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IMPROVING THE ACCOUNTING OF FINANCIAL ASSETS BASED ON INTERNATIONAL STANDARDS

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Annotation: *The article analyzes theoretical and methodological approaches to improving the accounting of financial assets in accordance with International Financial Reporting Standards (IFRS). Special attention is paid to the classification, recognition, measurement, and disclosure principles of financial assets in global accounting practice. The study examines the impact of IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures" and IAS 32 "Financial Instruments: Presentation" on enhancing transparency and reliability in financial reporting. Practical recommendations for harmonizing national accounting systems with IFRS requirements are provided.*

Keywords: *financial assets, IFRS, IFRS 9, recognition, measurement, fair value, amortized cost, impairment model, disclosure.*

INTRODUCTION

In today's rapidly changing economic environment, financial assets represent one of the most significant components of the financial statements of organizations. The accuracy of their classification, recognition, measurement, and reporting directly affects decision-making processes for investors, creditors, and regulatory bodies. The globalization of financial markets has created a strong need to harmonize accounting practices in accordance with International Financial Reporting Standards (IFRS), which ensure comparability and transparency across different jurisdictions.

Financial assets serve multiple functions within an entity, including liquidity management, investment diversification, risk mitigation, and long-term development financing. Consequently, the proper accounting of these assets is essential for evaluating the financial position and sustainability of enterprises. The adoption of IFRS, particularly IFRS 9 "Financial Instruments", has radically redefined the criteria for classification and measurement of financial assets,

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replacing the incurred loss model with the expected credit loss (ECL) approach, which significantly enhances forward-looking financial risk assessment.

Despite significant progress, many countries—especially those in transition economies—continue to face methodological inconsistencies, weak institutional frameworks, and limited professional capacity in applying international standards. Therefore, the problem of improving the accounting of financial assets remains conceptually and practically relevant.

MAIN PART

The transformation of the global financial architecture and the rapid expansion of capital markets have considerably increased the significance of financial assets in the economic activities of modern enterprises. As financial assets constitute a substantial share of corporate resources, their correct accounting is essential for ensuring transparency, comparability, and reliability of financial statements. International Financial Reporting Standards (IFRS) provide a unified conceptual basis that regulates the classification, recognition, measurement, impairment, and disclosure of financial assets. To improve the accounting system, it is crucial to analyze the methodological innovations introduced by IFRS 9 "Financial Instruments" and its interaction with IFRS 7 and IAS 32, as these standards shape the contemporary approach to financial asset reporting.

A key improvement in the accounting of financial assets is the adoption of a business-model-oriented classification approach. Unlike earlier standards, which relied primarily on the characteristics of financial instruments, IFRS 9 requires entities to analyze how financial assets are managed and the purpose for holding them. This shift ensures that accounting reflects economic substance rather than merely legal form. Under this framework, financial assets are categorized into three main groups: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI), and measured at fair value through profit or loss (FVTPL). This classification supports more accurate representation of risks and benefits associated with asset management strategies.

The SPPI (solely payments of principal and interest) test further enhances the accounting system by examining the contractual cash flows of financial assets. Only those instruments whose cash flows represent principal and interest payments qualify for amortized cost or FVOCI measurement. Any asset failing this test—such as those with embedded derivatives or leveraged returns—must be classified under FVTPL. This requirement minimizes opportunities for manipulating financial results and increases the reliability of reported earnings.

Another major improvement introduced by IFRS 9 is the modification

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of initial measurement principles. Financial assets are initially recognized at fair value, which may include or exclude transaction costs depending on the classification category. Fair value has become the dominant measurement basis due to its relevance and ability to reflect current market conditions. Although the use of fair value may introduce volatility into financial statements, it provides more timely information for investors and regulators. This is especially important for entities operating in volatile markets, where historical cost-based measurements fail to capture real economic conditions.

The subsequent measurement of financial assets also plays a crucial role in modernizing accounting practices. Assets measured at amortized cost follow the effective interest method, ensuring that interest income reflects actual yields rather than nominal returns. FVOCI assets, typically long-term investments, require dual recognition: fair value changes in other comprehensive income and impairment or interest adjustments in profit or loss. Meanwhile, assets classified under FVTPL provide a direct reflection of market fluctuations, making them particularly suitable for trading portfolios or assets held for speculative purposes. These categories enhance transparency by aligning financial reporting with real-world business decisions.

