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ASSETS OF COMMERCIAL BANKS: CLASSIFICATION AND RECOGNITION CRITERIA

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АКТИВИ КОМЕРЦІЙНИХ БАНКІВ: КЛАСИФІКАЦІЯ ТА ВИЗНАЧЕННЯ КРИТЕРІЇВ

The article examines the theoretical foundations of commercial bank assets, their concept and essence. It analyzes the most topical and controversial aspects of this problem, causing the greatest controversy among experts. The increased role of commercial banks in the economic and social development of the country is noted, their main tasks and functions are covered. For objective and reasonable decisions of a tactical and strategic nature to improve the activities of commercial banks, an appropriate information base is needed, which is formed mainly due to a clear and well-coordinated accounting and reporting system. Having analyzed a number of specific concepts of the category "assets" and related definitions ("capital", "liabilities", "income" and "expenses"), the author of *the article reveals the content of those characteristics that are most often found in the formulations of foreign and domestic experts, and offers their working definition. The work concludes on the need to develop such methodological approaches and methods that would allow reliably measuring and assessing the cost of each element of the above concepts and their components. The attention is focused on the importance of effective asset management and maintaining the bank's asset structure quality at the proper level, which significantly affects all aspects of banking activities. In this regard, the implementation of high-quality asset management is considered as the main goal of banking management. Among the main areas of its achievement are such things as improving financial statements, establishing criteria for their recognition, developing the concept of maintaining physical capital, adjusting the elements of the balance sheet. Positive and controversial aspects contained in the Principles of Preparation and Compilation of Financial Statements and the Conceptual Foundations of its International Standards are revealed. Correct formulations of the essence of individual elements of the balance sheet and the correct establishment of criteria for their recognition are necessary conditions for determining the size, classification of these elements in accounting and reporting, reflecting information about them in the accounts of accounting by double entry, as well as for assessing and analyzing the financial condition of the company.*

У статті розглядаються теоретичні основи активів комерційного банку, їхнє поняття та сутність. Проводиться аналіз найбільш злободенних та дискусійних аспектів даної проблеми, що викликають найбільші суперечки серед фахівців. Відзначається зростання ролі комерційних банків в економічному та соціальному розвитку країни, висвітлюються їхні основні завдання та функції. Для об'єктивних та обґрунтованих рішень тактичного та стратегічного характеру щодо покращення діяльності комерційних банків необхідна відповідна інформаційна база, яка формується, головним чином, завдяки чіткій та злагодженій системі обліку та звітності.

Проаналізувавши ряд конкретних понять категорії «активи» та пов'язаних з нею дефініцій («капітал», «зобов'язання», «доходи» та «витрати»), автор статті розкриває зміст тих характеристик, які найчастіше зустрічаються у формулюваннях зарубіжних та вітчизняних фахівців, та пропонує їхнє робоче визначення. У роботі зроблено висновок про необхідність розробити такі методологічні підходи та методи, які б дозволили надійно вимірювати та оцінювати вартість кожного елемента вищевказаних понять та їх складових частин. Наголошується на важливості ефективного управління активами та підтримки на належному рівні якості структури активів банку, що значною мірою впливає на всі аспекти банківської діяльності. Здійснення якісного управління активами розглядається як основна мета банківського менеджменту. Серед основних напрямів її досягнення виділяються такі як: удосконалення фінансової звітності, встановлення критеріїв її визнання, розвиток концепції підтримки фізичного капіталу, коригування елементів бухгалтерського балансу. Розкриваються позитивні та спірні моменти, що містяться в Принципах підготовки та складання фінансової звітності та Концептуальних засадах її міжнародних стандартів. Коректні формулювання сутності окремих елементів бухгалтерського балансу та вірне встановлення критеріїв їхнього визнання є необхідними умовами для визначення величини, класифікації цих елементів в обліку та звітності, відображення інформації про них на рахунках бухгалтерського обліку шляхом подвійного запису, а також для оцінки та аналізу фінансового стану компанії.

