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INTERNATIONAL ACCOUNTING STANDARD/INTERNATIONAL FINANCIAL REPORTING STANDARD (IAS/IFRS) AND INCLUSION OF LOAN

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***Abstract*—**According to regulations of article 17. of Regulations on the Chart of Accounts, on account 230 - Short-term loans and advances - parent and subsidiaries, the statement loans and loans are shown, securities and other short-term investments in legal entities of the group for consolidating.

By the other hand, on the accounts 660 - Finance incomes and 560 - Financial expenses are stated incomes / expense by base of interest, foreign exchange rate differences and other financial incomes / expenses from the relation of parent company and subsidiary legal entities of the Group for consolidation, in accordance with International Accounting Standard(IAS) 27.

***Keywords*—**Financial incomes / expenses, legal entities, consolidation.

I. PRELIMINARIES

THISThe term of the loan, or borrows between legal entities, as well as the obligations of its parties are governed by Article 557 to 566 of the Law of Obligations [1].

The process of borrowing between real legal entities governs the contract, which the lender agrees to surrender the property to the borrower a certain amount of money or convertible things, and borrower agree to return to him after a while the same amount of money or the same amount of things of the same kind and of the same quality. Borrower can oblige also by contract, to owe beside principal and interest. Otherwise, in commercial contracts borrower owes statutory default interest, although it is not agreed, and by contract can be predicted and indexed interest as a form of contractual protection against risk.

According to Article 5, paragraph 2. of the Banking Law [2], no one except the bank can not deal with giving credit and issuing of payment cards, unless authorized to do so by law. So, unlike a loan, credit operations (lending and borrowing of credits) can only perform bank, because other legal entities are not licensed by the National Bank of Serbia for lending operations.

II. DIFFERENCES BETWEEN CREDIT AND LOAN

In the professional literature and modern economic practice there are a lot of differences between the credit and the loan, of which we mention the most often:

1) *Credit transactions can be undertaken only by the bank, and the loan agreement can enter into each other all private and legal persons (other than those which in some cases is prohibited by law, such as for example the case with insurance companies - Article 33, paragraph 5 of the Law insurance) [3];*
2) *Subject to the Loan Agreement may be money or other replaceable (convertible) things, and in the loan agreement the subject can be only money;*
3) *Interest in the loan agreement is an important element of the contract, while in the loan contract can be individually arranged.*

Since the loan and the loan is often the subject of accounting proceeding, it is necessary for accounting practice to take into account the following elements:

1) *A time period for which the loan was granted (if observed time from the date of approval to the date of return of less than 12 months it is about short-term financial investments, and if more than 12 months it is about long-term financial investments);*
2) *To what legal entity is given (in the country or abroad, whether is a parent or subsidiary legal entity);*
3) *In the chart of accounts are provided specific accounts receivable from businesses abroad, the claims of legal entities in the country, as well as separate accounts for receivables from related legal entities and by those legal entities who are not connected;*
4) *Whether the interest contracted (or implied), or it is agreed that no interest and if the interest is calculated on the subsequent valuation of receivables arising from loans (balance sheet date) should be accrued and recognized as an*

income for the portion of the interest that is due in current year;

5) *Whether the foreign currency clause contracted (or other form of protection), and if it is agreed, in the subsequent measurement of receivables arising from loans (on balance sheet date) must be calculated and recorded the effect as an income or as an expense.*

III. Application of International Accounting Standard /International Financial Reporting Standard (IAS/IFRS) and loans in accounting proceeding of loans /borrowing

During the accounting proceeding of loans /borrowing a great number of MRS/MSFI are applied as it follows [4]:

1) *To determine whether there is a relationship of parent / subsidiary applies IAS - IAS 27 - Consolidated and Separate Financial Statements and International Accounting Standard - IAS 28 - Investments in Associate legal entities;*
2) *International Accounting Standard - IAS 39 - Financial Instruments: Recognition and Measurement, regulates the recognition and validation of a loan if they are financial instruments, and provided that their agreed settlement in cash or other form of financial resources;*
3) *If it is provided that the loans are classified in accordance with IAS 39 (when given loans represent funds that are created by the legal entity), for disclosure and presentation are applied International Financial Reporting Standard - IFRS 7 - Financial Instruments: Disclosures and IAS - IAS 32 - Financial Instruments: Presentation[5];*
4) *Evaluation and recognition of the impairment of assets in the form of loans is regulated by IAS - IAS 36 - Impairment of Assets, except in the case when evaluating of loan is maden in accordance with IAS 39;*
5) *International Accounting Standard - IAS 21 - The Effects of Changes in Foreign Exchange Rates regulate accounting procedures for exchange rate differences that may arise in the case of loans is made in foreign currencies to person abroad or when foreign currency clause with the person indomestic state;*
6) *International Accounting Standard - IAS 24 - Related Parties disclosures, regulates the need for disclosure regarding to related party;*
7) *Additional requirements relating to recognition and evaluation of short-term loans to other related legal parties acquired in a business combination governs the International Financial Reporting Standard IFRS - Business Combinations.*

In case it is likely that the business entity will not be able to collect all amounts due (principal and interest) according to the contractual terms of the approved loan, means that appear loss because of impairments of receivables based on a given loan. Height loss is the difference between the carrying amount and the present value of expected future cash flows, discounted at the original effective interest rate of the instrument (the value that can be recovered). Otherwise, the cash flows relating to short-term receivables where there is no pronounced effect of the time value of money, is usually not discounted. The carrying amount of the asset is reduced to its estimated value that can be recovered, either directly or by using an allowance account. The amount of the loss is recognized as an expense and included in profit or in loss in the period in which it arises.

Control the depreciation of the undertaking especially for the assets that individually observed are significant, while the other means that verification works individually or collectively - to a group of financial assets with similar credit risk characteristics. Thus, if the balance sheet term the company determines that given loan impairment is depreciated, it is necessary to perform updating of value (or direct write-off) in accordance with the accounting policy selected and incurred expenses on that basis recorded in the income statement for the current year.

The process of evaluating of the loan performs:

1) *during its occurrence (initial evaluation) – in the amount paid for trier acquisition (acquisition cost) respectively for their initial value implies total paid (received) amount, which means that include transaction costs that can be directly attributable to the acquisition or issue of financial assets. Transaction costs included in the purchase value of assets (or liabilities) are included in the calculation of the amortized amount using of method of effective interest and is recognized as an expense / income over the term of the financial instrument and*
2) *The balance sheet date or during the fiscal year (as a subsequent evaluation) - measured at amortized value using the effective interest method; except that it does not take into account the intention of the legal subject in relation to their holding to maturity.*

Accounting proceeding and Classification of loans to certain accounts in financial accounting is done in accordance with the Rules of the Chart of Accounts and Content of the Chart of Accounts for Companies, the other, other legal entities and entrepreneurs.

Association is obliged, at each balance sheet date, in accordance with the provisions of the Ordinance, part of the approved long-term borrowings due within one year from the balance sheet date to reclassify to account 234 - Part of long-term investments that mature within one year. The process of reclassification is performed after alignment value given long-term borrowings (exchange rate, indexed, foreign exchange clause other forms of hedging, etc..).

IV. CASE STUDY OF ACCOUNTING EVALUATION OF APPROVING OF LOAN:

1) *On behalf of given loan (in accordance with the contract) was paid from the current business account to the dependent legal entity in the country amount of 100,000 dinars. The loan was granted for a period of 9 months*
2) *On behalf of given loan (in accordance with the contract) was paid from the current business account tothe related legal entity in the country amount of 160,000 dinars. The loan was granted for a period of 24 months*
3) *On behalf of given loan (in accordance with the contract) was paid from the current business account toother legal entityamount of200,000 dinars. The loan was granted for a period of 6 months*
4) *On behalf of given loan (in accordance with the contract) was paid from the current business account toother legal entityamount of300,000 dinars. The loan was granted for a period of 36 months*
5) *On behalf of given loan (in accordance with the contract) was paid from the foreign exchangebusiness account tothe legal entity abroadamount of 100,000 EUR (on the day of payment exchange rate is 1 EUR = 115,50 RSD . The loan was granted for a period of 12 months*

