CASH, CASH EQUIVALENTS, RECEIVABLES AND FINANCIAL INSTRUMENTS

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CASH

IAS 1 – Presentation of Financial Statements

IAS 7 – Cash Flow

- Cash = cash and bank accounts

CASH EQUIVALENTS

Investment securities that are short-term, have high credit quality and are highly liquid:
1) can be immediately exchange for known amount,

2) very close to maturity (maximum 3 months)

Cash and cash equivalents are recognised as a short term asset.

Receivables

- IAS 18 – Revenues,
- IAS 32 – FI – presentation and disclosures,
- IAS 39 – FI – recognition and measurement;

Receivables can be recognised as short-term or long-term assets according to their maturity, …

Recognition and measurement of receivables

- Recognition criteria according to Conceptual Framework,

- Valuation – exchange rate between two subjects;

  - short-term receivables = invoiced price

  - long-term receivables = present value of future cash-flow

Risk and Bad Receivables

Two kind of methods:

a) Direct write-down methods – receivables are recognised as an expense as soon it is sure the customer is not going to pay;

b) Estimate methods – in each accounting period is as an expense recognised the estimated value of risk and bad receivables

Estimated value of risk and bad receivables

a) Methods of percentage from sale – estimate of percentage of risk and bad receivables from sales;

b) Methods of ageing receivables – percentage of risk and bad receivables is recognised for each class of receivables according their maturity;

Financial Instruments

- Financial Asset or Financial Liability at fair value through profit or loss
- Held-to-maturity Investments
- Loans and Receivables
- Available for Sale Financial Assets

Loans and Receivables

= non-derivate financial asses with fixed or determinable payments that are not quoted in an active market and which are not classified as fair value through profit or loss

Financial assets where there is a substantial risk of non-recovery cannot be classified as loans or receivables.

Investment held to maturity

= non-derivative fixed-term investments that the entity has the intent and ability to hold to maturity.

Very strict tainting rules ensure that only instruments to be held-to-maturity are classified as held-to-maturity.

Financial asset at fair value through profit or loss

= a financial instrument that meets either of the following conditions:

- it is classified as held for trading,

- upon initial recognition it was designated as fair value through profit or loss;

Available for Sale Financial Asset

= non-derivate financial assets that are not classified as any of the above three items;

Reasons: - strategic partner,

- financial flexibility,

- fixing customer relationship

Investments with ???? influence

- Influence of investment is important for choosen a right accounting policy (classification, value, subsequent measurement and recognition).
- Influence of investment is given by these criteria:

  a) objective – share on company votes

  b) subjective – evaluation of concrete economic situation;

Investments with major influence

- Objective criteria – votes on shares is more than 50%
- Subjective criteria – votes on shares is less than 50% but:

  - entity has an agreement with other investors,

  - entity has the power to influence company policy,

  - entity can vote or recall the members of supervisory board, ……..

Investments with substantial influence

- Objective criteria: votes on shares from 20 % to 50 %
- Subjective criteria: votes on shares < 20 % if:

  - entity has members in supervisory boards,

  - entity can influence company policy,

  - between entities exist mutual transactions,

  - entities have the same executive officers,

Non-control Investments

- Subjective criteria: shares on votes is less than 20 %
- They are represented by equity instruments with detectable fair value, they are traded on active market.

  Entity can classified these investments as financial instruments at fair value through profit or loss, or financial assets available for sale

Valuation of Financial Instruments

- General rules = financial instruments are recognised at fair value in unrelated transaction in common conditions.
- **Initial recognition =** fair value is equivalent of paid costs for this investment including transactional costs.
- Transactional costs = directly attributable costs connected with asset´s acqusition.

Fair value is detectable at comodity asset exceptions:

a) Investments held to maturity

b) Loans and Receivables

c) Equity investments without market value

Valuation of L&R and HTM

- **Amortised costs** – using of effective interest rate;
- Initial recognition – effective interest revenue is ratio of costs incurred and future income from investment;
- Difference between nominal interest rate and effective interest rate is amortised as an expense during its useful life.

Valuation of AFS

- They are represented by investments without trade costs on active and liquid market – their fair value can not be measured realibly.
- Valuation is in purchase costs and tested for impairment losses – recovarable value.
- **Recovarable value** = present value of discounted expected future cash-flows through general interest rate.

Valuation of Financial Instruments at Fair Value

a) **Financial Instruments at Fair Value through Profit or Loss**

A1) financial instruments for sale

A2) financial instruments recognised at FV voluntarily at initial recognition

b) Financial Instruments at Fair Value through BS

B1) assets available for sale

Transactional Costs

- Financial Instruments at Fair Value through Profit or Loss – transactional costs are recognised in the period when they occured;

- All other class of financial instruments – they are capitalised to purchased costs;

Valuation of Investment with major influence

Financial instruments are recognised at financial statements of parent company:

a) purchased costs – initial recognition,

b) valuation under equity method

c) fair value

Financial Instruments with substantial influence

a) Purchased costs

b) Valuation under equity method

c) Fair value in case of realised financial instruments

Equity method

- Financial investment is recognised at costs that equal to investor´s share on net assets of the invested company.

- Carrying Value of Financial Investment is increased or decreased according to investor´s share on net assets.

Accounting Principles

- Entity can choose from two methods:

a) Financial instrument is recognised at the date of purchase / sale = an entity is committed to purchase / sale an instrument;

b) Financial instrument is recognised at the date of transfer of financial asset;

These dates can be the same but very often are different, it depends on accounting policy.

Financial Instruments

- IFRS for SMEs – sections:
- 14: Investments in associates
- 15: Investments in joint ventures
- 16: Investments in properties
- IAS/IFRS:
- IFRS 5: Discounted operations and presentation of assets held for sale
- IAS 28 – is going to be replaced by IFRS 12
- IAS 31 – is going to be replaced by IFRS 11
- IAS 27 – is going to be replaced by IFRS 10

Thank you for your attention