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Classification of Financial Assets and their Functional Elements of Financial Management

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Annotation:

In the article, the effective activity of financial management in economic entities in modern conditions is analyzed in many respects, the bases related to the correct classification of management objects, their grouping according to their economic nature, conclusions and proposals are given.

Keywords: capital assets, intangible assets, financial assets, tangible assets, derivative securities, credit default, option, futures, equity share, dividend, financial arsenal, financial investments, receivables, bond, derivative, issuer, quoted financial asset, deflation, investor and bank, liquidity of the enterprise, insurance balances.

Introduction.

Effective organization of management of business entities grouped by their economic nature is ensured by selecting the necessary instruments for a complex adequate mechanism of influence in the context of the arsenal of various financial instruments.

It is known that the business model of economic entities is the organization of business operations based on the need for production factors in different fields of activity. Based on the factors of production, capital is formed and this capital is invested in assets.

The capital invested in shares is divided into 2 main directions, they are divided into the fixed production funds, that is, from long-term assets, and also from current assets or current assets directly involved in operational activities.

Based on this, capital invested in total assets can be divided into 3 main categories according to their economic nature:

1. Tangible assets.
2. Intangible assets.
3. Financial assets.

Financial assets are embodied in the structure of long-term and current assets during operational activities, they perform a number of functional tasks in economic activity.

Assets are classified into 2 main groups according to their economic nature: non-financial assets and financial assets.

Non-financial assets are divided into produced and non-produced types, and produced assets are fixed assets, stocks of material and circulating assets, as well as assets that are processed or remade to a certain extent as a result of labor. The value of these assets is determined by the abstract and concrete labor embodied in them, spent on their development.

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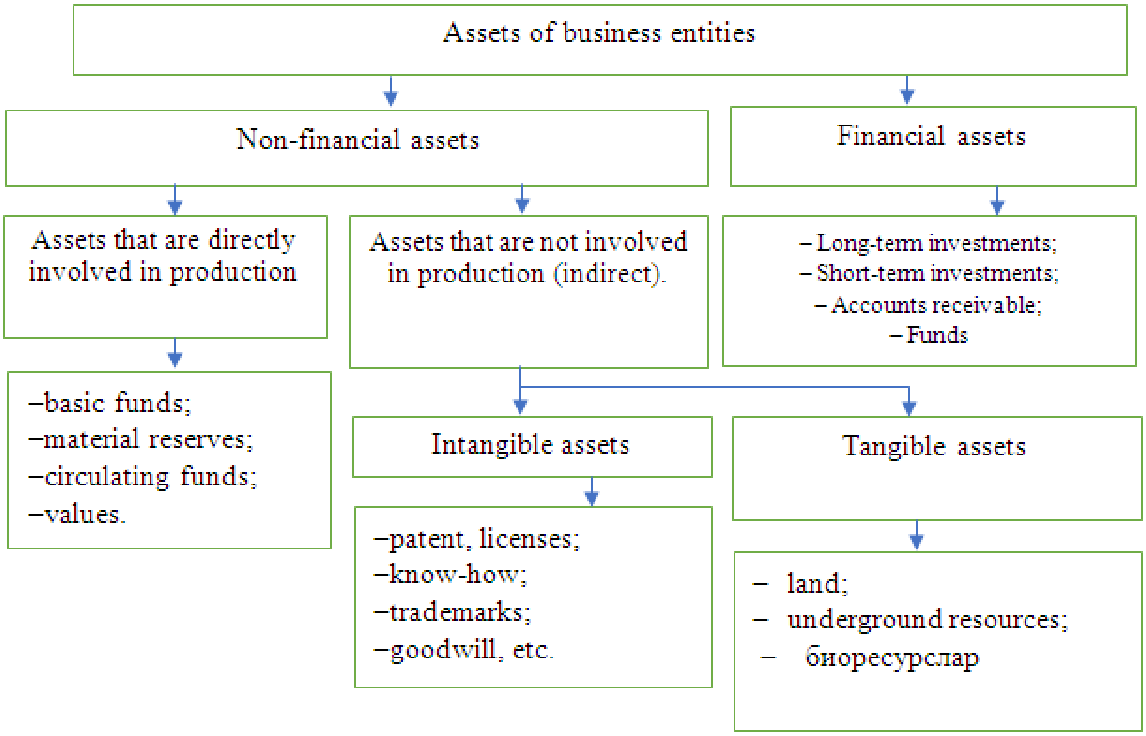

Figure 1. Classification of assets of economic entities [1].

