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Article

Improving The Accounting Of Investments In Securities Based On International Standards

I. Boymuradov[1]

1. Tashkent State University of Economics, Independent Researcher

* Correspondence：-

Abstract: This article examines the accounting procedures for investments in securities made by business entities and the issues of improving their accounting in accordance with International Financial Reporting Standards (IFRS). Based on a comparative analysis of national and international standards, the specific features of the recognition, measurement, and classification of financial investments are revealed. In addition, a methodology for recording transactions related to securities in accounting has been developed using practical examples.

Keywords: securities, financial investments, IFRS, fair value, discount, held-to-maturity investments, available-for-sale assets.

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1. Introduction

Under modern market economy conditions, organizations actively participate in securities markets not only through the sale of goods, provision of services, and performance of works, but also for the purpose of generating additional income from temporarily idle cash resources. After paying taxes and other mandatory payments and investing in the development of production activities, an economic entity may allocate a certain portion of its profits to investments in securities.[1][2]

A security is a document established in a prescribed form and containing mandatory requisites that certifies property rights, the exercise or transfer of which is possible only upon its presentation. In practice, securities may exist in documentary and non-documentary forms, and may be classified as debt or equity instruments, as well as government or corporate securities. As the volume of such transactions continues to grow, the proper classification and measurement of financial investments in accordance with international standards becomes an important scientific and practical issue.[3][4]

2. Methodology

The study employed comparative analysis, grouping methods, and the double-entry accounting method. Initially, the existing regulations governing the recognition of assets as financial investments, including the requirements of National Accounting Standard No. 12, were examined. Subsequently, these approaches were compared with the classification models established under IFRS, including securities measured at fair value, held-to-maturity investments, and available-for-sale investments. The practical section illustrates the chronological process of purchasing, revaluing, and selling corporate shares.[5][6

3. Literature Review

Investments in shares, corporate, infrastructure, and government bonds, as well as other types of securities, are classified as financial investments [7].

Since the concept of "financial investments" is relatively new in practice, it has only recently become widely used in academic discussions. In particular, financial investments are defined as "long-term financial placements in securities (shares, bonds, certificates, bills of exchange) and in joint ventures that ensure guaranteed income" [8].

Financial investments are assets held by an organization with the intention of generating income (in the form of interest, royalties, dividends, and rental payments), increasing the value of invested capital, or obtaining other economic benefits [9].

According to International Financial Reporting Standards, financial investments are assets held by an entity for the purpose of increasing profit (interest and dividends), increasing capital value, or obtaining other benefits for the investor [10].

In our opinion, financial investments characterize transactions that provide an opportunity to acquire rights, securities, and other financial instruments with the objective of generating profit and other benefits. Such a definition clarifies their economic substance from the perspective of ownership, as the invested funds enable an entity to obtain other assets in the form of corporate rights or debt obligations.[11][12]

4. Research resultes

Investments made by organizations in securities issued by other entities (government bonds, shares, deposit certificates) are recognized as financial investments and reflected as assets. An asset is recognized as a financial investment only if the following three conditions are met:

- The existence of properly executed documents confirming ownership rights;
- The transfer of financial risks (price risk, liquidity risk, default risk) to the entity;
- The ability to generate future economic benefits in the form of interest, dividends, or capital appreciation.

When financial investments are acquired for consideration, their initial cost consists of actual acquisition costs. These include the contract price, brokerage fees, consulting services, and interest on borrowed funds, excluding recoverable taxes. In national accounting practice, such assets are recorded in Account 0610 (5810) "Securities."[13]

According to IFRS, if a company acquires less than 20% of the voting rights of another company and does not obtain significant influence or control, such investments in securities are classified into one of the following categories:

1. Fair Value Through Profit or Loss (FVTPL) – changes in market value are recognized in profit or loss for the current period;
2. Held-to-Maturity Investments – include only debt securities (bonds) and are measured at amortized cost using the effective interest rate method;
3. Available-for-Sale Investments – include equity and debt securities not classified in the previous two categories. They are measured at fair value at each reporting date; however, revaluation gains and losses are recognized in equity rather than in profit or loss.

The accounting treatment of available-for-sale securities can be illustrated through the following transactions.[14]

Assume that JSC "NUR" purchased securities classified as available-for-sale investments: 10,000 ordinary shares of JSC "Binafsha," representing 2% of all outstanding shares, at UZS 25 thousand each, and 5,000 ordinary shares of JSC "Lola," representing 3% of all outstanding shares, at UZS 15 thousand each.

