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The Significance of Financial Investments of Enterprises and Issues of Adjusting their Accounting to International Standards

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Abstract: The article describes the role of financial investments of enterprises in the economic development of our country and the importance of their accounting. It also explains the differences between financial investments and other assets and the ways of adjusting their accounting to the international financial reporting standards.

Key words: financial activity, financial investment, asset, economic profit, securities, promissory note, interest, dividends.

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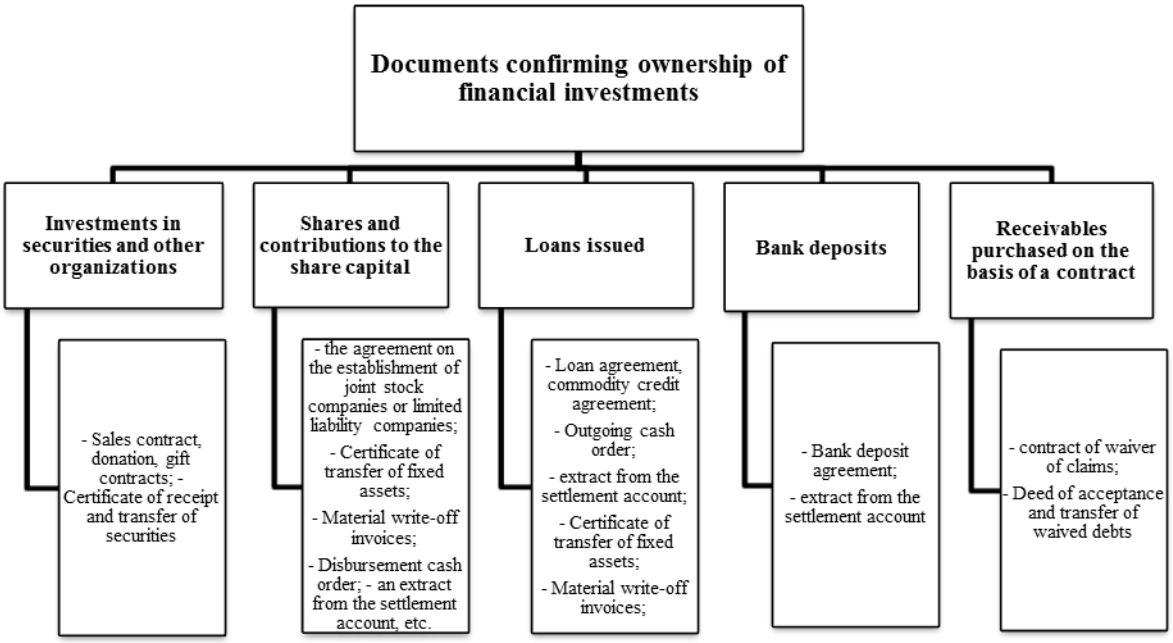
One of the important tasks facing our country is making Uzbekistan a reliable and long-term partner for foreign investors while ensuring sustainable economic development. For this, of course, our state must develop market relations, reliably protect the rights of investors, further improve the favorable investment and business environment, create wider conditions for fair competition, ensure the inviolability of private property and the independence of the judicial system. In his speech at the Third Tashkent International Investment Forum, the President of the Republic of Uzbekistan emphasized the necessity of current changes, their importance and efficiency, and cited the following figures: "In recent years, our economy has grown almost twice. By the end of last year, this growth was 6 percent. Inflation dropped to 9 percent. Trade turnover indicators are constantly increasing. The stability of the foreign exchange market and gold-currency reserves is maintained. In recent years, more than 60 billion dollars of foreign investments have been absorbed in our country. More than 14 billion dollars of funds from international financial institutions were attracted to the social and infrastructure sectors. The volume of foreign investments almost doubled last year. At this place, in the field of energy, "ACWA Power", "Masdar", "Total Eren", "Voltalia", "Çalık" and "Aksa"; "Air Products", "Indorama" and "Kamse" in the chemical industry, "Orano" and "DANIELI" in mining and metallurgy, "BYD", "Kia" and "Samsung" in the automotive and electrical engineering sectors, in the construction sector I would like to note with great pleasure that more than 300 investment and industrial projects have been launched and hundreds of thousands of new jobs have been created

with the world's leading companies and major brands, such as "Koç" and "KNAUF".1 Therefore, the development of financial investments in the activities of enterprises and a deeper study of their accounting are one of the urgent topics.

