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Credits: Problems of identification, valuation, reclassification and impact on ratios and cash flows

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Abstract
Receivables recognised in the balance sheet may be commercial, financial or tax, or they may represent a group of receivables of a different character, which are generically referred to as sundry receivables. There are different identification rules and valuation criteria for each of these types of receivables with peculiarities and general aspects. Each of these receivables must be reclassified differently depending on the nature of the receivable. In this article, all these aspects will be analysed, delving into the issue of receivables from the point of view of determining the ratios that contain them and the cash flows that must be determined considering these items.

Keywords: Amortisation cost, credits, receivables, financial credits, accounts receivable, customers, clients, tax receivable, ratios, cash flow

1. Introduction

Corporate receivables: introductory considerations on the types of receivables identifiable in financial reporting [1]

Corporate receivables can be distinguished into four different types:

a) trade receivables
b) b)receivables of a financial nature
c) c)receivables of a tax nature
d) d)other receivables.

Each of these categories of corporate receivables is characterised by peculiarities, different valuation criteria, different reclassifications and impact on different ratios and flows.

It is therefore essential to highlight the main characteristics of the four categories of receivables to manage the accounting item correctly, both at the time of initial recognition, subsequent valuation and, finally, reclassification in the financial statements.

To have a complete view of the characteristics of the various types of receivables, reference will be made to the IAS/IFRS international accounting standards and the Italian national accounting standards issued by the Organismo Italiano di Contabilità. It should note that the Organismo Italiano di Contabilità (OIC), a private law foundation with full statutory autonomy, was recognised by Law No. 116 of 11 August 2014, converting Decree Law 91/2014, as the 'national institute for accounting standards and has the following functions:

a) it issues national accounting standards, inspired by best operating practices, for the preparation of the financial statements following the provisions of the Civil Code;
b) it provides support to the activities of Parliament and Government Bodies in the field of accounting regulations and expresses opinions when required by specific legal provisions or at the request of other public institutions
c) it participates in the process of developing the international accounting standards adopted in Europe, maintaining relations with the International Accounting Standards Board (IASB), the European Financial Reporting Advisory Group (EFRAG) and the accounting bodies of other countries.

About the activities under a), b), and c), Italian Accounting Board works in coortination with le the national authorities that get out accounting laws.

In exercising its functions, the OIC pursues public interest objectives, acts independently and adapts its statutes to the canons of efficiency and economy.
It reports annually on its activities to the Ministry of Economy and Finance.
From the above, one can understand the relevance of the Italian national accounting standards issued by the Organismo Italiano Contabilità as, in essence, these standards provide indispensable elements to draw up a valid and legitimate legal balance sheet as they complete and illustrate the content of the articles of the civil code that regulate the balance sheet in a highly concise manner.
To highlight the peculiarities of receivables, reference should be made to IFRS 9, IFRS 15 and OIC 15.
These documents explain the specifics of the various receivables and any rules that must apply to their valuation, which we will discuss in the following paragraphs.
OIC Standard No. 15 defines receivables as follows: 4. Receivables represent rights to collect, at an identified or identifiable maturity, fixed or determinable amounts of cash, or goods/services of equivalent value, from customers or other parties.
OIC Principle No. 15 emphasises that "Trade receivables identify receivables arising from revenues from the sale of goods and are recognised on an accrual basis when both of the following conditions are met

- the production process of the goods has been completed; and
- the substantial and not formal transfer of title has occurred, taking the transfer of risks and rewards as the benchmark for the substantial transfer.

Unless the terms of the contractual arrangements provide that the transfer of risks and rewards is otherwise:

a) in the case of the sale of movable goods, the transfer of risks and rewards occurs upon shipment or delivery of the goods
b) in the case of goods for which a public deed is required (e.g. immovable property), the transfer of risks and rewards occurs on the date of the conclusion of the contract of sale
c) in the case of sale by instalments subject to reservation of title, Art. 1523 of the Civil Code provides that the buyer acquires title to the goods upon payment of the last instalment of the price but assumes the risks from the time of delivery. Therefore, the recognition of revenue and the related receivables take place upon delivery, regardless of the transfer of ownership.