Table 1. Classification and Measurement of Financial Assets under IFRS 9

Financial Asset Category	**Business Model**	**SPPI Test Result**	**Initial Measurement**	**Subsequent Measurement**	**Recognition of Gains/Losses**	**Impairment Model**
Amortized Cost	Hold to collect contractual cash flows	Pass	Fair value + transaction costs	Effective interest rate (EIR)	Profit or loss (interest income, impairment)	Expected Credit Loss (ECL)
FVOCI (Fair Value through Other Comprehensive Income)	Collect cash flows and sell assets	Pass	Fair value + transaction costs	Fair value; interest in P&L	Other Comprehensive Income (OCI) for fair value changes; P&L for interest &	Expected Credit Loss (ECL)

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					impairment	
FVTPL (Fair Value through Profit or Loss)	Held for trading or fails SPPI test	Fail or N/A	Fair value (transaction costs excluded)	Fair value	All gains and losses recognized in P&L	No specific impairment; fair value reflects risk

A particularly significant methodological advancement is the introduction of the Expected Credit Loss (ECL) model, which replaces the incurred loss model that dominated previous accounting frameworks. The ECL model requires entities to estimate future credit losses based on forward-looking information, macroeconomic indicators, and historical data. This approach enhances the predictive power of financial reporting and ensures that credit risks are recognized earlier. IFRS 9 requires a three-stage impairment assessment process: Stage 1 for assets with minimal credit deterioration, Stage 2 for those with significant credit risk increase, and Stage 3 for credit-impaired assets. This tiered approach ensures that entities adopt a nuanced perspective when assessing financial risks.

Despite these improvements, the implementation of IFRS-based financial asset accounting remains challenging for many entities. Common obstacles include insufficient access to reliable market data, high implementation costs, limited practical experience in fair value assessment, and inadequate training among accounting professionals. In emerging economies, national accounting frameworks may not fully align with IFRS requirements, creating inconsistencies in recognition and measurement rules. Additionally, the transition to the ECL model demands sophisticated data collection and modeling tools, which may not be readily available to small and medium-sized enterprises.

To address these challenges, enterprises must strengthen their professional competencies in applying international standards. Continuous training and certification programs for accountants, auditors, and financial analysts can significantly improve the overall quality of financial reporting. Digital technologies also play a crucial role in modernizing financial asset accounting. Advanced software solutions based on artificial intelligence, machine learning, and big data analytics are increasingly used to automate fair value assessments, track market indicators, and forecast credit risks. Such technologies reduce human error, increase efficiency,

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and ensure compliance with IFRS requirements.

Furthermore, improving financial asset accounting requires regulatory harmonization. Governments and standard-setting bodies should update national legislation to eliminate discrepancies with international norms. Clear methodological guidelines and practical manuals should be developed to support businesses during the transition process. Collaborative efforts between regulators, academic institutions, and professional associations can facilitate capacity building and create a more robust financial reporting environment.

Additionally, the disclosure requirements under IFRS 7 must be emphasized in improving the accounting system. Entities are obligated to provide detailed information on the nature, risk levels, and fair value measurements of financial assets. Enhanced disclosure not only fosters transparency but also strengthens investor confidence and improves the decision-making capabilities of stakeholders. By presenting detailed risk assessments, sensitivity analyses, and valuation techniques, companies can demonstrate accountability and increase the credibility of their financial statements.

In summary, the modernization of financial asset accounting based on international standards is a multifaceted process that involves structural, methodological, and technological reforms. IFRS 9 provides a comprehensive framework that supports accurate classification, reliable measurement, forward-looking impairment assessment, and transparent disclosure. When properly implemented, these standards enhance the quality of financial information, strengthen risk management, and support global comparability in financial reporting. The successful adoption of IFRS requires coordinated efforts among policymakers, enterprises, and professional institutions, along with continuous investment in human capital and technological innovation.

CONCLUSION

The modernization of financial asset accounting based on International Financial Reporting Standards (IFRS) is a strategic imperative for enhancing transparency, reliability, and comparability of financial statements in a globalized economy. The adoption of IFRS 9, together with IFRS 7 and IAS 32, has introduced significant methodological innovations, including business-model-oriented classification, the SPPI test, fair value measurement, and the Expected Credit Loss (ECL) model. These reforms allow entities to reflect the economic substance of transactions accurately, recognize credit risks in a forward-looking manner, and provide stakeholders with more relevant and timely financial information. Despite these improvements, practical implementation challenges remain, especially in emerging economies, where discrepancies between

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national regulations and IFRS requirements, limited access to market data, and insufficient professional expertise hinder full compliance. Overcoming these challenges requires coordinated efforts, including strengthening regulatory frameworks, investing in professional training, and leveraging advanced digital technologies such as artificial intelligence and big data analytics for valuation, risk assessment, and disclosure purposes.

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