Keywords: *commercial bank, financial statements, assets, liabilities, profit.*

Ключові слова: *комерційний банк, фінансова звітність, активи, зобов'язання, прибуток.*

Problem statement. The activities of commercial banks, which occupy a special place in the economic and social development of the country, are a complex mechanism of interaction of certain goals, functions, and methods. The mission and tasks they perform contribute to the stability of the state financial system, the efficiency of economic management, its individual spheres and industries. In the context of dynamically developing relations, the techniques and methods of managing banking activities are improved, and completely new forms arise. Banking regulates cash flows at the macro and micro levels of the national economy, which involves the use of a specific set of financial instruments. Evaluation of the financial results of the banking business occurs only through accounting, which is aimed at processing cash flows for the subsequent formation of analytical and financial reports, in particular, on the state and movement of assets, liabilities, and capital of the bank. For objective and substantiated decisions on the above areas of activity of commercial banks, appropriate information is needed. It is accounting in banks, which has a large operational volume of information, that is the foundation on which analysis systems are subsequently built and economically sound tactical and strategic decisions are made on its activities.

Analysis of publications. In the specialized literature on accounting and analysis, there are many publications devoted to issues of accounting and financial reporting in the banking sector. Western economists F. Christopher, S. Lindgren, G. Garcia, P. Rose, J. Sinkey, J. Marshall et al. have made a significant contribution to the development of issues of bank asset management strategy. The works of Azerbaijani (Q. Abbasov, S. Sabzaliyev, N. Ismailov, Q. Badalov, F. Gadzhiyev, E. Jafarov et al.) and Ukrainian economists (M. Alexandrov, A. Vasyurenko, I. Voloshin, O. Dzyublyuk, I. Mishchenko, L. Prymostki et al.) contribute to the study of the theory and practice of analysis and accounting of commercial banks' assets. However, an analysis of the current literature shows that these scientific works lack a systematic approach to issues of analysis, accounting and reporting of assets and capital in commercial banks, and do not provide a comprehensive assessment of their new methodology and practice. In this regard, the process of conducting in-depth scientific research in this area is being updated.

Purpose of the article. The purpose of this article is to substantiate the theoretical and practical foundations of the organization and management of assets of financial institutions and to determine promising directions for their development in commercial banks.

The main material research.

The principles, rules and procedures for accounting of assets and capital are defined by the Central Bank of the Republic of Azerbaijan. The analysis of the financial condition and financial results of the commercial banks is organized on the basis of information from international accounting and reporting standards. Meanwhile, many years of experience and banking practice show that the current accounting and reporting system in commercial banks does not fully meet the requirements of internal and external users of information. This system does not allow to objectively assess the efficiency of the banking system, determine the degree of use of the resource base of commercial banks, the level of their liquidity and solvency. There is no appropriate accounting methodology for individual transactions and segments, and the methodological base for analyzing the results of business activity is relatively weak. Unreliability and unreliability of information generated by accounting and reflected in financial statements, biased assessment of the financial position and performance often lead to bankruptcy of credit institutions. In this regard, there is a need to develop new methods of accounting and analysis of balance sheet elements, as well as income and expenses of commercial banks.

The system of accounting and analysis of banking activities is designed to generate such information, with the help of which it would be possible to make informed management decisions of a financial and investment nature, to plan and control the activities of banks. The experience of economically developed countries shows that at the present stage there is a process of integration of tasks and functions of accounting, audit, analysis and decision-making in a single system of management of the activities of commercial banks. This helps to increase the efficiency and effectiveness of banking management. At the same time, along with business planning and forecasting, the above functions act as key components of the management information system, which, in turn, generates the entire information flow arising in the process of implementing the activities of commercial banks.

At the same time, it should be noted that each element of this system is autonomous and has its own goals, objectives, methodology and methods of generating information. With regard to accounting, a unified information system is a set of elements of a certain content and form that are interconnected and interact on a constantly repeating basis [9; 13].