Receivables arising from revenues for services are recognised on an accrual basis when the service is rendered, i.e., when the service is rendered.
Principle when the service is rendered, i.e. the service has been performed."
On the other hand, non-trade receivables, i.e. receivables that originate for reasons other than the exchange of goods and services (e.g. for financing transactions), are recognisable if there is a 'title' to the receivable, i.e. if they represent an obligation of a third party to the company.
Receivables collectable with an asset other than cash are valued at the current realisable market value of such assets.
IFRS 15 emphasises that the standard concerning trade revenue, and thus trade receivables, does not apply: lease contracts regulated by IFRS 16 Leases.
IFRS 15 identifies Five-Step Models for the recognition of trade revenue and, consequently, a trade receivable in the financial statements:

1. Identification of the contract
2. Identification of the obligations
3. Determination of the transaction price
4. Allocation of the price to the obligations
5. Recognition of the revenue and the corresponding trade receivable in the balance sheet

Concerning the identification of the contract, IFRS 15 emphasises that: “an entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met: (a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations; (b) the entity can identify each party’s rights regarding the goods or services to be transferred; (c) the entity can identify the payment terms for the goods or services to be transferred; (d) the contract has commercial substance (ie the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and (e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer’s ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession….”
With reference to the identification of obligations, which affects the timing of recognition of trade revenue and thus trade receivables, IFRS 15 points out that “at contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the cuomer.”
With regard to the 'Satisfaction of performance obligations', the International Standard emphasises that “an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. …“.
With regard to 'Performance obligations satisfied over time', the IFRS standard highlights che “an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs (see paragraphs B3–B4); (b) the entity’s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or (c) the entity’s performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37)…..”

Regarding the third step, i.e. pricing, IFRS 15 states that "when (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56–58) that is allocated to that performance obligation. Determining the transaction price an entity shall consider the terms of the contract and its customary business practices to determine the transaction price……..."
Regarding the fourth step concerning the allocation of price to bonds, the international standard states that "allocating the transaction price to performance obligations The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer……….. ……."
At the end of the steps outlined above and summarised concerning the content proposed by the international standard, one can proceed to recognition in the accounts and, thus, in the financial statements. This applies to both revenue and the associated trade receivables. In summary, the company must recognise the revenue in the income statement and the trade receivables in the balance sheet when it has extinguished each performance obligation under the contract (for individual goods or services or complexes of these that can be considered distinct). As indicated by the international standard, the debt is considered extinguished when control of the good or service passes to the customer, i.e. when the customer acquires the ability to manage the use of the good and becomes the recipient of substantially all future benefits (potential cash flows).
Receivables of a financial nature, on the other hand, are regulated by the international standard IFRS 9. In contrast, the Italian national standard OIC No. 15 does not devote particular observations to such receivables, except concerning their valuation, which we shall discuss in the following pages.
IFRS 9, which replaced IFRS 39, devotes most of its comments to the valuation of financial assets and financial liabilities. Since financial receivables are, for all intents and purposes, financial assets, IFRS 9 must apply to such receivables of a financial nature. It will address the valuation of such items in the following pages. As an introduction, IFRS 9 notes that 'An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument …….. When an entity first recognises a financial liability, it shall classify it under paragraphs 4.2.1 and 4.2.2 and measure it following paragraph 5.1.1."
Since there is no precise definition of the financial receivable in the national and international standards, since the reference of the standards concerns all financial assets that include, in addition to receivables, financial instruments of various kinds, it is necessary to define the financial receivable that can be used in any context to identify this item in the financial statements. The concept of 'financial', concerning receivables and payables, requires, in essence, that a party has lent money to another party. Therefore, financial receivables identify receivables that arise as a result of a company lending money to another company or entity. An in-depth examination of the legal nature of financial receivables and payables and the guarantees attached to such items is beyond the scope of this article. The reader is referred to specific works on this subject.
Concerning tax receivables, it should note that such receivables are covered if the party with whom one has a contractual relationship is the state or a state agency that administers any taxes and duties.
Finally, sundry receivables include all receivables that do not fall into the categories illustrated above.

