporting form and the aim of investment. Current accounting methodology for investments in associates and subsidiaries, developed for Ukrainian banks, for the reasons of disability to disclose accounting procedures for all scenarios of investments, should be improved by implementing new methods of accounting.

Latest researches analysis. Methodological aspects of accounting for investments in associates and subsidiaries for Ukrainian banks were analyzed in papers of certain native scientists, among which are O.E. Kuzminska [1], O.V. Nebiltsova, R.S. Korshicova, L.I. Lukianenko, V.V. Chodzitska [2], V.M. Kostuchenko [3], G.I. Spiak [4]. O.E. Kuzminska paper is devoted to the research of accounting procedures for investments in associates and subsidiaries by focusing on methods of consolidation statement preparing and process of goodwill formation. O.V. Nebiltsova, R.S. Korshicova, L.I. Lukianenko, V.V. Chodzitska and V.M. Kostuchenko pay their attention to the research of investment accounting and presentation rules due to international accounting standards. G.I. Spiak focuses on the improvement of national rules of financial investments accounting, which covers investments in associates and subsidiaries. Certain aspects of accounting procedures for investments in associates and subsidiaries, regardless deep and systematic researches of mentioned above authors, need further development, which determines the actuality of this article.

The aim of research. The aim of the research refers to improvement of the procedure of current accounting for investments in associates and subsidiaries by its compliance with international accounting and reporting rules.

The statement of the research with the scientific results grounding. Investments in associates and subsidiaries are classified as financial investments as they are performed by purchasing equity instruments with the aim of control or significant influence on the investee.

Accounting procedure for investments in associates is regulated by IAS 28 "Investments in Associates and Joint Ventures" [5], IAS 27 "Separate financial statements" [6], IAS 36 "Impairment of Assets" [7], and IFRS 12 "Disclosure of interests in other entities" [8]. Investments in subsidiaries are in the scope of IFRS 10 "Consolidated financial statements" [9], IFRS 3 "Business combinations" [10] and all standards, mentioned above.

Financial investments in equity instruments of an investee are classified as investments in associates, if investor receives significant influence on investee, in other words receives power to participate in financial and operating policy decisions of the investee [5, P. 3]. Purchased equity instruments are identified as investments in subsidiaries in case of availability of control the investee. Purchased equity instruments are classified as investments in subsidiaries if the investor controls the investee, in other words has the power over an investee, faces risks of variable returns from its investment and has the ability to use his power over an investee to affect the amount of investor's returns [9, P. 7].

International accounting and reporting standards describe 5 variants of investments in associates and 3 variants of investments in subsidiaries. They determine form of reporting and method of subsequent measurement.