In this context, it can be stated that the components of the accounting system of commercial banks are: a) measurement and registration of business facts and phenomena; b) grouping and classification of the objects, facts and events taken into account; c) generalization in monetary terms of information for the purpose of using it for making management decisions. These processes are carried out using special techniques such as documentation, evaluation, calculation, accumulation of information in accounting accounts by using double entry. Continuous documentation and complete registration of the facts committed are necessary to identify changes in the composition of assets, capital, liabilities, determine financial results, and assess changes in the financial position.

All accounting and reporting objects that generate information are grouped by the following elements: assets, capital, liabilities, income, expenses. They are interconnected and change as a result of the business activities of banks. The first three elements are used to assess the financial position of commercial banks, while the other two are used to determine their financial results.

A review of the literature shows that the typology of resources provided in it often does not allow one to construct a static balance sheet and analyze the financial position of a commercial bank. It completely identifies capital and long-term depreciable assets. At the same time, the essence of capital is reduced only to fixed assets [12]. However, in reality, the resources of an enterprise include intangible assets, securities acquired from other enterprises, cash and cash equivalents, accounts receivable and other economic resources that are at the disposal and under the control of the bank.

The term "assets" is rarely used in economic theory, and is often considered a synonym for the term "economic resources" [3], which does not correspond to the definitions formulated in international financial reporting standards. Although the above-mentioned source repeatedly uses the terms "assets", "capital", "liabilities", "income" and "expenses", their content is not disclosed. Meanwhile, the entire accounting and reporting system of commercial banks is built on the basis of the above concepts and terms, and without disclosing their content it is impossible to build a rational accounting and reporting system, conduct a detailed analysis and assessment of business activity.

In our opinion, it is important to solve two problems in order to generate information on the elements of accounting and reporting in the banking sector: 1) correctly disclose the essence and content of each element; 2) develop such methodological approaches and methods that would allow reliable measurement (assessment) of the cost of each element and its components. The above-mentioned problems are directly related to the theory and methodology of accounting, reporting and analysis, which change in accordance with the transformation of business conditions, forms and methods of resource management, the nature of economic decisions made, and they should not outpace economic life, economic events and facts [2].

In modern conditions, business participants are interested in the transparency of financial information, the carrier of which is financial statements prepared according to uniform principles, rules, procedures and terms of accounting. It can even be argued that the conceptual apparatus of modern business and entrepreneurship was created and enriched with terms and concepts of accounting and reporting. These include, in particular, "assets", "capital", "liabilities", "income" and "expenses", without which it is impossible to manage monetary resources, analyze and evaluate the financial condition, financial results, degree of liquidity and investment attractiveness of individual commercial structures. It is no coincidence that in fact the entire list of issues included in the conceptual foundations of IFRS is associated with the formation of information on the elements of financial statements, i.e. with the terms designated above [5; 6].

Each country has developed its own approaches to the preparation of financial statements and the system of its indicators characterizing the financial position and financial results of commercial organizations. For example, in the USA and Great Britain, the main investors in commercial organizations are small entrepreneurs who require complete and reliable information on the activities of companies. Therefore, the accounting and reporting system here is designed to protect the interests of external users, primarily investors and creditors. A similar situation exists in Germany, Japan and Switzerland, where the capital needs of large companies are met by commercial banks. Investor banks have access to financial reporting information, which additionally reveals the state of solvency and investment attractiveness of financing objects. In countries such as France, Sweden and Belgium, the state plays a major role in financing companies and, therefore, the accounting and reporting system is oriented towards ensuring the interests of government bodies. In countries with high inflation (South American countries), the accounting data contained in the financial reporting system is adjusted for inflation indices in order to increase the usefulness and effectiveness of information for external users.

In different countries, and sometimes within one of them, the essence and content of individual elements of financial statements are defined differentially. For example, in the USA, the Financial Accounting Standards Board (FASB) in the Statement of Financial Accounting Concepts (SFAC 6) defines assets "as probable future income from items that is caused by previous business transactions or events and is controlled by the business entity" [15]. In Regulation No. 4 of the Accounting Resarch Bulletin (ARB) of the USA, assets are considered as "economic resources of an enterprise that are recognized and evaluated in accordance with generally accepted accounting principles, including deferred allocation of costs (deferred expenses) that are not resources" [15]. This differs from the first definition, in which assets are accepted not as economic resources, but as income from items. Meanwhile, income can be received as a result of the use of assets. On the other hand, not every item can generate income in the future. Objects that are not used in the company's activities cannot generate income and, therefore, cannot be accounted for as assets. The analyzed definition also says nothing about the recognition and valuation of assets.