2) The valuation of receivables according to Italian national accounting standards and international IAS/IFRS. Differences between legal provisions and business practice in the 'Italy' case.

About trade receivables, the first element to emphasise is the need to value receivables net of credit losses. Accounts receivable losses may relate to receivables arising in the year or previous years. Point if the losses are realised concerning receivables arising in the current year, there is an elimination of the receivable in the accounts; therefore, at the end of the accounts, the receivables are already net of the actual losses that occurred in the year under review. Regarding losses relating to receivables from previous years, it should note that, at the end of each year, it is necessary to assess the presumed losses on receivables with consequent allocation to the provision for bad debts.
Indicators that make it probable that a receivable has lost value. The following are

The following are examples of such indicators:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or non-payment of interest or principal;
- The creditor, for economic or legal reasons relating to the debtor's financial difficulties, extends to the debtor a concession that the creditor would not otherwise have taken into account consideration;
- there is a likelihood that the debtor will file for bankruptcy or other financial financial restructuring;
- observable data indicating the existence of an appreciable decrease in the estimated future cash flows estimated cash flows for a receivable, including national or local economic conditions unfavourable or unfavourable changes in economic conditions in the debtor's to which the debtor belongs.

The test for impairment indicators varies depending on the composition of the loan items. This check is performed for each individual receivable if there are a limited number of receivables. If, on the other hand, the receivables are numerous and individually insignificant, it may perform such verification at the level of the loan portfolio according to the rules set out in paragraph 62).
In the case where the receivables are numerous, but some are individually material, the impairment test is performed at the individual receivable level for individually material receivables. In contrast, it may be performed at the portfolio level for the remaining receivables.
Suppose the estimation of the allowance for impairment is performed at the portfolio level. In that case, the receivables

are grouped based on similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due following the contractual terms and conditions (e.g. economic sector to which the debtors belong, geographical area, presence of collateral, classes of overdue amounts, etc.). In these cases, it may apply impairment formulas to these classes of receivables (e.g. a percentage of receivables representative of average losses historically recognised, possibly adjusted to account for the current economic situation).

Allocations to the allowance for impairment of loans secured by collateral (e.g., pledge, mortgage, surety) take into account the effects of the enforcement of collateral.

Allocations to the allowance for doubtful accounts for insured receivables are limited to the portion not covered by insurance only if there is a reasonable certainty that the insurance company will recognise the indemnity.

The loan loss allowance accrued at the end of the year is used in subsequent years to cover realised credit losses." If the allowance for loan losses is insufficient, the difference between the realised loss and the allowance must be charged to income as an actual loan loss.

The most relevant element concerning both trade and financial receivables is connected to the novelty introduced in the Italian Civil Code has been present for some time in the IFRS international accounting standards of the obligation to value receivables and payables at amortised cost. Amortised cost is regulated by Italian national accounting standards, and IFRS 9 point the basic principle does not differentiate. At the same time, IFRS 9 lays down additional rules for the valuation and reduction of receivables compared to Italian national accounting standard 15.

OIC Principle No. 15 states, ' The amortised cost criterion may not be applied to receivables if the effects are immaterial compared to the value determined according to paragraphs 46-48. Generally, the effects are intangible if the receivables are short-term (i.e. with a maturity of fewer than 12 months)."

OIC Standard 15, on amortised cost without discounting, states that "when a receivable is recognised for the first time, the initial recognition value is the face value of the receivable, except as provided for in paragraphs 41-45, net of all premiums, discounts, allowances and rebates and including any costs directly attributable to the transaction that generated the receivable.

