Print ISSN: 2234-3040 / Online ISSN: 2234-3059
doi: 10.13106/eajbm.2014.vol5.no3.17.

[Field Research]

Depreciation of Non-Temporal Investment*

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Received: February 04, 2015. Revised: April 22, 2015. Accepted: July 15, 2015.

Abstract

Purpose – This paper compares current requirements for depreciation accounting from the Financial Accounting Standards Board in America for equity securities and all debt securities with determinable fair value, and disclosure requirements related to the fair value of securities below registered cost with the requirements of the international Financial Reporting Standards Board and accounting standards committee.

Research design, data, and methodology – Mini-review statements are examined relating to depreciation of investments in America and the Financial Accounting Standards depreciation of investments in Iran that meet the requirements of international reporting standards and the Iranian Accounting Standards Committee.

Results – Accounting rules for depreciation of investments in securities requires a good deal of judgment. In particular, devaluation decisions during the recession and market crisis were controversial, although even with no clear guidelines on devaluation, sometimes such decisions were simple.

Conclusions –Companies can choose from formal policies applied uniformly and documentations of interest to provide a summary of the principles and conclusions obtained through disclosure, enabling market participants to assess the entity's conclusions reasonably, thereby easing investor and market worries.

Key words: Accounting Standards, Investments Non Temporal, Disclosure.

JEL Classifications: D30, E40, E50.

1. Introduction

The credit crisis and recession in the housing sector is to reduce the value of investments non temporal problem for companies, accountants and auditors is made. this is not only financial institutions but also for any company that corporate debt (non-short-term debt such as commercial receivables documents),structured investment securities (bonded debt obligations, mortgage-backed and other asset-backed securities) and equity securities held, the difficulties produced. some market analysts and the financial press is based on fair value accounting requirements criticize because they believe that these requirements have exacerbated the instability of the financial markets. in the financial crisis, the application of financial accounting Standards Board Statement No. 157 America entitled "fair value measurement", as causative or aggravating problems have been introduced. however, SFAS No. 157 provides guidance only on how to measure fair value and fair value measurements about when assets should not prejudge. the main conflict, from those accounting standards that business units requires that certain assets or liabilities at fair value measure. in particular, at a time when recession is the dominant market, accounting requirements related to the recognition of depreciation of investments in securities is controversial. according to the rules, accountants based on subjective judgment to determine whether the reduction in value of investments, non temporal, which in this case must be the book value of the asset depreciation losses recognized in current period earnings to reduce its fair value. companies are often reluctant to apply the reduced values because, by identifying the devaluation, a new cost basis is achieved and the next increase in the fair value of investments not recognized until the time of sale. on the other hand, the decision not to recognize the decline in value is the focus of analysts and regulators.

2. Literature Review

To assess the devaluation of securities 2 main accounting model; emerging Issues task force Statement No. 20 -99 America for all the mortgage-based credit and asset-backed se-

* This research was supported by the Hakim Nezami University, Quchan, Iran.