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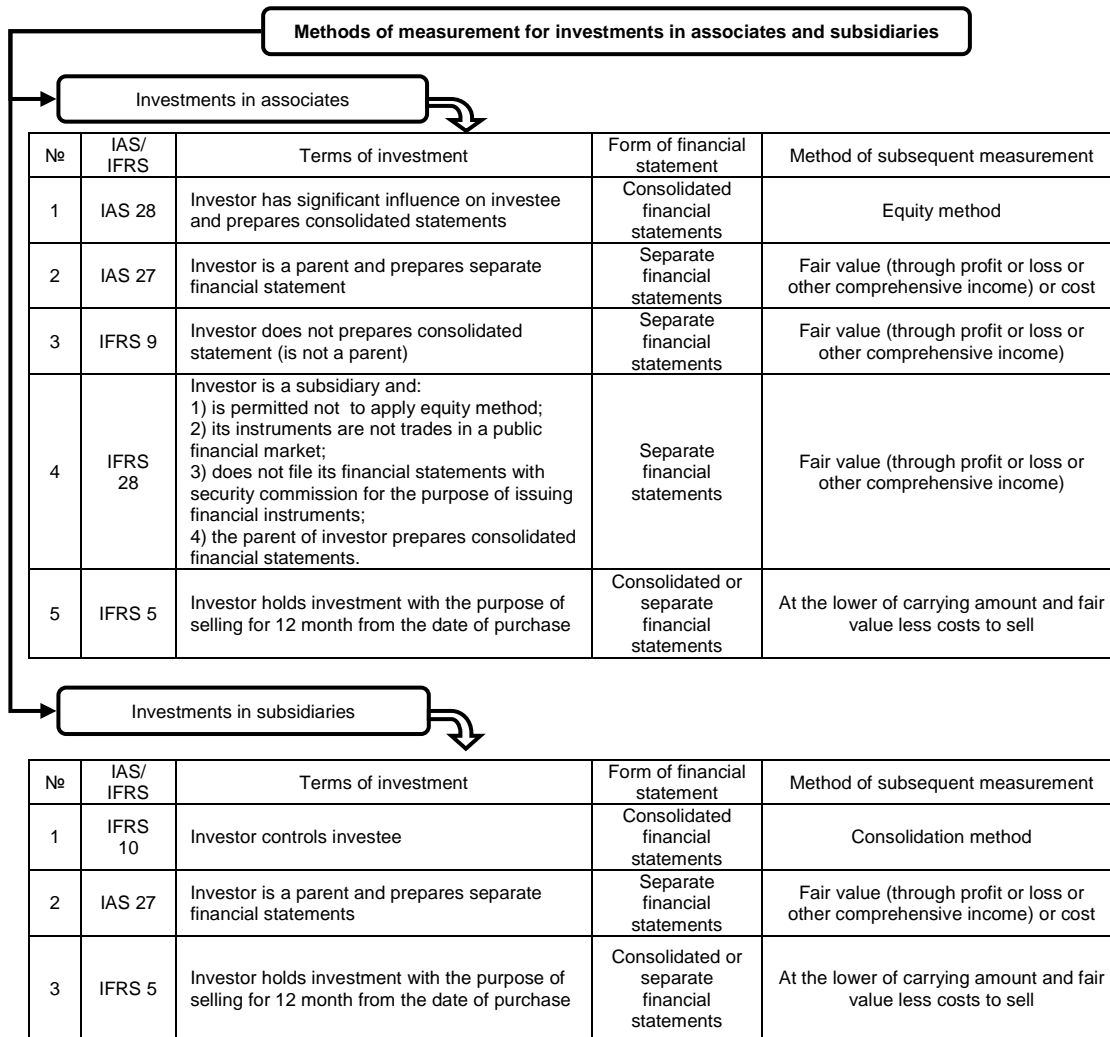


Figure 1. Investments in associates and subsidiaries measurement

Parent company, which prepares consolidated financial statements and significantly influences the investee, according to IAS 28 “Investments in Associates and Joint ventures” [5], applies equity method for subsequent measurement of investments performed. Investor, identified as parent company, but for some reasons is permitted to prepare separate financial statements, measures investments due to IAS 27 “Separate financial statements” as equity instruments at fair value or at cost [6, P. 10]. If Investor prepares separate financial statements, performed investment is measured due to IFRS 9 as financial instrument at fair value through profit or loss or through other comprehensive income.

Similar method of measurement is applied to subsidiaries, which invested in associates and are not obliged to prepare consolidated statements [5, P. 17]. Investments in associates, held for sale during 12 month from the date of acquisition, are classified as non-current assets held for sale, and are measured at the lower of carrying amount and fair value less costs to sell due to IFRS 5 «Non-current Assets held for sale and discontinued operations» [11, P. 15].

Investor, controlling the investee, is identified as parent company and prepares consolidated financial statements, where investments are recognized and accounted by the method of consolidation. In case of separate statements presentation, investments in subsidiaries are measured in accordance with IAS 27 as financial instruments at fair value or at cost. Investments in subsidiaries, held for sale, are measured due to IFRS 5 requirements.

Performed analysis of the terms of investments in associates and subsidiaries, which affect the method of measurement and reporting form, has enabled to distinguish three methods of these investments accounting, which are the following:

1) *accounting methodology for investor, who significantly influences or controls the investee and prepares consolidated financial statements (using equity method for investments in associates and method of consolidation for investments in subsidiaries);*

2) *accounting methodology for investor, who presents separate financial statements (thereby investments are measured as financial instruments due to IFRS 9);*

3) *accounting methodology for investor, who invests in associates and subsidiaries for the purpose of their selling during the operating period and classifies them as non-current assets held for sale.*

According to distinguished methodologies, investments in associates and subsidiaries are proposed to be classified for the purpose of accounting by three groups as investments presented in consolidated financial statements, investments, disclosed in separate financial statements and investments, classified as non-current assets held for sale.

Thereby, international accounting standards require application of three different accounting procedures for three groups of investments in associates and subsidiaries. To determine, whether national accounting rules comply IFRS Committee's recommendations, certain national regulations relating accounting procedures for investments in associates and subsidiaries must be analyzed.

