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Accounting for Impairment of Receivables Based on International Standards

Kamolova Feruza Kahramonovna
Basic Doctoral Student, 2nd Year, TSUE

Abstract: Article examines the procedures for accounting receivables based on International Financial Reporting Standards (IFRS), with a focus on creating provisions for impairment of receivables based on the IFRS 39 and 7 standards. According to these standards, accounts receivable are a financial asset and must be tested for impairment. The article will consider the procedure for calculating impairment in a textile company using the reserve matrix. At the end, recommendations are also given for improving accounts receivable accounting.

Key words: accounts receivable, open credit loss, obscenity, impairment reserve, IFRS, textile enterprise.

INTRODUCTION

The procedure for creating a provision for impairment of receivables plays a critical role in modern financial reporting, particularly under International Financial Reporting Standards (IFRS). This standard requires a forward-looking approach to credit loss estimation, which is a divergence from more conventional accounting methods as provisions for doubtful debts. This article uses a real-world example from the textile sector to examine the processes for accounting for receivables under IFRS 9. The article illustrates the main techniques, such as the general and simplified approaches to predicted credit losses, and exhibits their use in financial statements by looking at the formulation of provisions for the impairment of receivables.

MATERIALS AND METHODS

The study was based on an analysis of legislation, national and international accounting standards, as well as information on the work of the International Financial Reporting Review Board. To achieve the set goals, methods of comparative analysis and data review were used, available on the unified portal of corporate information in the Republic of Uzbekistan, as well as research from national associations of accountants and auditors.

RESULTS

In accordance with the 'general approach,' two main criteria are considered when assessing expected credit losses:

Expected credit losses (ECL) over the entire life of the financial instrument - these are the expected credit losses arising from all possible default events over the expected life of the financial instrument.

The increase in credit risk is assessed using the probability of default over the expected life of the financial instrument.

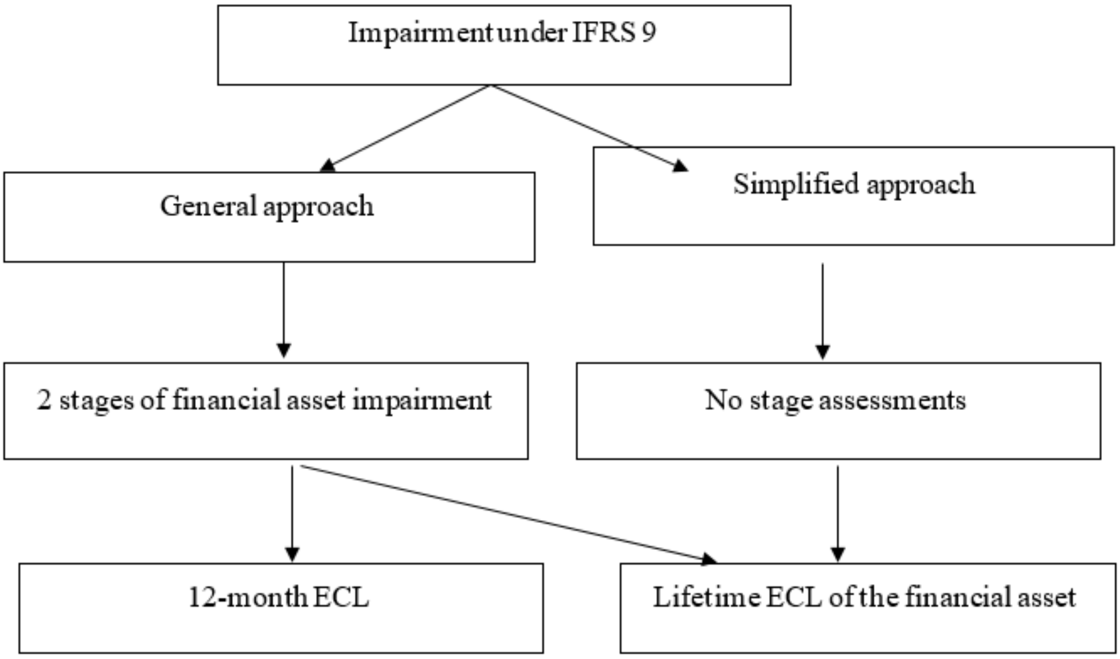

Fig 1. Impairment under IFRS 9[1]

Given the complexity in determining the stage of a financial asset, or how to identify an increase in credit risk, or how to determine the factors that affect credit risk when calculating ECL, IFRS 9 allows for an alternative simplified approach for calculating the allowance for expected credit losses. The simplified approach is applied to:

- ✓ trade receivables without a significant financing component
- ✓ contract assets under IFRS 15 without a financing component.

The simplified approach involves estimating the impairment loss as the expected credit loss over the entire life of the financial asset.

A provision matrix is used for this purpose.

It should be noted that IFRS 9 itself does not define the term 'default'. However, the Cambridge Dictionary defines default as: 'the failure to do something that you are legally obligated to do, such as paying a debt'.[2]

Although IFRS 9 does not specify a standard form for the provision matrix, it suggests that organizations should develop their own matrices that reflect their specific risks and conditions. At the same time, organizations must justify the chosen parameters and methodologies for assessing ECL.

[1] Author's developments
[2] https://dictionary.cambridge.org/ru/

A more detailed calculation is shown on textile factory LLC 'Global Textile'.

Table 1 shows the amount of accounts receivable by the time of occurrence and the amount of revenue by payment terms up to 30 days, from 31-60 days, from 60-180 days, from 181-360 days, and more than 360 days.