From Figure 1, we can see that non-financial assets are considered to be assets directly involved in production, during the operating cycle, it partially transfers its value from commodity form to monetary form (funded) in the form of depreciation (long-term assets) or transfers its value from monetary form to commodity form or from commodity form to monetary form during the operating cycle. Assets that do not participate in production (indirectly) do not directly participate in the operational cycle, but their value is formed based on the prices purchased by enterprises or depending on the reputation of the enterprise in the form of a brand.

2. Literature review.

Eugene Fama and Kenneth French[2] point out that another characteristic of financial assets is that their value is based on an underlying, tangible or real asset. Based on this, it is recognized that the real value of financial assets is formed on the basis of the value of these assets, taking into account supply and demand in the market and other factors in relation to the underlying, tangible or real asset.

In fact, there are separate elements of financial assets whose value depends on the value of other real assets, and it is widely accepted in science to call such financial assets "derivative securities"[3] or "derivatives".[4]

By investing in these securities (financial assets), modern forms of financial assets have an increasing share in the financial markets, forming the largest segment in terms of capitalization in recent years. In particular, the capitalization size of this stock market is 710 trillion dollars, and we

[1] Created by the author.
[2] Eugene F. Fama; Kenneth R. French The Capital Asset Pricing Model: Theory and Evidence// The Journal of Economic Perspectives, Vol. 18, No. 3. (Summer, 2004), pp. 25-46.
[3] Bogle, John C., 2012, The Clash of Cultures: Investment vs. Speculation, Hoboken, NJ: John Wiley & Sons.
[4] Bogle, John C., 2012, The Clash of Cultures: Investment vs. Speculation, Hoboken, NJ: John Wiley & Sons.

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can see credit-default swap contracts, options, futures as financial assets with a leading weight in this market.[5].

In other words, financial assets can also be considered as a tax on income from real assets (or a claim on government revenues). By increasing the company's assets by buying shares as a financial asset, it is possible to own 2 types of ownership rights: 1. Ownership rights in the form of shares in the property of a joint-stock company. 2. The right to receive income in the form of dividends within the share of shares. First, embodying the possibility of generating potential income is characterized as a characteristic of "assets". Secondly, as a modern form of investment in assets, we can see that the financial basis of capital is being formed, not materialized. Thirdly, by means of these financial assets, the added value created by the realization of the functional task of the financial category is distributed and its potential source of income is formed.

Of course, a complete comparison of this share with tax payments can be a methodological error. However, this argument can be made based on the aspects of analogy, from the point of view that both payments are unequal payments.

3. Methodology of research.

Scientific abstraction from the theoretical methods of scientific knowledge is widely used as a research methodology. Empirical methods, logical and comparative methods of analysis, generalization, grouping, comparative analysis, statistical analysis, prospective forecasting and other methods were also used.

4. Analysis and discussion of results.

Based on scientific approaches to financial assets, they can be systematized in the cross-section of classifications presented in Figure 2:

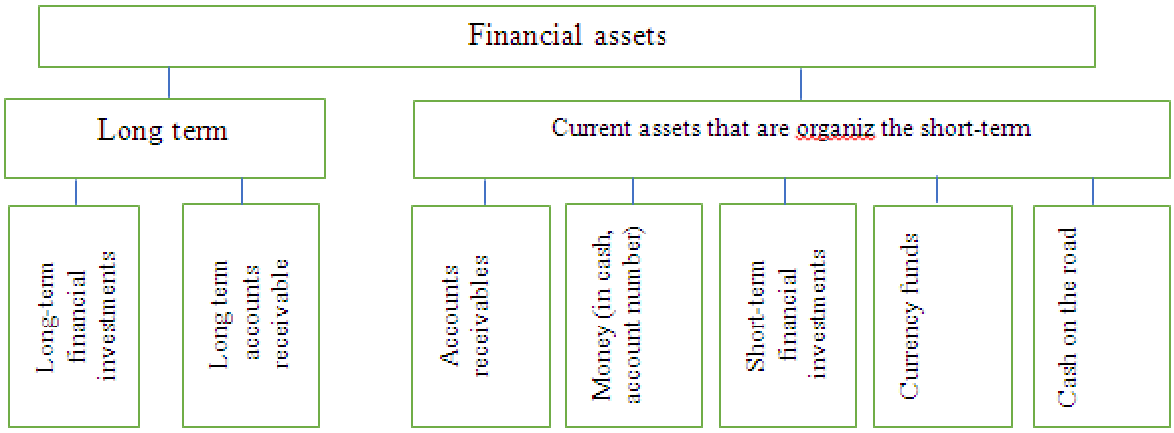

Figure 2. Classification of financial assets[6].