As for investments in equity and debt securities, investments in associates and subsidiaries are also regulated by Instruction on accounting for securities transactions in Ukrainian banks. According to this Instruction, investments in associates and subsidiaries are placed in two security portfolios – portfolio of investments in associates and subsidiaries and available for sale investment portfolio [12, ar. 3.1].

Portfolio "Investments in associates and subsidiaries" comprises investments in associates, measured by equity method, and investments in subsidiaries, accounted by consolidation method. The presence of these investments in mentioned above portfolio becomes the evidence of consolidated financial statements preparation. Thereby, investments placed in this portfolio, are measured by the methods, used for investors, who have significant influence or control over an investee and present consolidated financial statements. Accounting procedure and related entries are represented in chart V "Accounting for investments in associates and subsidiaries" of the Instruction.

Securities, placed in portfolio "Securities in available-for-sale portfolio" are classified either as non-current assets held for sale, or as financial instruments, measured at fair value through capital or at cost. Investments in the given portfolio are accounted according to methodology of non-current assets accounting due to IFRS 5 with entries detalisation in chart III "Accounting for securities in available-for-sale portfolio".

The third accounting procedure, due to IFRS, must be developed for investments in associates and subsidiaries, which are accounted as financial assets for the reason of separate financial statement presentation. But Instruction doesn't contain any regulations concerning investments accounting in terms of separate financial statements presentation. Moreover, term "Separate financial statements" is not even mentioned in the Instruction.

The structure of synthetic accounts, applied in current accounting of investments in associates and subsidiaries, is determined to be considered in accordance with their classification by the methods of measurement (figure 2).

Accounts, applied to represent information concerning investments in associates and subsidiaries measured at equity method and method of consolidation, where investor prepares consolidated statements, are placed in Class 4 "Financial and capital investments". Investments in associates are registered in group 410 "Investments in associates", while investments in subsidiaries are represented in group 420 "Investments in subsidiaries".

Investor, preparing separate financial statements, accounts investments in associates and subsidiaries in class 3 "Securities transactions and other assets and liabilities" of the group 310 "Shares and other financial investments in available-for-sale portfolio".

Investments held for sale are accounted in the group 312 "Investments in associates held for sale" and group 313 "Investments in subsidiaries held for sale" of the third class of the Chart of Accounts.