It seems that the definition given by Regulation No. 4 ARB sufficiently fully reveals the essence, content and composition of assets of business entities. However, the latter definition says nothing about the most important property of assets, such as the ability to generate economic benefits in the future, which is determined, first of all, by the ability of assets to directly or indirectly create a future increase in cash.

All definitions of "assets" in American organizations highlight the following essential characteristics: 1) assets must be under the control of the company; 2) assets must come to the company as a result of previously conducted transactions or past events. For comparison, we note that Russian legislation regulating issues of accounting and reporting does not provide a direct definition of an asset. In the framework of accounting terminology, assets are understood as property that represents a set of non-current and current assets of an organization. In this case, the assets include resources, regardless of whether economic benefit can be expected from them and whether they have a clear cost estimate. The essence of assets is defined in the Republic of Belarus in a similar way.

In the accounting and reporting systems of the Baltic countries, Azerbaijan, Georgia and many other post-Soviet countries, assets are defined in accordance with the requirements of IFRS. In other words, in these countries, the term "assets" is understood as economic resources controlled by a company that are the result of past events and a source of future economic benefits. The legislation of Azerbaijan, regulating the issues of organizing and maintaining accounting and reporting, provides the following definition of an asset: "An asset is a resource managed by an organization as a result of past events, from which the organization expects to receive economic benefits in the future" [4]. This definition is almost no different from the definition given in the principles of preparation and compilation of financial statements [5]. In both definitions, assets are accepted as resources from which an enterprise or company expects to receive economic benefits in the future. In addition, they emphasize that assets are created or arise as a result of past events and are controlled (or managed) by the company.

It seems that the concepts of "management" and "control" in the above definitions are used as the right of the company to receive economic benefit from the use of the relevant assets. Of course, if a company manages an asset, this means that it also controls the economic benefit from its use. However, not every control gives the right to receive economic benefit, or not every right can lead to receiving economic benefit. An object can be recognized as an asset only when the company receives economic benefit from its use. That is, the right to receive economic benefit can be considered realized if the company actually or is more likely to receive such benefit from the use of the asset. Thus, the main condition for recognizing a particular resource or object as an asset is not so much the company's right to management or control, but the mandatory receipt of economic benefit. At the same time, the rights to receive benefit must be legal, and the company must have evidence of the possibility of receiving it.

Economic benefit can be the result of past events or transactions. If the receipt of an economic benefit is not currently under the control of the company and it will be received as a result of future events or transactions, then this benefit cannot be attributed to assets. After all, an economic benefit can exist and be controlled by the company only as a result of past events and transactions. The determining factor here is the opinion of the company's accountant on the degree or sufficiency of the event. For example, when signing a contract, the company has a right to a future probable benefit that falls under its control. Although the conclusion of the contract means the occurrence of an event, the accountant may believe that this event is not significant enough to reflect an asset. The significance of the event is determined by the degree of its completion.

The content of the concept of "future economic benefit" should also be disclosed. According to the prescriptions of the principles, the economic benefit embodied in an asset is understood as the potential to enter, directly or indirectly, into the flow of cash or cash equivalents. Economic benefit can also take the form of convertibility into cash or cash equivalents, and the ability to reduce cash outflows. It should be noted that a company realizes or receives the future economic benefit embodied in an asset in various ways. For example, an asset can be: a) used separately or in combination with other assets in the production of goods, performance of works and provision of services; b) exchanged for other assets; c) applied to pay off obligations to creditors; d) distributed among owners (shareholders).

The next element of financial statements is a liability. In international practice, especially in the Principles [5] and Conceptual Framework [6], the essence of this concept is almost the same: an obligation is understood as a current debt of a company (enterprise) arising from events in past periods, the regulation of which leads to an outflow of resources from them containing economic benefits.