Transaction costs, any commission income and expense and any difference between the initial value and the nominal value at maturity are included in the calculation of amortised cost using the effective interest method, which implies that they are amortised over the expected life of the credit. Their amortisation complements or adjusts interest income calculated at the nominal rate (following the same classification in the income statement), so that the effective interest rate can remain a constant interest rate over the life of the receivable to be applied to its carrying amount, subject to the recognition of changes attributable to the cash flows of the reference variable rates, where applicable (see paragraph 53). The amortised cost method may not be applied if the effects are immaterial; this is presumable when the
transaction costs, commissions paid between the parties and any other differences between the initial value and
value at maturity is insignificant.

Transaction costs that are expected to be incurred on any subsequent assignment of the receivable are not included in the valuation of the receivable at amortised cost.

The effective interest rate is the internal rate of return, constant over the life of the loan, that equals the present value of future cash flows arising from the loan and its initial recognition value. The effective interest rate is calculated when the loan is initially recognised and is then used for its subsequent measurement. In the case of contractual interest at a variable rate, please refer to paragraph 53.

The future cash flows useful in calculating the effective interest rate are determined by taking into consideration all of the contractual terms of the transaction that gave rise to the receivable, including the expected timing of collection and payment, the nature of the cash flows (principal or interest), and the likelihood that collection or prepayment will occur when contractually required.

In the case of a change in estimates of future cash flows, refer to paragraph 51.

Future cash flows helpful in calculating the effective interest rate do not include future losses and write-downs of receivables unless the losses are reflected in the initial carrying amount of the receivable, as purchased at a price that takes into account estimated uncollectable losses.

Contractual payment terms are disregarded in determining future cash flows to the extent that, at the time of initial recognition, it is objectively demonstrated, based on experience or other documented factors, that the receivable will be collected at dates after the contractual due dates and provided that the amount of the delay in collection is reasonably estimable based on available evidence."

On the other hand, in the presence of amortised cost in the presence of discounting, OIC Principle 15 states that 'Article 2426.1.8 prescribes that the "time factor" must be taken into account in the measurement of loans. At initial recognition, it must compare the interest rate inferable from the contractual terms with market interest rates to consider the time factor.

Market interest rates. The market interest rate is the rate that would have applied if two independent parties had negotiated a similar financing transaction with comparable terms and conditions to the one being examined.

Suppose the interest rate inferable from the contractual terms and conditions is significantly different from the market interest rate. In that case, the market interest rate must be used to discount the future cash flows arising from the loan. In that case, the initial carrying amount of the receivable is equal to the present value of the future cash flows plus any transaction costs as defined in the paragraph in the income statement as financial income over the life of the receivable using the effective interest rate method.

In the case of loans receivable, the difference between the cash disbursed. The present value of future cash flows, determined following paragraph 42 using the market rate of interest, is recognised in finance costs or finance income on initial recognition unless the substance of the transaction or contract suggests that this component should be of a different nature. In this case, the company assesses each fact and circumstance characterising the contract or transaction.

Concerning the initial recognition of receivables not measured at amortised cost and not subject to discounting in the condensed financial statements (Art. 2435-bis of the Civil Code) and the financial statements of micro-enterprises (Art. 2435-ter of the Civil Code), OIC Principle 15 requires that 'In the condensed financial statements prepared under Art. 2435-bis of the Italian Civil Code and in the financial statements of micro-enterprises prepared following Article 2435-ter of the Italian Civil Code, receivables may be measured at estimated realisable value without applying the amortised cost method and discounting.

Where the company avails itself of this option, paragraphs 32-45 do not apply. The initial recognition of the receivable is made at nominal value net of premiums, discounts, and allowances provided for by contract or otherwise granted. When the law provides for the automatic application of interest on late payments in commercial transactions, the related interest is recognised in item C16, "other financial income", letter d).