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curities and other securities based on pre-used and financial accounting standard No. 115 for other securities, excluding equity method investments taken into account, is used. after the release of the financial position, experts accounting Standards Board Statement America about 20-99, fundamental differences between the two models is largely gone. Units should be (in tabular form) the amount of unrealized losses and unrealized fair value losses aggregation of investments (investments in securities that fair value is less than the book value) and also invest in securities that are not considered harmful devaluation non temporal them, are disclosed. additional disclosure is required to explain the reasons for the temporary taking into account the depreciation of the business unit (s) to be determined. units must non temporal decision to identify a loss of value, all available evidence to consider. the assessment must be objective and verifiable evidence, to the hypothetical assumptions, had more weight. also in this evaluation without the flexible application of criteria or principles, is not appropriate. units should assess the depreciation of investments, systematic methodology to be applied uniformly and highly accurate official document of the factors considered in the assessment of their devaluation. financial accounting Standards Board recently America project entitled "Back (recovery) non temporal devaluation" in its agenda that could reduce the value of investments in securities accounting as an important influence. in this regard, the Financial Accounting Standards Board Accounting Standard No. 107 of America's position in relation to the expert group entitled "Disclosure requirements in respect of certain financial assets" has published a comparison of certain financial instruments with similar economic characteristics and features of the measure different increase. All of this, America Financial Accounting Standards Board's efforts to improve financial accounting and reporting tools, along with the move towards convergence with International Financial Reporting Standards Board shows. financial Accounting Standards Board No. 115 mpg America as "accounting of certain investments in debt and equity", investments in debt and equity accounting guidelines authorized the fair value is determined. According to SFAS No. 115, businesses need to study, invest in securities that are classified in one of three categories: held-to-maturity, trading, available for sale. SFAS No. 115 also defines three classes of securities, requires business units at the end of each period in order to determine the presence (or absence) non temporal decline in fair value below the book value of securities held to maturity and available for sale in assessment them. Trade securities in each financial period are reported at fair value and the resulting profit or loss Unrealized it (if any) will be reflected in profit and loss in the period and therefore not subject to the depreciation of the ongoing analysis. If devaluation, non temporal considered, the holder must reduce the cost value of the securities to fair value reduce. The amount of depreciation as realized losses reflected in profit and loss and the cost of the new securities are created. any subsequent recovery in the fair value to the sale of securities not recognized in profit and loss period. The accounting model used to assess the devaluation of securities and, until recently, these two models are quite distinct. one of the models in the statement Emerging Issues Task Force 20-99 America (Emerging Issues Task Force Statement No. 20-99 America) As "recognition of interest income and a decrease in the value of the rights to the interests and rights acquired by the transferor of financial assets to an interest in securities held" Defined for mortgage-based credit and other asset-backed securities and other securities based on pre-used. For all other securities, except for equity investments maintained, Units Approach (model) described in paragraph 16 of SFAS No. 115 will be used to position Financial Accounting Standards Board experts on FAS No. 115 and America Financial Accounting Standard No. 124, the devaluation non temporal and its application to certain investments, as fully described. America FAS No. 115 and subsequent amendments, the 3-step process to determine whether temporary or non temporal devaluation specifies:1. Determination of the presence or absence of depreciation on investment: an investment when depreciation of the fair value of the depreciated cost (book value) less. The cost of an investment, including adjustments for additions, amortization, depreciation and other risk cover. Business units in each fiscal period to the estimates for each of the individual securities do. 2. Temporary or non temporal assessment of devaluation: Units should be based on the depreciation of certain factors such as the nature and extent of the decline in fair value of securities evaluate. This assessment is subjective and will be described in more detail below. 3. If non temporal devaluation, the loss of value equal to the difference between cost and fair value of investments recognized: The amount of depreciation is equal to the difference between amortized cost and fair value of investments in the balance sheet date. when depreciation is identified, the fair value of securities will be based on the cost of new investments and the subsequent recovery of the fair value of securities not recognized until the time of sale or maturity .Previous model Emerging Issues Task Force Statement No. 20-99 rigid America was the model of SFAS No. 115, Because any change in the timing or amount of negative estimate cash flows that market participants rather than evidence of subjective assessment of a temporary reduction in value are considered permissible. On 12 January 2009, the Financial Accounting Standards Board America, for greater coordination model of devaluation in the statement Emerging Issues Task Force 20-99 America with SFAS No. 115 and guide the implementation of the Financial Accounting Standards Board experts position America about 20-99 Statement published. By eliminating major differences between the two models, uniform criteria for the determination of depreciation for securities non temporal respectively. In particular, the Financial Accounting Standards Board experts position requires the use of assumptions market participants 20-99 America about the statement in the determination of cash flows is eliminated and evaluate possible adverse changes in cash flows estimate to replace the building. An important aspect of accounting, securities, disclosure of which is a business unit in relation to the fair value of securities below cost (book value) do. In particular, the Financial Accounting Standards Board position America on Statement 115 experts, business units and unrealized losses requires the fair value of the cumulative amount of unrealized investment losses are disclosed. When the reference point for determining the duration of the investment in the Unrealized loss, balance sheet date depreciation period for the first time it occurred. Units have additional information (in the form of a comment) in the notes to the financial statements disclosing that the interim conclusions about the causes of the devaluation of the information provided. This additional information may include the following: the nature of the investments, the causes of the devaluation, the number of investments that are in a state of unrealized losses, the importance of intensity and duration of depreciation, Other evidence considered in reaching the conclusion that the decrease in value of investments was not non temporal. in addition to these requirements, America's Securities and Exchange commission expert group accounting guidelines with the current values and disclosures in the financial provision states that, If the amount of the loss has been identified or potential losses is important or in other specific circumstances, the financial condition or results of operations described for understanding by users is necessary, non temporal known or possible devaluation in the management discussion and analysis (MD & A) should be followed. The focus of disclosure requirements, indicating that default is that if the fair value of long-term securities is lower than the book value, The depreciation should be considered non temporal unless the rationale is based on the book value will be recovered. These disclosure requirements, the proposed threshold of 12 months, but in practice many companies have experienced for 18 to 24 months, but its value has been considered temporary.