SFAC 6 defines a liability as "a probable future reduction in income that is associated with the forthcoming transfer of assets or the provision of services to other business entities and is caused by existing debt obligations arising from prior transactions or events" [15]. It seems that the latter definition interprets the essence of the liability in more detail and precisely. Thus, in this definition, the extinguishment of the liability is considered as a reduction in income through the transfer of assets and (or) the provision of services. According to this definition, the liability can be extinguished not only by the transfer of assets, but also by the provision of services. On the other hand, it follows from the definition that the source of the transfer of assets to extinguish the liability is income.

According to the American rules, the liability has three key characteristics in general:

• The liability is a debt to one or more business entities, the extinguishment of which entails the probable future transfer or use of assets;

• The liability imposes a responsibility on the company, which cannot avoid losses or expenses in the future when the obligation is extinguished;

• The events or transactions that caused the liability to arise have already been completed. The absence of one of these characteristics means that the accounting object cannot be recognized as a liability.

In many post-Soviet countries, American GAAP and IFRS are used as a basis for determining the essence of a liability. For example, according to the accounting legislation of Ukraine, a liability is understood as "an enterprise's debt that arose as a result of past events, the repayment of which in the future will lead to a decrease in the economic resources of the enterprise, which embody economic benefits" [13].

If in the Principles an obligation is understood as the current debt of the company, then in the Rules this concept is absent and "present debt" is used instead. The accounting laws of Ukraine and the Republic of Belarus do not contain the words "current or present debt" at all. In our opinion, the concept of "present debt", which is used in the definition of the Conceptual Framework, cannot be interpreted as "current debt". Consequently, in the legislation of these two countries, an obligation is understood to mean not just current debt, but also long-term debt, i.e. all debt.

But in all definitions formulated in legislative and regulatory documents of different countries, as well as in the IFRS prescription, the liability is considered in the context of their repayment. In other words, the essence of the liability is disclosed unilaterally. Liabilities of any company, including commercial banks, arise as a result of:

• receiving assets or services from other legal entities and individuals;

• transfer of assets or provision of services to other legal entities and individuals (for example, warranty service of sold assets, services rendered);

• distribution of the income (profit) received by the company (for example, obligations to pay income and dividends to founders (shareholders), obligations to pay taxes and other payments provided for by law and constituent documents);

• receipt of income for which there are no expenses yet (for example, preliminary receipt of rent from a tenant).

Thus, obligations arise in connection with the above events and transactions, which, before leading to an outflow of resources, contribute to the receipt of assets or services from other companies and individuals. Taking into account the above, it is appropriate to understand an obligation as a company's debt that arises as a result of receiving assets or services from other legal entities and individuals, the repayment of which will lead to a decrease in income or an outflow of economic resources from the company containing economic benefits. Obligations may be settled and repaid by paying cash or transferring other assets of adequate (equivalent) value to repay them, providing services or performing work for an amount equal to the obligation; replacing one obligation with another obligation; inclusion of the obligation in the capital of the company with the provision of securities or other rights of participation in management, and profits in an amount equal to the extinguished obligations by mutual agreement. Extinguishment of the obligation may also occur in the form of the withdrawal of their claims from creditors and the loss of their rights of claim.

As noted above, the definitions show the main characteristics of assets and liabilities. But none of the given definitions can be the only basis for their recognition in the financial statements. Even if the definition sufficiently well reveals the essence of assets and liabilities, this does not provide a complete basis for reflecting them in the balance sheet. Taking this into account, the Principles define the criteria by which assets and liabilities can be recognized as elements of the balance sheet. Before disclosing them, let us briefly consider the essence of capital (equity), which is the third element of the balance sheet. In the principles, capital is defined as "the share in the assets of the company that remains after deducting all its liabilities" [5]:

$$K = A – O,$$

where A is assets; K is capital; O is liabilities.