TABLE I
ACCOUNTING CHANGES 1-5

230		Short term loans and placements- parent and related entities	100.000	
	241	Current business account		100.000
		For approved short – term loanto relatedlegal entities in the country		
033		Short term loans and placements- parent and related entities	160.000	
	241	Current business account		160.000
		For approved short – term loanto relatedlegal entities in the country		
232		Short-term loans in country	200.000	
	241	Current business account		200.000
		For approved short—term loan to other legal entity		
034		Long term loans in country	300.000	
	241	Current business account		300.000
		For approved long term loan to other legal entity		
230		Short-term loans and placements - parent and related entities	1.155.000	
	244	Foreign exchange account		1.155.000
		For approved short-term loan to related legal entity abroad.		

Examples of accounting following of evaluation of subsequent measurement of a given loan and the payment of the loan:

6) *On the 31.12.2013. the company has claim, by subsidiary based in Slovenia, on the basis of the given short-term loan in the amount of 100,000 euros. The carrying value of investments (before exchange rate revaluation) was 5,000,000 RSD. On the day of 31.12.2012. the exchange rate is 1 EUR = 112 RSD.*
7) *On 30.04.2013. the subsidiary returned loan to the loan company (on exchange rate of 1 EUR = 114 RSD)*

TABLE II
ACCOUNTING CHANGES 6-7

230		Short-term loans and placements - parent and related entities	11.200.000	
	660	Financial income from parent and subsidiaries		11.200.000
		Based on claims from the previous period		
244		Bank account of foreign curencies	11.400.000	
	230	Short-term loans and advances to parent and supsidiaries		11.200.000
	660	Finance income from parent companies and subsidiaries		200.000
		For a claim based on short-term borrowings		

8) *On 31.12.2013. the company has acquired claim from subsidiary based in Bosnia and Herzegovina based on a given short-term loan in the amount of 200,000 Euros. The book value of investment is 22.400.0000 dinars.*
9) *On 30.3.2013. The Company collected receivables on the basis of a given loan from related legal party (exchange rate is EUR 1 = RSD 115).*

TABLE III
ACCOUNTING CHANGES 8-9

561		Finance costs of the relationship with the other related parties	22.400.000	
	231	Short-term loans and placements. - Other related parties		22.400.000
		For the evaluation of short-term borrowings on the balance sheet - alignment with course		
244		Foreign exchange account	23.000.000	
	231	Short-term loans and placements. - Other related parties		22.400.000
	661	Financial income from other related parties		600.000
		For charging of a claim based on short-term borrowings		

10) *At 31.12.2013. the Company on the basis of a given loan owed to another entity 1,000,000 dinars. The deadline for payment was 1.12.2013. year. For the period from 1.12. to 30.06.2013. The calculated default interest in the amount of 3,777 dinars.*

TABLE IV
ACCOUNTING CHANGES 10

232		**Short-term loans to the country's**	**7.500**	
	662	Interest income		7.500
		For the calculation of penalties for a given loan		

11) *As of 31.12.2012. The company has from another legal person claims based on a given short-term loan in the amount of 2,240,000 dinars (at the time of making the loan rate was EUR 1 = RSD 113).*

12) The loan was charged in February of 2014. , based on the exchange rate 1 EUR = 115.00 RSD.

TABLE V
ACCOUNTING CHANGES 11-12

232		Short-term borrowings in the country	2.260.000	
	664	Income from foreign currency clause		2.260.000
		Accrued foreign currency clause in the balance		
241		Current (business) account	2.260.000	
564		Losses from foreign currency clause	240.000	
	232	Short-term loans to the country's		2.500.000
		For a claim based on short-term borrowings		

We note that Article 34 of the Foreign Exchange Act [6]to commercial legal entities allows contracting in foreign currency in the Republic of Serbia, but the payment and collection from these contracts is in dinars. In fact, this is a very specific revenue or expense that occurs when the amount of liabilities associated with the level of the exchange rate of some foreign currency (against the local currency, or any other foreign currency) and when there was a rise / fall of the exchange rate and foreign currency (against the dinar or any other foreign currency). Then the income / expense arising from foreign currency clause acknowledges that the settlement of liabilities / debt collection, and in their evaluation of the balance sheet date itself. According to the above it is clear that as financial income and are considered above (paid / charged) Foreign exchange losses on receivables and liabilities at the balance sheet date. As the right conditions for the expression of these positive difference in the account 664 is not a positive exchange rate differences arising on transactions with subsidiaries, parent companies and other affiliated entity, or that it is not a positive exchange rate differences on foreign currency receivables and liabilities denominated in foreign currencies.

