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Investment Securities

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Security, as used in businesses, refers to financial instruments that could be traded. The determination of what would be considered as security relies on the jurisdiction of the property being marketed. Investment securities, on the other hand, are those bought by the entrepreneurs for long term financial benefits. They include trading, available for sale as well as held to maturity securities. The literature describes the types, the accounting treatment, manner of which companies are assigned to meet the requirements as well as the arguments concerning the needs.

One of the investment securities is the trading type, referring to debts or equity put in place to earn profits in the modern period (Bjerre, 2016). In short, they are stocks bought and sold for cash to be collected in the short term. Among the three, the trading securities move the fastest because they are traded in the everyday operations in organizations. Regarding accounting, these securities are categorized in the fair industry value in the balance sheet. The treatment is essential as it describes the economic implications of the investment to the companies. Here, it is assumed that the investments would be made within 90 days and thus reporting in the current market makes the organizations assess the gains if the sales were made today. Nevertheless, the daily market prices vary, demanding the organizations to be flexible, so the sales put align with the fair market value. After the set period, the loss or profit earned is placed in a temporary account and then added to the income statement of that time frame.

An available for sale (AFS) is the other type of investment security. In this case, the debt or equity security bought is intended to be sold before the maturity time comes (Bjerre, 2016). They are reported at fair value and the changes evident between accounting periods placed in the comprehensive income under the equity part of the balance sheet. The AFS also lack strategy and typically have a price ready for the industry. The security is different from

the trading discussed above, concerning the treatment in accounting. They ⁷are not included in net income section but other comprehensive income (OCI) up to the selling time. Notably, the net gains are recorded in the income statement, an indication that the unmet revenues and losses in this type of security do not appear in the income statement.

While the periodic incomes are accumulated in several accounting periods and later in the retained earnings under the balance sheet, the OCI, with records of unachieved ⁵gains and losses from the AFS are put in the comprehensive income in the balance sheet (Bjerre, 2016). The documents are placed under the retained earnings in the balance sheet after the accounting period. The held to maturity securities are the stocks bought and are held up to maturity date. They are thus different from the trading and available for sale as in those, companies sell out before maturity. They are preferred by organizations avoiding the market rate changes and those diversifying investment portfolios. Besides, this security is considered by corporations not willing to have small and low risk capital instead of considerable gains in the future.

In most cases, the maturity securities are debts from the government or big corporates. The held to maturity securities are beneficial due to lower risks compared to the rest. For example, if the bond giver refuses the default, the returns usually are guaranteed. They are also not affected by industrial fluctuations because the yields are determined during purchase. The security is also reliable as they help investors make portfolios in the long term and assess the bonds with lower beta tools which diversifies the risks that would be involved. However, this security is limiting as they make the organizations' liquidity weak. The bonds have to be held till maturity, and thus cannot be sold to make cash needed presently (Bjerre, 2016). Besides the returns of this security are pre-determined, which only favors the company where downsides occur.

On the other hand, if the market improves, the organizations would not enjoy the benefits as changes are banned. The held to maturity securities are treated differently from the rest concerning accounting. As noted above, the other two are put in organizations' balance sheets as per the fair market value, but these securities are placed in their initial purchase cost. It implies that the value of the securities in all the accounting periods remain the same. The losses or gains encountered in the interest rates are put in books after the maturity period reaches.

Organizations are required to assign the securities in current and non-current proportions which have attracted controversies. The categorization is done based on profits and losses, where those to bring in money within twelve months are recorded as short term assets in the balance sheet (Riggs et al., 2016). On the other hand, those not placed in this category are said to be non-trading securities. The demands mean that the timelines and intentions of the leadership team dictate the assets to be noted as current while the rest become non-current. As stated above, the available for sale securities are those sold before maturity. The assigning named above demands them to have twelve months timeline, which could be short regarding the market changes. Moreover, the maturity securities have to be over one year fit in the assigned above. The requirements thus force organizations to operate in a specific way while categorizing their assets and treating them in accounting.

The categorization of stocks into either current or non-current portions has led to arguments. Some business analysts insist that proper accounting for all marketable securities is the present value, while others maintain that this treatment might allow organizations to manage earnings (Marra, 2016). The application of current value has several strengths and weaknesses which organizations should assess before decisions on the approach to use are made. One of the benefits is on accurate valuation, where the financial information gathered is analyzed and applied to the company accordingly. For example, if the value of the assets is

bound to increase, the companies would make changes while setting the returns leading to more profits and when the downside is expected, the changes would also be applied. It would thus make the companies flexible, and maximum benefits are therefore ensured.

The use of current value in treating accounts also leads to actual income as the companies are prevented from manipulating their profits. Notably, organizations would arrange assets sales in a way that the net income is added or reduced depending on the market outcomes. It is limiting as the records given would not represent the actual state of the market, making the government and other parties unable to predict the economy (Marra, 2016). The application of current value prevents this as the accounting reports are given in the period they represent, making it hard to manipulate. It is because if the value of the asset increases, the net income must also be more and vice versa. The use of current value thus helps companies do accurate valuations and also have exact income offering precise information about the market.

However, using the current value in marketable securities has several disadvantages. It leads to value reversal concerning the fluctuations in the market. The industry is dynamic, where at times, the values go high, and in others, they are low. Moreover, the current value concept insists that evaluation is done at all times and in cases where the market is volatile, large swings would be reported. In a short period, the prices get to the normal, indicating the previous information given would be misleading (Marra, 2016). The statement means that the current value tool is always there, and when the economy lowers and recovers after some time, the records given are not accurate. Apart from that, the current value affects the market significantly. For example, if particular assets are revalued downward because of drops in the market, organizations would be motivated to sell those more to prevent the effects of depressed prices. Over time, the value would get to the normal process, an indication that the

previous evaluation was not sufficient. As at that, the scholars insist that current values could have significant impacts on the industry.

In conclusion, having described the types, the accounting treatment, manner of which companies are assigned to meet the requirements as well as the arguments concerning the needs, it is evident that trading, available for sale and maturity securities is the types of investment approaches in the market. Both trading and available for sale are current while the maturity securities are long term. They are therefore treated differently in accounting; where the two are placed under the net income while the latter on the other comprehensive income. Organizations are needed to categorize their assets as either current or non-current portions which have led to arguments. As covered in the paper, the analyst seeks to assess ⁶the pros and cons of current value before determining the option in handling the marketable securities.

4 References

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