It can be seen from the figure that intangible and tangible assets, advances received, reserves, etc. are not included in the definition of financial assets. This is because the ownership of these assets does not give rise to the right to receive certain financial assets in the future, although it can be beneficial.

[5] Look at it: https://zen.yandex.ru/
[6] Created by the author.

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In other words, financial assets are rights to income from the use of real assets. That is, real assets are a source of income, and financial assets serve to describe the distribution of received income. Investing funds in financial assets gives the right to profit as a result of the use of real assets, the purchase of which was made through investments.

In modern conditions, we can see that there are certain differences between the international standards of financial statements and national standards in the classification of financial assets. We will try to consider this through the data of Figure 3.

From Figure 3, we can see that financial assets can be recognized as part of any group, depending on the financial intentions of enterprises and the policy of forming a financial portfolio.

Financial assets or financial liabilities measured at fair value through profit or loss are defined as financial assets or financial liabilities that meet one of the following conditions:[7]:

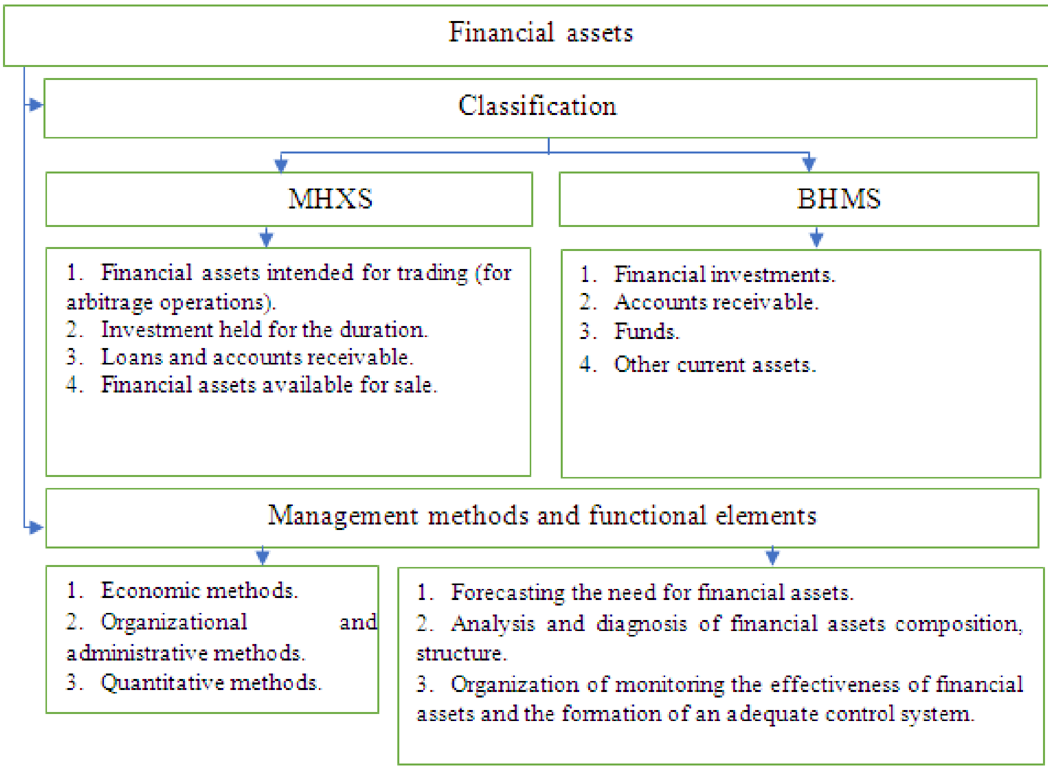

Figure 3. Comparative analysis of financial assets and management methods [8].

Financial assets held for trading. Financial assets of this category are financial assets formed at the expense of short-term current investments without having an investment character. Such assets are short-term financial assets formed for the purpose of obtaining income at the expense of the difference between exchange rates through arbitrage operations of temporary funds. At the initial stage of recognition of these assets as financial assets, they are recognized as part of the portfolio. It also incorporates derivative instruments (including derivatives) as financial guarantee contracts or effective hedging instruments. Therefore, these financial assets are not recognized as investment instruments of the first level.

[7] See International Standard Financial Reporting (IAS) 39 "Financial Instruments: Recognition and Valuation", page 4.
[8] Created by the author..

As financial assets available for sale, non-productive assets are considered, and assets that perform the role of a specific "liquidity reserve" within the current assets of enterprises are considered.