The definition of capital as a share in the assets of the company that remains after deducting its liabilities from all assets is due to the fact that in international practice, creditors always have a preferential right over founders (owners) and must fully receive the amounts due to them under the law and legal norms. This procedure exists in all countries of the world. Often, capital is called the company's net assets, i.e. the assets to which it has the right of ownership.

Equity or share capital is the net value of the company for its owners. During the course of the company's operations, income increases the amount of equity capital. The excess of income over expenses is profit, which mirrors the increase in the company's equity capital. Dividends paid from this profit are a withdrawal of capital, and retained earnings become part of equity capital. Interest on loans, income taxes are expenses that lead to a decrease in equity capital. Thus, capital is the residual share of the company's assets obtained after excluding its liabilities. However, it should be noted that capital or net assets do not exist in isolation from assets and liabilities.

Capital consists of various elements, the formation and change of which depends on the forms of organization of enterprises, on the articles and provisions of legislative and constituent documents and many other factors.

It is known that one of the most important tasks of any commercial organization is to maintain a source of profit. Therefore, for successful functioning and development in the market conditions, each commercial organization must maintain its own capital. The principles of preparation and compilation of financial statements offer two basic concepts of maintaining (preserving) capital: financial and physical. According to the financial concept, capital is the share of the company's assets after deducting its liabilities. In this case, the investment company considers capital as its net assets, or equity. In this interpretation, capital corresponds to invested funds or invested purchasing power, which in the event of liquidation of the company are determined by the residual principle: liabilities are subtracted from all assets controlled by the company, since creditors always have a preferential right over the founders (owners).

According to the physical concept, capital is the operating ability or production capacity of the company. It can be measured, for example, by the amount of products manufactured over a certain period. It follows from the above that any commercial organization aims to maintain or preserve the existing capital and at the same time make a profit.

Making a profit is the main goal of the company's activities, while it is clear that profit can be made and increased only if the capital is preserved or maintained during the period of the company's activities. Simple financial maintenance (preservation) of capital is achieved when the amount of the company's net assets at the end of the period is equal to the amount of its net assets at the beginning of the period. However, as noted above, the company exists not only to maintain capital, but also to make a profit. Therefore, according to the financial concept, profit is considered to be made if the monetary amount of net assets at the end of the period exceeds the monetary amount of net assets at the beginning of the period, after deducting all distributions and contributions of founders (owners) during the period. At the same time, according to the Principles, the maintenance of financial capital can be measured either in nominal monetary units or in units of constant purchasing power.

Physical maintenance (preservation) of capital means that the company's production capacity at the end of the period is equal to the production capacity at the beginning of the period. According to the physical concept of capital preservation, profit is considered to be earned if the physical productivity (operating capacity) of the company at the end of the period is higher than at the beginning of the period after deducting all distributions or contributions from founders (owners) during that time.

The concept of physical capital maintenance assumes that the assets of the company are valued at replacement cost. In this case, all price changes that affect the production capabilities of the company should be considered an adjustment to the cost of capital and included in the capital, without increasing the company's profit.

The concept of financial capital maintenance does not require the use of any particular basis for valuing the assets and liabilities of the company. When using this concept, the choice of valuation basis depends on the type of financial capital. If the capital of a company, for example, a commercial bank, is determined in nominal monetary units, the profit of such a company is an increase in nominal monetary capital for a specific period. But such an increase should not be due to additional contributions from the owners of the company. If an increase in prices occurred in part of investment property, i.e., in those assets that the company held during the period, then such an increase should also be reflected as profit. However, it cannot be recognized until these assets are sold.

Income and expenses arising from the revaluation of the assets and liabilities of the company should not be considered as elements of the balance sheet, but as an adjustment to ensure the maintenance of capital. Such amounts should be accounted for as revaluation reserves. The choice of one or another capital concept depends on the needs of users of the company's financial statements. Thus, users of the financial statements of commercial banks are interested in the safety of the nominal invested capital, therefore, they should adopt the financial concept of capital. The choice of the appropriate capital concept should be determined by the accounting policies of commercial banks.