In the accounting policy of LLC 'Global Textile', clients are granted a 30-day payment deferral to settle trade accounts receivable.

Table 1.1. Structure of accounts receivable of LLC 'Global Textile' by maturity[3]

Maturity	Accounts receivable as of 31.12.2022	Revenue from 01.01.2021 31.12.2021	Cumulative amount	Outstanding balance of receivables in the time difference
				520,074,912 - cumulative amount
Up to 30 days	60 168 473	190 256 784	190 256 784	329 818 128
31-60 days	35 789 415	148 638 596	338 895 380	181 179 532
61-180 days	45 758 263	115 879 425	454 774 805	65 300 107
181-360 days	33 293 416	53 685 247	508 460 052	11 614 860
More than 360 days	15 254 869	11 614 860	508 460 052	11 614 860 (written off)
Total	190 264 436	520 074 912	-	-

Calculations:

1. The cumulative amounts are calculated progressively by the column 'Repayment Amount'. For example: the cumulative amount for 31-60 days is calculated as 190,256,784 + 148,638,596. And so we calculate for the entire remaining period. Repayment amount for the period more than 360 days 11,614,860 is not included in the cumulative amount.

1. The outstanding balance is found as the difference between the revenue amount

And the cumulative amount is 520,074,912 - 190,256,784 = 329,818,128.

To calculate impairment, we will use a provision matrix. And for this, we will calculate the historical default rate.

Next, we will divide the calculation stage into 3 phases:

Phase 1: Analysis of accounts receivable collection by maturity dates

At this stage, it is necessary to analyze when the accounts receivable were collected and then enter this data into a table based on the maturity dates from the date the accounts receivable were created.

[3] Author's developments based on research

Table 3.4. Calculation of default ratios[4]

Maturity	Outstanding balance	Loss	Loss ratio	Accounts receivable as of 31.12.2022	Expected credit loss
	1	2	3=2/1	4	5=4*3
Up to 30 days	520 074 912	11 614 860	0.0223=2.23%	60 168 473	1 341 756.94
31-60 days	329 818 128	11 614 860	0.035=3.5%	35 789 415	1 252 629.52
61-180 days	181 179 532	11 614 860	0.064=6.4.%	45 758 263	2 928 528.83
180-360 days	65 300 107	11 614 860	0.177=17.7%	33 293 416	5 892 935.16
More than 360 days	11 614 860	11 614 860	1=100%	15 254 869	15 254 869
Total	**520 074 912**			**190 264 436**	**26 670 719.45**

In this table, it is necessary to note that some data in the second column have shifted down. For example: The outstanding balance for the row up to 30 days, amounting to 329,818,128, has shifted down and is located in the row for 31-60 days. As a result, trade accounts receivable aged up to 30 days have been formed. This is explained by the fact that we calculate the amount at the beginning of this interval, not at the end of the period, amounting to 520,074,912 sums, 31-60 days 329,818,128 sums, and so on.

Step 3: Apply loss coefficients to the accounts receivable portfolio

Expected credit loss = outstanding amount * loss coefficient

RESULTS

Thus, the textile company LLC “Global textile” recognizes an impairment loss on accounts receivable in its financial reporting and makes the following accounting entries:

DR 9430 'Other operating expenses' 26,670,719.45

CR 4910 'Accounts receivable' 26,670,719.45

In the balance sheet, the amount of accounts receivable will be reflected net of expected credit losses, namely 190,264,436 - 26,670,719.45 = 163,593,716.55

As a result of the proposed methods for accounting for receivables at amortized cost, the separation of receivables into trade and other (non-trade) and the reflection of receivables in the balance sheet net of impairment losses allow for an objective assessment of receivables.

DISCUSSION

One of the central themes is the shift from national accounting standards to the adoption of IFRS, particularly IFRS 9, which emphasizes the calculation of expected credit losses (ECL) rather than just recognizing provisions for doubtful debts. This transition represents a significant improvement in aligning financial reporting with global standards. However, the complexity of implementing the ECL model in practice raises concerns, especially for companies with limited resources and experience in applying such advanced methodologies. For example, the general approach under IFRS 9 requires companies to predict the credit risk associated with each financial

[4] Author's developments based on research

asset based on historical data, current conditions, and forward-looking information. This comprehensive analysis can be burdensome for smaller companies or industries with insufficient data.

The case of LLC "Global Textile" offers valuable insight into how these theoretical models are applied in a real-world scenario. The use of a provision matrix, as demonstrated in the article, shows how companies can systematically assess their receivables based on different time periods and loss ratios. However, as highlighted, there are difficulties in determining the accurate default rate, which significantly impacts the outcome of the ECL model. This is especially true for organizations that have less historical data on default rates or face volatile market conditions that make risk predictions challenging.

CONCLUSION

The procedures for creating provisions for impairment of receivables under IFRS offer a structured approach to managing credit risk through expected credit loss (ECL) models. The study, using the example of a textile enterprise, demonstrates how companies can apply both the general and simplified approaches to account for trade receivables. By estimating losses based on historical default rates, companies can more accurately reflect the value of their receivables in financial statements. This ultimately enhances transparency and ensures that financial reporting is aligned with international standards, leading to more reliable and meaningful financial disclosures. Furthermore, implementing these procedures enables organizations to make informed decisions regarding their credit policies and risk management strategies.

This approach not only facilitates compliance with IFRS 9 but also provides a clearer understanding of financial asset impairment, which is crucial for both internal and external stakeholders in assessing the company's financial health.

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