Table 1.

Acquisition of investments (June 1, 20x5)

Debit accounts	Credit accounts	Amount (Thousand UZS)	Explanation
Available-for-sale securities, JSC "Binafsha"		250 000	10,000 shares × 25,000
Available-for-sale securities, JSC "Lola"		75 000	5,000 shares × 15,000
	Cash	325 000	Acquisition of investments

The total investment amounted to UZS 325,000 thousand, including UZS 250,000 thousand for JSC “Binafsha” shares and UZS 75,000 thousand for JSC “Lola” shares.

By the end of the year, the market prices changed. The shares of JSC “Binafsha” decreased to UZS 21 thousand per share, resulting in a loss of UZS 40,000 thousand, while the shares of JSC “Lola” increased to UZS 17 thousand per share, generating a gain of UZS 10,000 thousand. Consequently, equity decreased by UZS 30,000 thousand.[15]

Table 2.

Revaluation at the reporting date (December 31, 20x5)

Debit accounts	Credit accounts	Amount	Explanation
Available-for-sale securities revaluation reserve		30 000	Net decrease in equity
Available-for-sale securities, JSC "Lola"		10 000	Increase in fair value
	Available-for-sale securities, JSC "Binafsha"	40 000	Decrease in fair value

The net decrease of UZS 30,000 thousand was recognized in the available-for-sale securities revaluation reserve within equity.

On April 30, 20X6, due to a change in investment policy, 2,000 shares of JSC “Binafsha” were sold at UZS 23 thousand per share for a total of UZS 46,000 thousand. Since the carrying amount was UZS 21 thousand per share while the original cost was UZS 25 thousand, a realized loss and the corresponding transfer from the revaluation reserve were recognized.

Table 3.

Realization of securities (April 30, 20x6)

Debit accounts	Credit accounts	Amount	Explanation
Cash		46 000	Revenue from sale (2,000 × 23,000)
Loss from the sale of securities		4 000	Realized loss
	Available-for-sale securities, JSC "Binafsha"	42 000	Derecognition of carrying amount (2,000 × 21,000)
	Available-for-sale securities revaluation reserve	8 000	Restoration of the share in the reserve

The transaction resulted in cash proceeds of UZS 46,000 thousand, recognition of a realized loss of UZS 4,000 thousand, derecognition of the carrying amount of UZS 42,000 thousand, and transfer of UZS 8,000 thousand from the revaluation reserve.

The findings indicate that although national standards and IFRS are similar in determining the initial cost of financial investments, significant differences arise in subsequent measurement. In particular, national accounting practice records assets primarily at historical cost through Account 0610, whereas IFRS requires the application of the fair value concept to reflect market realities more accurately.

5. Discussion

Currently, there is an increasing need to restrict monopolistic activities in securities markets, protect investors’ interests, prevent fraud, and strengthen state supervision. Classifying financial instruments into clearly defined IFRS categories and maintaining accounting records through equity reserves enhances the transparency of financial statements and protects investors from misleading information.

Accounting for securities transactions is one of the most complex areas of economic relations. Business entities should classify their financial investments in accordance with IFRS requirements and regularly remeasure them at fair value. This not only ensures compliance with accounting and auditing regulations but also creates a reliable information base for assessing the actual financial position of the company and making informed management decisions.

Instead of recording assets merely as "Securities" under Account 0610, investments should be classified into three distinct categories based on management's investment objectives. This provides users of financial statements with clear information regarding the liquidity and expected benefits of the assets.

While National Accounting Standards primarily rely on historical cost, IFRS introduces the fair value approach to reflect economic reality. As a result, balance sheet information better corresponds to current market prices at the reporting date.

The recognition of unrealized gains and losses on available-for-sale securities within equity reserves rather than profit or loss is an important accounting policy. This approach prevents current financial results from being artificially influenced by unrealized market fluctuations.

6. Conclusion

When securities are sold, as demonstrated in the practical example, accountants must not only recognize proceeds and derecognize the carrying amount of the asset but also appropriately transfer the accumulated revaluation reserve. This requires a high degree of accuracy within the double-entry accounting system.

The alignment of financial investment accounting with IFRS requirements and the application of fair value models significantly improve the transparency of financial reporting. Such practices not only present a more accurate picture of an entity's financial position but also protect investors from misleading information and contribute to the creation of a trustworthy economic environment in capital markets.

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