13) The Company is 1.12.2013.to the other legal entity provided a short-term loan in the amount of 1,600.000 RSD as basis for calculation of net revaluation makes the loan in the first month plus revaluation credited for each month.

14) At the end of the reporting period, i.e. 31.12.2013. the calculated contracted revaluation as a protection against risk in the amount of RSD 2,000.

15) The claim based on short-term loan was made 02/01/2014 amounting to 1,602.000 RSD. Revaluation for the month of January in the amount of RSD 3,000 has been paid 10.2.2014 year (this amount is paid after the release of the consumer price index for January 2013.).

TABLE VI
ACCOUNTING CHANGES 13-15a

232		Short-term loans (borrowings) in the country	1.600.000	
	241	Current bussiness account		1.600.000
		For the calculation of hedging in December 2013.		
232		Short-term loans in the country	2.000	
	676	Income from the effects of hedging		2.000
		For the calculation of hedging in December 2013.		
241		Liquid / current business account	1.602.000	
	232	Short-term loans in the country		1.602.000
		For a claims based on the given short-term loan		
241		Liquid / current business account	3.000	
	676	Income from the effects of hedging		3.000
		For the calculation of hedging in January 2013.		

Example of accounting recording impairment (impairment) claims based on a given long-term loan:

16) Management of the Company in accordance with the accounting policy estimated to assess the claim is based on a given long-term loans are impaired, or that the company has been impaired at the balance sheet in the amount of 700.000 RSD.

TABLE VII
ACCOUNTING CHANGES 16

583		**Devaluation of Long-termfinancial placements and securities available for sale**	**700.000**	
	039	Provisions for long-term investments		700.000
		For impairment (impairment) on the balance		

Example of limitation (write-offs) claims based on a given short-term loan:

17) Company at the time of balance has another legal entity claims based on a given short-term loan in the amount of 3,000.000 RSD. Census Commission determined that the claim is outdated and suggested his de-recognition.

TABLE VIII
ACCOUNTING CHANGES 17

576		**Losses from direct write-off of receivables**	**3.000.000**	
	232	Short-term loans to the country's		3.000.000
		For a write-off of claims on the basis of the given short-term loan at the balance		

Example accounting purposes given the reclassification of long-term loan that matures over a period of one year (at end of period):

18) On the date of preparation of the financial statements (31.12.) was calculated exchange rate differences on loans authorized subsidiary, when the exchange rate 1 EUR = 115.5 RSD -31.12. dinar's value of the loan is 11.550.000 RSD (100.000 Euros x115 RSD), a loan is given to the amount of 11.500.000 RSD, so positive foreign exchange gains amounted to 50.000 RSD.

TABLE IX
ACCOUNTING CHANGES 18

230		**Short term credits and investments of parent and depending entities**	**50.000**	
	660	Financial income from the parent and depending entities		50.000
		For calculation of exchange rate based on loans to subsidiaries		

V. Conclusion

All short-term credits and loans of parent companies and subsidiaries should be recorded to separate analytical accounts, especially when it concerns to more parent and subsidiary companies, and when the credits / loans were approved and in dinars and foreign currency. It's necessary because of the need exchange rate revaluation of assets and determining the effects of currency clause.

The same system parsing the analytical accounts shall also apply in the case of recording financial income / expenses of the parent and its subsidiaries.

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[2] „Official gazetteRS”, br. 107/05 i 91/10.
[3] „Official gazetteRS“, br. 55 i 70/04, 61 i 85/05, 101/07, 63/09 - decisionUS, 107/09, 99/11 i 119/2012.
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