3. Evaluation, Devaluation, and Non-Temporal

In the discussion of the devaluation, paragraph 16 of SFAS No. 115 stated: "It is likely that because of the debt agreement, the investor may not be able to collect all the money, then you should reduce the value non temporal be considered. Temporary or non-temporary decline in value of the evaluation, the holder of all available evidence, including Financial condition and short-term financial outlook for the publisher, the importance of intensity and duration of the decline in fair value and Investor's intention and ability to hold the investment for a period of time sufficient to recycle the anticipated devaluation, the present ". expert Group on the securities and exchange commission in its guidelines states that the application of general rules 18 or 19 in evaluation tests without flexibility is desirable, The accountants must use their judgment. Because of the decline in fair value of securities non temporal decision, especially for firms with large investment portfolios, mental, as one of the most challenging assumptions of accounting, the financial statements disclosed in the notes. although America's financial position, experts Accounting Standards Board Statement 115 on Accounting Guidelines explicitly provide for the depreciation non temporal However, other accounting literature related to the assessment of the depreciation of the notes. Similarly, the application of SFAS No. 115 guidelines and Expert Group on Financial Accounting Standards Board Statement No. 115 America on accounting Bulletin Securities and Exchange Commission Expert Group No. 59 and SFAS No. 92 entitled "Audit of derivatives, hedge and investment activities in securities" for more guidance referred. Aside from the above factors, the statement identifies several factors that indicate the occurrence of devaluation non temporal securities. these factors should be evaluated separately and aggregation, and include: time and value that the market value is less than cost, the financial condition and near-term prospects for the publisher, including specific events that may affect the operations or the publisher's future profits, For example, changes in technology or stop the operation of a business, owner's intention and ability to hold their investment for a period of time until recovery of depreciation, Whether a decline in fair value to the inappropriateness of certain conditions relating to the securities can be assigned or to the specific conditions in an industry or geographic region, Credit rating invested and whether the credit rating has been downgraded, whether dividends, decreased or deleted or projected interest payments have been made, the cash investment Is "non temporal" means "permanent" is? The answer is no. accounting Bulletin No. 59, as the depreciation of certain investments in debt and equity non temporal, in particular the phrase "non temporal" is. Securities and Exchange Commission expert group states that it believes that the Financial Accounting Standards Board has chosen deliberately because America is going to test non temporal devaluation is permanent. On the other hand, may be required in certain circumstances entity, even if not permanent reduction in the value of securities, the losses to identify. financial accounting Standards Board statement America about 20-99 experts position in relation to all information (including information about past events, current conditions and reasonable forecasts defensible receivable related to the securities) that businesses should consider when making estimates of future cash flows, provides additional guidance Units reporting to the decision-making more objective and verifiable evidence than the subjective assessments, have more weight. However, clear guidelines in relation to such an assessment is not, however, in some situations, the decision on devaluation of investment non temporal largely simple and clear. For example, if the publisher of "20 corporate debt instruments" in the payment of principal and interest has been the failure of the timing charts, strong evidence of the decline in the value of debt securities is non temporal. In addition, based on accounting Bulletin No. 59, if a single investor can hold or intend to reduce the value of the securities for a period of time until recovery is not devaluation, Depreciation should be considered non temporal. Similarly, if the intention or ability to hold securities investors for the devaluation is not enough time for recovery, even if a significant unrealized loss (severe) or its duration is short, the loss of value should be recognized. as equity securities do not have contractual cash flows, compared with the debt to be assessed differently. the ability to maintain sufficient unrestricted equity securities alone basis to conclude that the place is not getting devaluation non temporal. Evidence such as a sharp fall in the value of shares due to the share issue price below the current market price and the elimination of dividends, based on objective evidence of devaluation provides non temporal .In limited circumstances, the Securities and Exchange Commission guidelines in relation to certain types of securities issued. For example, in October 2008, the Securities and Exchange Commission guidelines in relation to the outstanding stock of debt with similar characteristics (such as dividends on a regular basis, features, options, Similar credit ratings Long-term bonds are callable debt and similar pricing) has released the business units allows the equity securities in certain circumstances to register as a debt. Securities and Exchange Commission shows that an entity may identify devaluation non temporal avoid such securities. this avoidance of identification to prove intent and ability to hold the devaluation non temporal subject to securities for a period of time to recovery of the decline in fair value not related decrease in fair value of credit loss publisher. The same guidelines should carefully evaluate all other debt and equity used to ensure the content preferences.