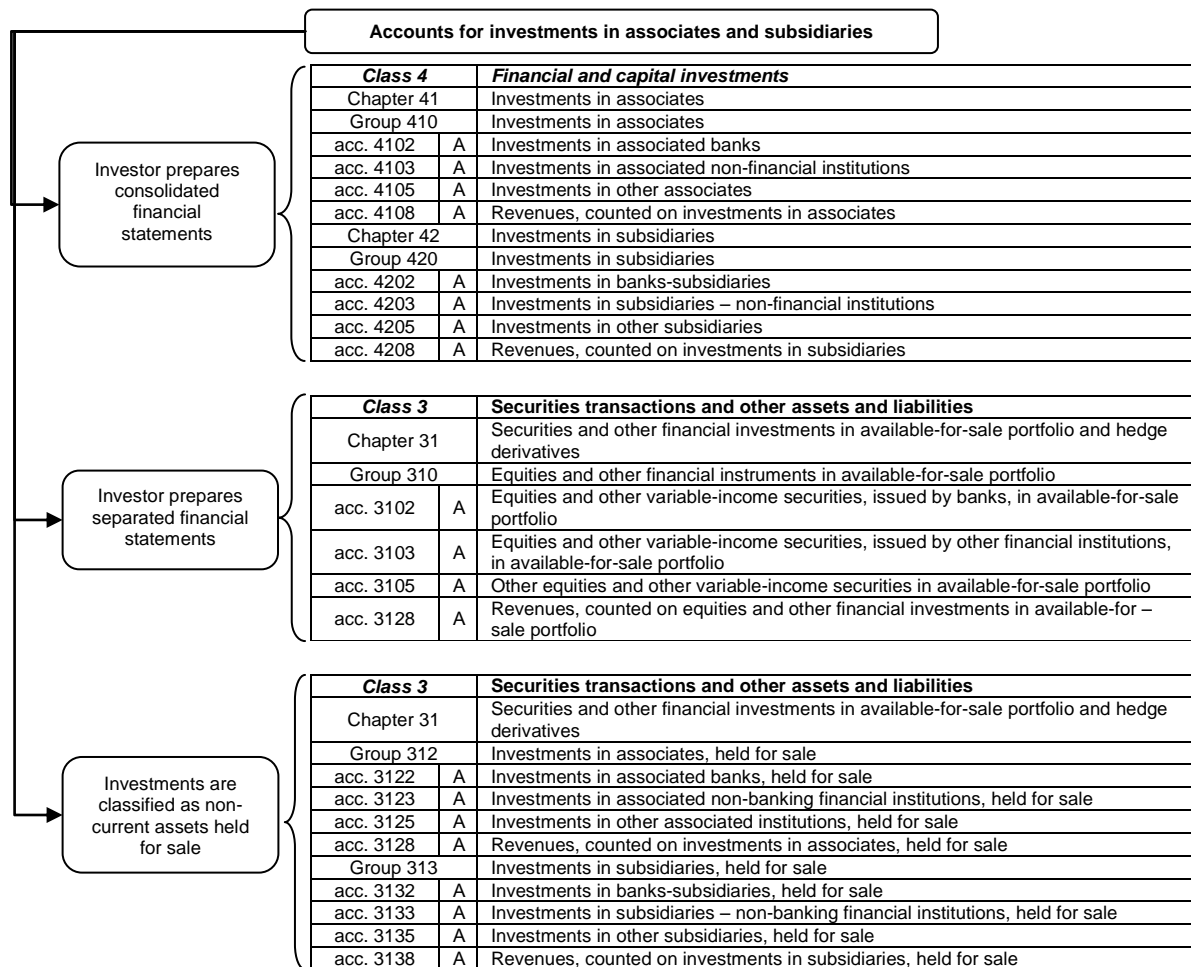


Figure 2. The structure of synthetic accounts for investments in associates and subsidiaries accounting of actual Chart of Accounts

Having compared requirements of IFRS Committee and rules of the Instruction, certain disparities in national accounting principles comparing to international rules were found. Performed analysis enables to suggest two areas of improvement of current accounting procedure for investments in associates and subsidiaries (figure 3).

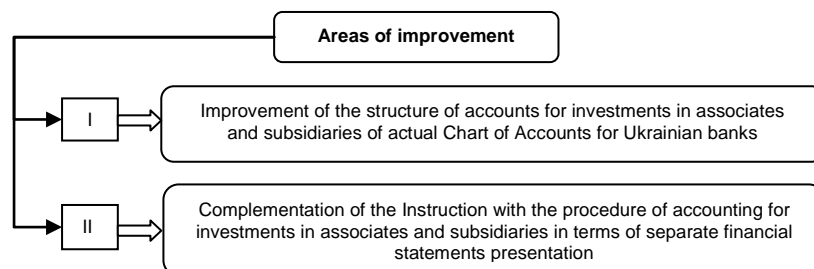


Figure 3. The leverages of current accounting improvement for investments in associates and subsidiaries

The first point of current accounting improvement for investments in associates and subsidiaries refers to changes in the structure of accounts, applied in investment transactions disclosure. Accounts, representing investment transactions in subsidiaries and associates, are grouped in Class 4 “Financial and capital investments” together with accounts for tangible and intangible assets, goodwill and capital investments.

However, the rest of financial investments (those, classified as financial instruments) are accounted on accounts of the 3 class “Securities transactions and other assets and liabilities”. The placement of accounts, designed for financial investment transactions registration, in two different classes of the Chart of Accounts is considered to be groundless for both convenience of implementation and information systematization for financial reporting criteria (information concerning investments in

subsidiaries and associated is disclosed in line 13 of the Balance Sheet and presented separately from information relating capital investments). The absence of strong reasons to differentiate financial investment accounts by two classes has enabled to make suggestions to transfer accounts on financial investments in associates and subsidiaries to the third class of accounts. Performing such modification, it must be noticed, that accounts concerning investments in associates and subsidiaries, classified as non-current assets, which were included in available-for-sale portfolio, are proposed to be grouped in newly-created Chapter "Investments in associates and subsidiaries held for sale" (table 1).