For the recognition of assets and liabilities as elements of the balance sheet, the Principles of Preparation and Compilation of Financial Statements establish recognition criteria. Recognition itself is defined as the process of including in the balance sheet an object that meets the requirements for defining a particular element and the conditions (criteria) for recognition. These Principles establish two universal criteria for the recognition of elements of financial statements:

1) there is a probability that any economic benefit associated with the object will be received or lost by the company;

2) the object has a cost or valuation that can be reliably measured.

According to these criteria, an asset can be recognized in the balance sheet in cases where there is a probability of an inflow of economic benefits to the company, and it has a cost or valuation that can be reliably measured. If none of these criteria are met, the item is not recognized in the balance sheet as an element of the balance sheet. In this case, the information should be disclosed in the notes to the financial statements. If the costs of the current period will not generate economic benefits in the future period, they should not be recognized in the balance sheet as assets, but are reflected and recognized as an element of the profit and loss account.

The Framework addresses recognition criteria for current liabilities only. According to them, a liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from settlement of the present obligation and the amount of that settlement can be measured reliably. If both conditions or recognition criteria are met, the liability is recognized as an element of the balance sheet. If it is probable that an outflow of resources embodying economic benefits will result from settlement of the present obligation, but the amount of that settlement cannot be measured reliably, the liability should be recognized in the balance sheet as a provision. If both conditions or criteria are not met, information about the possible liability should be disclosed in the notes to the financial statements. Such a liability is a contingent liability that arises from past events but cannot be recognized because the outflow of resources embodying economic benefits is unlikely and the amount of the liability cannot be measured reliably. A liability recognized in the balance sheet arises from past events or transactions, and its regulation will result in an outflow of resources from the company.

Based on the above, in our opinion, the first condition (or criterion) for recognizing an object as an asset should be the receipt of economic benefit as a result of its use by the company.

As for the second condition (criterion) for recognizing an object as an asset, the Principles formulate that it should be recognized as such if it has a cost or valuation that can be reliably measured" [5]. This formulation, in our opinion, is not entirely accurate, since it follows from it that an object can be recognized only when it has a cost or valuation. It is clear that an object that does not have a cost or valuation cannot be recognized as an element of the balance sheet or reflected in accounting. Another thing is that in order to recognize an object as an element of financial statements, its cost must be accurately determined. The term "measurement" used in the Principles is not suitable for the precise formulation of the second condition (criterion) for recognizing an element of financial statements, since it is impossible to measure cost or valuation; it is possible to determine the value of an object by means of its valuation. The statement on the reliability of measuring the value of an object adopted in the Principles is also controversial, where it is stated that information in financial statements is considered reliable if it is complete, taking into account its materiality and costs; otherwise, it becomes false and misleading, and therefore unreliable and imperfect in terms of its relevance" [5]. While we can still agree with the statement that information can be considered reliable if it is complete, we do not share the opinion that the completeness and reliability of information should be determined taking into account its costs. If a complete and accurate determination of the value of an asset requires significant costs, this does not mean that it should not be determined, and information about this should not be recognized and reflected in the financial statements.

Taking into account the above, it is proposed to formulate the second condition for recognizing an asset as an element of financial statements as follows: an object that meets the definition of an asset should be recognized as an element of the balance sheet if its value is determined precisely in accordance with the requirements of the standard governing the issues of valuation of this asset.

Now let us consider the criteria for recognizing liabilities. In accordance with §83 of the Principles, an object that meets the definition of a "liability" may be recognized if:

(a) it is probable that any economic benefit associated with the object will be lost by the company;

(c) the object has a value or valuation that can be measured reliably.