Financial investments of the enterprise can be reflected in the balance sheet of the enterprise as non-current or current assets. As long as the financial investment is an asset, the conditions for its recognition will certainly exist. An asset is considered a financial investment if it meets three conditions at the same time:

1. If the enterprise has the right to own it. These contracts must also be confirmed by primary documents (1-picture).



1-picture. Documents confirming ownership of financial investments

2. Financial risks related to ownership have been transferred to the enterprise; For example, the risk of bankruptcy of the company whose property is invested. Or the risk that the profitability of the asset will decrease sharply;
3. If the asset increases the economic profit of the enterprise through an increase in value, interest and dividends.

We will consider this in specific examples below. Financial investments include:

- investments in securities issued by other organizations, as well as the state, state enterprises, joint-stock companies. But if a joint-stock company (JSC) buys its own shares, they will not be financial investments;
- shares and contributions to the authorized capital of limited liability companies, ordinary companies, production cooperatives and others. This also applies to subsidiaries and affiliates;

[1] Speech of the President of the Republic of Uzbekistan Shavkat Mirziyoyev at the Third Tashkent International Investment Forum, 02.05.2024, official website of the President of the Republic of Uzbekistan, https://president.uz/uz/lists/view/7194

- loans to other organizations. A mandatory condition is that they are interest-bearing and not free;
- savings deposits in banks where a special account has been opened;
- receivables received under the contract.

Although the list of financial investments is not strictly limited, there are assets that have similarities with the elements listed above, but are not included in the composition of financial investments. We can cite the following examples of these sentences.

Example 1 - own shares purchased from shareholders. Shareholders of a joint-stock company, in certain cases, have the right to demand the purchase of their shares from the issuer. Sometimes the organization itself makes a similar decision, for example, in order to reduce the authorized capital later. However, since the purchased shares do not give the company the right to vote at the shareholders' meeting, and dividends are not calculated on them, they are not considered financial investments. .

Example 2 - bills of exchange given by the buyer to his seller. There is a very delicate point here. For example, if you receive a promissory note from a bank or third party as part of a settlement with a counterparty, classify it as a financial investment. If the promissory note is your buyer or customer, then it is held in the accounts with the buyers. Usually, this account is kept with 4010 "Accounts receivable from customers"[2] and the subaccounts "Received bills" opened to them. As a result, the balance sheet ends with receivables and not with financial investments.

Example 3 - profitable investments in material assets. If your organization bought a fixed asset for rental, then such an object is not a financial investment. Yes, it has property rights and it generates economic benefits. But the condition related to financial risks is not fulfilled. The risk of losing such an asset has nothing to do with the risk of insolvency of the issuer or non-payment of interest/dividends. Such property is accounted for in account 0310 "Fixed assets received under a financial lease agreement". There is a separate line in the balance sheet for the account with the same name.

Example 4 - precious metals, jewelry, works of art. If such assets are not purchased for sale in the ordinary course of trade, or even if the organization does not intend to use them in the production of precious metal, they still do not become financial investments.

Where should I take them? Either to fixed assets or inventories. For fixed assets, if:

- if the initial value is higher than the limit set by the organization in the accounting policy;
- any tangible asset with no fixed limit and a service life of more than 12 months is classified as fixed assets. This happens in rare cases.

In all other cases, these will be reserves.

Example 5 - interest-free loans. In order for the money or other assets you provide to the borrower to be included in the financial investment, the loan agreement must be interest-bearing. If the contract directly states that the loan is free, the loan is not always a useful asset. What are zero interest loans? Expected income, that is, receivables.

Example 6 - loans given to employees of the organization. In relation to them, we focus on the chart of accounts. In it, the first sub-account for such operations is allocated to accounts 4710 "Debt of employees on goods sold on credit" or 4720 "Debt of employees on loans given". It turns out that on the balance sheet it will again be a receivable.

2 National accounting standard of the Republic of Uzbekistan, No. 21 "The plan of accounting reports of financial and economic activities of economic entities and instructions for its application", October 23, 2002, https://www.lex.uz/acts/809350

As a result of the studies, it can be concluded that in the conditions of the current rapid economic development, the investment activities of enterprises create the basis for increasing their profitability and finding their place in the financial market. Also, proper accounting of financial investments in enterprises is important in determining their level of usefulness.

As a result of the studies, we can make the following suggestions:

- enterprises should develop financial investment activities along with production, trade and/or service activities;
- recruiting leading personnel with advanced knowledge of the stock market to enterprises;
- paying special attention to accounting of financial and investment activities;
- take to attention international financial reporting standards and their difference between national standards and find the way of adaptaion.

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