Table 1

Suggested improved structure of accounts concerning investments in associates and subsidiaries of the actual Chart of accounts

Class 3. Securities transactions and other assets and liabilities		
Chapter xx	Investments in associates	
Group xxx	Investments in associates	
account xxxx	A	Investments in associated banks
account xxxx	A	Investments in associated non-banking financial institutions
account xxxx	A	Investments in other associates
Chapter xx	Investments in subsidiaries	
Group xxx	Investments in subsidiaries	
account xxxx	A	Investments in banks-subsidiaries
account xxxx	A	Investments in subsidiaries – non-banking financial institutions
account xxxx	A	Investments in other subsidiaries
account xxxx	A	Revenues, counted on investments in subsidiaries
Chapter xx	Investments in associates and subsidiaries held for sale	
Group xxx	Investments in associates held for sale	
account xxxx	A	Investments in associated banks held for sale
account xxxx	A	Investments in associated non-banking financial institutions held for sale
account xxxx	A	Investments in other associates held for sale
account xxxx	A	Revenues, counted on investments in associates held for sale
Group xxx	Investments in subsidiaries held for sale	
account xxxx	A	Investments in banks-subsidiaries held for sale
account xxxx	A	Investments in subsidiaries – non-banking financial institutions held for sale
account xxxx	A	Investments in other subsidiaries held for sale
account xxxx	A	Revenues, counted on investments in subsidiaries held for sale

According to suggested structure of accounts, all accounts relating financial investments accounting, regardless the aim of purchase and method of measurement, are allocated in the third class "Securities transactions and other assets and liabilities" of the Chart of Accounts. Investments in associates and subsidiaries are grouped in three chapters: "Investments in associates", "Investments in subsidiaries" and "Investments in associates and subsidiaries held for sale". The key factor of such division is the method of subsequent measurement. It must be noticed, that the structure of groups and the titles of accounts were left constant and are equal to those of the actual Chart of Accounts.

The second area of improvement refers to the necessity to complement the Instruction with the procedure of investments in associates and subsidiaries accounting in terms of separate financial statement presentation. Actual Instruction on securities transactions accounting in Ukrainian banks doesn't contain information concerning such type of investments, so that it must be comprised in the chapter 5 "Accounting for investments in associates and subsidiaries". Thus, section 1 "Peculiarities for investments associates and subsidiaries accounting" of the Chapter 5 must comprise paragraph, which explains terms of separate financial statements presentation for investor and clarifies the procedure of investments accounting when parent company prepares separate statements. Due to improved procedure of accounting for investments in financial instruments, developed in accordance with IFRS 9 requirements, such investments are suggested to account as financial instruments – variable-income securities – at fair value through profit of loss or through other comprehensive income.

Conclusions and further researches prospects. The analysis of requirements of international standards to the procedure of accounting for investments in associates and subsidiaries, has enabled to distinguish three methods of their current accounting, which depend on the term of investment, investor's aim and the form of financial reporting. The research resulted in two suggestions of investment accounting improvement, concerning improvement of the structure of investment accounts of the actual Chart of Accounts and complementation of the Instruction with the procedure of accounting for investments in associates and subsidiaries in terms of separate financial statements preparation and presentation.

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Абарчян В.С. Напрями вдосконалення обліку інвестицій в асоційовані та дочірні компанії банку
Амбарчян В.С. Усовершенствование учёта инвестиций в ассоциированные и дочерние учреждения банка

УДК 657.424.4

Усовершенствование учёта инвестиций в ассоциированные и дочерние учреждения банка / В.С. Амбарчян

В статье исследована процедура текущего учета инвестиций в ассоциированные и дочерние компании по трем методикам в соответствии с методом последующей оценки. По результатам исследования предложено два направления усовершенствования действующей методики учета инвестиций в ассоциированные и дочерние компании с целью приведения ее в соответствие с международными стандартами учета.

Ключевые слова: ассоциированная компания, дочерняя компания, метод консолидации, метод участия в капитале, консолидированная отчетность, отдельная отчетность.

УДК 657.424.4

Напрями вдосконалення обліку інвестицій в асоційовані та дочірні компанії банку / В.С. Амбарчян

У статті досліджено процедуру поточного обліку інвестицій в асоційовані та дочірні компанії за трьома методиками відповідно до методу подальшої оцінки. За результатами дослідження запропоновано два напрями вдосконалення дійсної методики обліку інвестицій в асоційовані та дочірні компанії для приведення її у відповідність з міжнародними обліковими стандартами.

Ключові слова: асоційована компанія, дочірня компанія, метод консолідації, метод участі в капіталі, консолідована звітність, окрема звітність.