Those shortcomings and inaccuracies that we listed when characterizing the criteria for recognizing assets can be fully attributed to the criteria for recognizing liabilities. Therefore, in order to avoid repetition, we would consider it appropriate to dwell only on the wording "probable outflow of resources", widely used in the Principles and other international standards. Let us recall that in the Principles the concept of "probability" in relation to obligations is used on the condition of recognition to represent the uncertainty of the loss of future economic benefit by the company. We believe that the probability of the outflow of resources should not be determined by the degree of uncertainty, which depends entirely on the operating environment of the company. If the obligation arose as a result of a past event and its occurrence is confirmed by an agreement or legislation, as well as a specific statement of the company, then it must be extinguished, and this extinguishment will lead to not a probable, but a mandatory outflow of resources embodying economic benefits. In our opinion, the criteria for recognizing obligations that arose as a result of past events, confirmed and formalized in the above order, should be formulated as follows:

An object that meets the definition of a liability must be recognized in the balance sheet (financial statements) if:

(a) the company has a legal or imputed debt (obligation) that arose as a result of past events, and its settlement will necessarily lead to an outflow of resources embodying economic benefits;

(b) the amount of the obligation is precisely determined in accordance with concluded contracts (agreements), legal provisions, imputed obligations of the company, as well as the instructions of the relevant international standards.

To recognize estimated liabilities, one should be guided by the criteria defined by IAS 37 "Estimated Liabilities, Contingent Liabilities and Contingent Assets". This standard defines an estimated liability as "a liability of uncertain amount or with an uncertain time frame for fulfillment" [6].

To recognize such a liability, the following conditions are put forward:

• the company must have a valid obligation (legal or imputed) as a result of a past event;

• the need for some outflow of resources embodying economic benefits to discharge this obligation is probable;

• the amount of the obligation can be measured reliably.

If one of these conditions is not met, the provisional liability is not recognized as an element of the balance sheet.

The above conditions, in essence, do not differ from the recognition conditions (criteria) formulated in the Principles. The question arises: what is the difference between an provisional liability and other types of obligations, such as trade and accounts payable?

According to IAS 37, estimated liabilities differ from other, i.e. actual or deterministic liabilities (trade, accounts payable, bills issued, dividends, wages and other debts), in that the uncertainty in estimated liabilities is significantly higher than in deterministic liabilities, or, conversely, the uncertainty of deterministic liabilities is significantly lower than estimated liabilities. It is hardly possible to agree that there is uncertainty in actual or deterministic liabilities, since these liabilities arise from contracts or on the basis of legislation and can be determined precisely. Of course, in relation to estimated liabilities, these conditions are absent and it is clear that there is uncertainty in them. However, it is difficult to measure the degree of such uncertainty in practice. Taking this into account, for the recognition of estimated liabilities, IAS 37 gives a different interpretation of the term "probable", which differs from the interpretation given in the Principles of Preparation and Compilation of Financial Statements.

To determine the appropriate recognition criteria for estimated liabilities, IAS 37 states that "an outflow of resources or other event is considered probable if the event is more probable than not, i.e. if the probability that the event will occur is higher than the probability that it will not occur" [7]. If the absence of an actual obligation is more probable, then the company has not an estimated, but a contingent liability, which cannot be recognized as an element of the balance sheet (financial statements). The company must disclose information about contingent liabilities at the reporting date in the notes to the financial statements. Contingent liabilities are possible liabilities: (a) that arise as a result of past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not entirely within the control of the company; (b) do not result in the need for any outflow of resources embodying economic benefits; (c) the amount of which cannot be determined reliably.

Conclusions.

Thus, assets are resources that are at the disposal of the company as a result of past periods, from the use of which the company expects to receive economic benefits in the future. Our definition does not include the concepts of "control" or "management", instead we use the word "disposition". If an asset is at the disposal of the company, this means that it is controlled and managed by the company. However, control and management does not mean that the company receives economic benefits: this is manifested only in the process of using the asset, and only in this case can the resource be accepted as an asset.

In our view, liabilities, as in determining the nature of assets, should include not only current but also long-term debt of the company. The main characteristic of liabilities is that their repayment will lead to an outflow of resources that embody economic benefit. Another important characteristic of liabilities is that they arise as a result of previously conducted transactions or as a result of events that occurred in previous periods.

An accurate formulation of the essence of individual elements of the balance sheet and the correct establishment of criteria for their recognition are necessary conditions for determining the size, classification of these elements in accounting and reporting, reflecting information about them in the accounting accounts by double entry, as well as for assessing and analyzing the financial condition of the company.

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