4. Practical Considerations

The assessment involves estimating the outcome of future events is depreciation, account holders who are the decision may be criticized. Company policy to recognize depreciation of investments in securities accounting estimate is challenging, often requiring disclosure in the analysis, management. according to the judgment required in this regard, the Securities and exchange Commission's auditors and the management of the reasons for the temporary taking depreciation focus. due to the importance of the issue, the Securities and Exchange Commission expert group in continuous communication with industry, this issue is addressed. thus, companies must have a formal approach when assessing depreciation which consider all available information. In this approach, the need for objective evidence (as opposed to subjective factors) were accorded more weight. Units should be consistency in the application of this approach and factors considered in reaching its conclusions document. In order to avoid unnecessary sensitivities, businesses are encouraged to apply accounting policies that require the following: evaluation of the seasonal decline in value, uniform application (maintaining consistency) a systematic and logical methodology, identify factors that should be considered in the analysis, Documentation of consideration and conclusions basics done for each of the securities. In addition, the Units may be capable of providing detailed disclosure of their investments decline in value is not recognized, reduce investor concerns. the annual conference of the association of chartered accountants in America (2008) Expert Group on Securities and Exchange commission in connection with the disclosure that businesses should consider the detailed proposals presented, including: identification and resolution of issues arising from the credit non temporal devaluation, decreasing the value of non temporal caused by other factors such as a lack of ability or intent to hold the securities to maturity, the nature of structured securities backed securities, asset type, asset life, improved credit ratings and credit, Information on how to consider the lack of liquidity in determining the amount of depreciation, including certain assumptions, the logic behind it and how, according to market conditions. Provide this information to reduce uncertainty can lead to management estimates. Following the guidelines of international standards of financial reporting and accounting standards in the guidelines provided for comparison.

5. Depreciation of Investments in International Accounting Standard

International Accounting Standard No. 39, "Accounting for financial instruments: recognition and measurement" of financial instruments (investments in equity securities and debt securities) are classified in four groups: financial assets or financial liabilities of commercial, Held-to-maturity investments, loans or receivables, Financial assets available for sale. The standard also defines four categories of financial instruments, requires businesses to trade financial assets at fair value in subsequent measurements offer. It reduces the value of these financial assets will not apply. All financial assets, except for trading financial assets, depreciation should be tested. After initial recognition, loans and receivables and investments business unit should be kept to maturity using the effective rate method to depreciate the cost of finished measure. Investments in equity instruments that do not have a quoted price in an active market and their fair value can not be reliably measured must be measured at the expense finished. at the end of the reporting entity should consider whether objective evidence, reducing the value of the financial asset or group of financial assets is approved or not. the event (or events) are detrimental to estimate future cash flows of the financial asset or group of financial assets that can be reliably estimated, the effect is. evidence suggests that the decline in value of a financial asset or group of assets, such information is evident that the holder of the asset to be aware of the harmful events that interest them, a) significant financial difficulty issuer or borrower, b) breach of contract, negligence or delay in payment of principal or interest, such as financial services, c) to grant relief to the borrower, for economic or legal reasons relating to the borrower's financial difficulties, so that in normal circumstances such relief was done, d) the possibility of bankruptcy or financial restructuring of the borrowing entity, e) the disappearance of an active market for a financial asset because of financial difficulties, or f) obvious information that confirms the occurrence of measurable reduction in the estimate of future cash flows related to a group of financial assets since the initial recognition of those assets, although the decrease can not yet be detected in the individual financial assets of (such as the national economic where the failure to pay the association's assets). (excluding future credit losses unrealized) financial assets with an initial effective rate (the effective rate computed at initial recognition) discounted measured. the carrying amount of the asset shall be reduced either directly or through a reserve account. amount of the loss shall be recognized in profit or loss. the revised classification of the equity to profit or loss, even though the financial asset has not been discontinued recognition. Profit and loss is identified. In the case of loans and receivables, if later, the amount of depreciation expense, decreases and the decrease can be related objectively to an event occurring after the recognition of prior depreciation (such as improved credit rating debtors), reduced the previous value must be adjusted directly or store return that account. Back losses, depreciation should not make that date, the carrying amount of financial assets that depreciate the value of finished, in case of detection of devaluation, more. the amount returned should be recognized in profit and loss period. In the case of equity instruments available for sale, devaluation losses on investments in equity instruments classified as available for sale are recognized in the Income statement should be returned through the income statement.

6. Conclusions

Assessing the accounting rules for depreciation of investments in securities, and involves subjective judgments lot. In particular, decisions devaluation during the recession and market crisis is controversial. there are no clear guidelines as to the decisions of lower value, in some cases, these decisions are not much complexity. In other situations, taking this decision requires the exercise of judgment and decisions by investors, businesses and authorities are carefully checked. them. currently, the depreciation of investments permitted in America accounting standards, international and bear no resemblance to each other, and the devaluation of non temporal America is the only financial accounting standards.

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