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ACCOUNTING FOR ACCOUNTS RECEIVABLE ACCORDING TO IFRS

Kamolova Feruza Kakhramonovna
Basic Doctoral Student, Teacher of the Department "Accounting", TFI

ABSTRACT

Different types of receivables are present in almost every financial statement. The accounting model for different types of financial assets, in particular different types of receivables, depends on the classification category into which they will be assigned for subsequent accounting. This article discusses the procedure for accounting, recognition, and valuation of receivables according to IAS 39. The article also presents the procedure for creating a reserve for doubtful items and calculating the depreciable cost. Finally, the requirements for disclosure of information in relation to accounts receivable, which are defined in IFRS 7 “Financial Instruments: Disclosures”, are considered.

Keywords: Financial instruments, financial asset, liabilities, receivables, investments, payment, contract, advances, provision for doubtful debts, financial statements, amortized cost.

INTRODUCTION

According to IAS 39 Financial Instruments: Recognition and Measurement, receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. If a financial asset is quoted on the market, it cannot be classified as a receivable (in which case it will be classified as an investment).

Advances issued and overpayments of taxes, which are usually included in other receivables, do not correspond to the definition of financial receivables given in IFRS 39. Advances issued for capital construction are accounted for as part of fixed assets (and not as part of advances issued) .

As mentioned above, IFRS does not have a separate standard regulating the accounting of receivables. IAS 39 relates exclusively to financial instruments.

Accounting principles for accounts receivable are provided for specific cases in individual standards, including IAS 1 Presentation of Financial Statements, IAS 18 Revenue, IAS 16 Property, Plant and Equipment, IAS 11 "Construction contracts". In addition, IFRS 7 Financial Instruments: Disclosures sets out disclosure requirements, particularly in relation to accounts receivable, in financial statements.

According to IFRS, general criteria for recognizing assets and liabilities are used to recognize receivables:

- it is highly probable that future economic benefits associated with the asset will flow;
- the value of the asset can be measured reliably.

Accounts receivable should be classified according to their maturity into short-term (due within 12 months from the reporting date or the normal operating cycle) and long-term (due over a period exceeding 12 months or the normal operating cycle).

IFRS 1 does not allow assets and liabilities to be offset against each other unless offset is required or permitted by other standards. It is worth noting that subtracting the reserve for

impairment of receivables from the amount of accounts receivable does not constitute an offset of items of assets and liabilities.

Accounts receivable are measured at initial recognition at transaction cost (fair value). IAS 39 defines fair value as the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

After initial recognition, receivables must be measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts expected future cash payments or receipts to maturity of the financial instrument.

The effective interest method calculates and accrues interest income or interest expense during the period under consideration.

Provision for doubtful accounts receivable

In accordance with IFRS 39, which governs the accounting for financial assets, an impairment of receivables is recognized when events occur after initial recognition. An entity must assess at each reporting date whether there is objective evidence of impairment. If such indications exist, then the company must make all necessary calculations to determine the impairment loss. The standard sets out a number of factors that may indicate evidence of impairment:

- significant financial difficulties of the debtor;
- violation of the terms of the contract;
- probability of bankruptcy of the debtor;
- fair value of the collateral;
- liquidity of the debtor;
- general economic factors;
- other factors.

Impairment of receivables in practice is called “Provision for impairment of receivables” (Bad debt provision). A reserve is created for each type of receivables (reserve for impairment of trade receivables, reserve for impairment of advances issued, reserve for impairment of other receivables, etc.).

The carrying amount of receivables should be reduced by the amount of the allowance for impairment of receivables by writing off to expenses. In accordance with IFRS 39, the calculation of the provision must be carried out using the amortized cost method, i.e., it is necessary to predict the repayment periods for each debtor and discount the expected cash flows receivable. However, in practice, the application of this method is quite difficult. Therefore, they use methods that must be based on the historical experience of either the company itself, or analogue companies, or the industry.

The method of creating a reserve for impairment of receivables must be fixed in the company's accounting policy. There are several options:

1) determining the probability of debt collection for each debtor and accruing a reserve only for those debtors from whom debt collection is doubtful;

2) accrual of the reserve as a percentage of the revenue received for a certain period (percentage of sale);

3) the formation of several groups of receivables depending on the length of the periods of delay and the accrual of reserves in percentage terms determined for each group (aging method).

In practice, it is possible to use a mixed method for forming a reserve (a combination of different methods at the same time).

At each reporting date, the provision for impairment of accounts receivable is reviewed and adjusted to reflect a fair estimate.

When calculating the provision for impairment of accounts receivable in the current period, it is necessary to take into account the entries made in previous periods. It is necessary to analyze the receivables of the previous reporting period and compare the amount accrued earlier reserve with the amount of the reserve of the current period in the context of counterparties. If the amount of receivables for which an impairment provision was accrued in the previous reporting period was paid in the current period, it is necessary to restore this debt by reversing the amount of the previously accrued impairment loss.

Calculation of amortized cost

The essence of discounting is that the present value of future financial flows may differ significantly from their nominal value. This means that the same amount paid at different times has different values.

The most difficult and important thing in discounting is determining the discount rate. IFRS provides various ways to select a rate. But in any case, the bet must satisfy the following criteria:

• be a pre-tax rate;

• reflect the current market assessment of the time value of funds, taking into account the time factor;

• reflect the risks associated with the obligation.

In practice, market rates adjusted for similar conditions are usually used as the discount rate. For example, depending on the situation, it is advisable to use the rate at which the acquirer could obtain a similar loan, the refinancing rate, or the rate from the banking statistics bulletin.

According to IFRS 39, receivables are derecognised if:

• the rights to receive cash flows from these receivables expire;

• the rights to receive cash flows from the receivables and substantially all of the risks and rewards associated with ownership of the receivables are transferred;

an obligation is assumed to transfer the cash flows associated with the receivables and substantially all risks and rewards are transferred;

• substantially all risks and rewards are not transferred or retained, but control of the receivables is transferred.

In IFRS accounting, if a company exercises control over receivables, but the risks and rewards are not transferred in full, receivables are recognized to the extent that the company retains the risks and rewards of receivables (i.e. part in which the company continues to participate).

If the transfer of receivables does not meet the criteria for derecognition, then the transaction under the factoring agreement is accounted for as a loan secured by collateral. For example, when the buyer has transferred funds for the purchased goods, the accounts receivable must be written off.

Derecognition of receivables

A receivable is considered settled when the terms of the contract are met (for example, the receipt of funds in the debtor's account), the company has transferred the rights to receive cash flows and all the risks and rewards of owning the asset, the contract has expired or is cancelled.

Disclosure of information in reporting

The disclosure requirements for accounts receivable are contained in IFRS 7 Financial Instruments: Disclosures. In accordance with IFRS requirements, the notes to the financial statements provide the following information:

- accounting policy for accounts receivable;
- the full amount of accounts receivable;
- amounts for the main groups of debt (trade, advances issued, overpayment of taxes, other receivables, etc.);
- the amount of the accrued reserve for impairment of accounts receivable;
- movement of the reserve for impairment of accounts receivable;
- breakdown of long-term receivables by maturity (from one to two years, from two to five years, more than five years);
- discount rates for long-term debt;
- analysis of financial receivables that are not past due or impaired by credit quality (for example, analysis by credit risk groups).

The company's financial statements also provide any additional information necessary for users of the financial statements to understand its financial position and results of operations for the reporting period. The composition of additional information is determined by the professional judgment of management.

An example of additional information could be highlighting in a note the largest debtors, information about the bankrupt counterparty for which the reserve is created.

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