Each type of financial assets performs its own functional tasks in the structure of current assets, and their structural share embodies certain characteristics of the financial and economic activity of the enterprise.

The current asset management system covers the complex tasks of managing each of its elements, and financial assets that make up trading funds play an important role in it. This can be systematized according to current financial statements as follows.

Current assets					
TMZ and the finished product	Unfinished production	VAT	Accounts receivable	Financial investments	Funds
Production funds			Trading funds		
Intangible assets			Financial assets		

Figure 4. Classification of financial assets within current assets[9].

As we saw above, both types of assets are necessary for the normal functioning of enterprises, and systematic management of current assets are carried out to ensure the optimal composition of these assets. In particular, the excess amount of current assets in Trading funds affects the decrease in the turnover of working capital and the decrease in business activity indicators of the enterprise.

This process also affects the economic behavior of business entities. In particular, in the conditions of increasing interest rates, business entities are not interested in keeping cash in current assets. In addition, enthusiasm for investments in securities in the composition of financial assets is also high returns compared to interest rates. If the interest rates tend to increase in the country, it will affect the reduction of financial investments in the composition of assets and even the reduction of investment activity, known as the "Effect of crowding out"[10] of investments.

According to the terms of transaction, financial assets can be divided into two groups:

1. қисқа муддатли - бу муддати 12 ойгача бўлган ёки сотилиши кутилаётган молиявий активлар, улар ташкилотнинг жорий активларининг бир қисмидир;
2. long-term - these are financial assets with a maturity of more than 12 months, which are part of long-term assets.

In business practice, the most common financial assets today are stocks, bonds, bank deposits, certificates of deposit, etc.

Let's take a closer look at some of them.

One of the most common types of financial assets is a certificate of deposit.

This is an agreement between two parties: an investor and a bank, in which this investor agrees to provide funds for a specified period. In this case, the bank, in turn, undertakes to return the specified amount and, at the same time, to pay interest at the interest rate specified in the contract. If the investor does not demand to return the money for a certain period of time, the credit

[9] Created by the author.

[10] David M. Cutler & Jonathan Gruber (2 February 1995). "Does Public Insurance Crowd Out Private Insurance?". Ideas.repec.org. Retrieved 9 November 2014.

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institution may offer a higher interest rate. And, on the contrary, if the investor demands the return of the principal amount under this certificate before the expiration of the contract, fines may be imposed on him by the credit institution. For example, fines can be expressed in partial or even complete loss of interest.

Management of financial assets is based on their detailed analysis, which allows to determine the financial stability and solvency of the enterprise.

- Funds that act as a "reserve" for the company's liquidity consist of the following elements:
- cash funds in the cash register;
- settlement, current, currency funds;
- letters of credit and checks;
- other funds.

Based on the above elements, management of funds according to the characteristics of management objects includes the following functional elements:

- determining the optimal level of funds;
- cash flow analysis;
- cash flow forecasting;
- calculation of funds turnover time (financial cycle);
- budget funds and others.

Financial control system as one of the functional elements of financial asset management, business entities should take into account the following two opposite situations:

- maintaining current solvency at the required level;
- additional profit from investing free funds.

Therefore, one of the main tasks of cash management is to optimize their average current balance. This situation is based on cash flow forecasting. Cash flow management is based on fast and reliable accounting data generated on the basis of accounting and management accounting.

5. Conclusions and recommendations.

Availability of optimal amounts of funds for the financial operational needs of enterprises ensures their further stable operation and development opportunities in the future. But this does not mean that enterprises are trying to raise as much capital as possible, because it may have opportunities to increase the profit margin by obtaining additional income from the placement of funds, for example, from the funds invested in securities. In addition, high indicators of sales revenue and profit do not indicate that the enterprise has free cash for use. So, based on the above considerations, it is worth noting that the difference between profit and the amount of funds received can be justified by:

- profit reflects cash and non-cash income in accounting, and it may not correspond to the actual cash flow;
- profit is recognized after the completion of the transactions, not with the actual receipt of cash income;

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- in the calculation of profit, expenses are recognized not at the time of payment, but after the product is sold;
- a number of business transactions affect only the amount of cash, not profit (for example, the purchase of fixed assets reduces the amount of cash, but does not affect the amount of profit).

The main role in the management of financial assets, like other objects of financial management, depends on ensuring their balance in terms of types, volumes, time periods and other important characteristics. Only the final result of the effective management of financial assets in the commonality of these tasks will ensure the company's liquidity and solvency.

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