If the collection of interest is doubtful, an allocation must be made to the allowance for doubtful accounts based on the estimated possibility of recovery.

Initial transaction costs are recognised as prepaid expenses in class D of the assets side of the balance sheet.

Concerning receivables measured at amortised cost, OIC Principle No. 15 establishes the following rules of conduct for valuation and subsequent recognition:

"At the end of the reporting period, the value of loans measured at amortised cost equals the present value of future cash flows discounted at the effective interest rate.

The procedure for determining, after initial recognition, the value of receivables measured at amortised cost to be recognised in the balance sheet is as follows:

a) Determine the amount of interest calculated using the effective interest rate method on the carrying amount of the receivable at the beginning of the period or the most recent date of initial recognition;
b) Add the amount of interest so obtained to the previous carrying amount of the receivable;
c) Subtract interest and principal collections during the period;
d) Subtract write-downs to estimated realisable value and credit losses.

If, after initial recognition, the company revises its estimates of future cash flows (e.g. it expects the receivable to be repaid early or later than expected), it must adjust the carrying amount of the receivable to reflect the revised estimated cash flows. The company recalculates the carrying amount of the receivable when the estimated cash flows are revised by discounting the restated cash flows at the

effective interest rate calculated at initial recognition. The difference between the summarised present value of the receivable at the revision of the estimate of future cash flows and its previous carrying amount is recognised in profit or loss in finance income or expense. In the case of the early collection of a receivable, any difference between the residual carrying amount of the receivable and the collection relating to its early repayment is recognised in the income statement as financial income or expense.

The effective interest rate determined on initial recognition is not subsequently recalculated and is applied until the receivable is extinguished, except in the case described in paragraph 53.

When the nominal contractual interest rate is variable and benchmarked to market rates, future cash flows are periodically restated to reflect changes in market interest rates. The effective interest rate is recalculated from the date it recognises the interest under the contract. The latest available rate may be projected by recalculating the effective interest rate as an alternative to using the expected rate curve. There is no need to recalculate the effective interest rate when the nominal interest rate increases or decreases in a manner pre-determined by the contractual provisions and its variations are not due to indexation linked to market parameters; this may be the case of contractual "step-up" or "step-down" clauses that provide for pre-determined increases or decreases in the nominal interest rate (e.g.: the rate of 4% for the first year, 6% for the second and 8% from the third year and up to the maturity date).

Discounts and allowances of a financial nature (e.g. for prompt payment), which did not contribute to the calculation of the amortised cost because they were not foreseeable at the time of initial recognition of the receivable, are recognised at the time of collection as financial expenses.

On the other hand, concerning receivables not measured at amortised cost in abridged financial statements (Art. 2435-bis of the Civil Code) and in the financial statements of micro-enterprises (Art. 2435-ter of the Civil Code), it is stated that: "In the abridged financial statements prepared under Article 2435-bis of the Civil Code and in the financial statements of micro-enterprises prepared following Article 2435-ter of the Civil Code, receivables may be measured at their estimated realisable value without applying the amortised cost method and discounting.

Where the company avails itself of this option, paragraphs 49-54 do not apply. The subsequent receivable valuation is carried out at nominal value, plus interest calculated at the nominal interest rate, with fewer collections received for principal and interest. Net of estimated write-downs and loan losses recognised to adjust the receivable to its estimated realisable value.

Discounts and allowances of a financial nature (e.g. for cash on hand), which did not contribute to the calculation of the estimated realisable value because they were not foreseeable at the time of initial recognition of the receivable, are recognised when collected as financial expenses.

Initial transaction costs, recognised as prepaid expenses, are amortised on a straight-line basis over the life of the receivable as an adjustment to the nominal interest income."

Even though the Italian civil law and the international accounting standards IFRS9 and Italian OIC 15 impose the use of amortised cost (except for some particular categories of companies), a research carried out by Avi, Mancin and Vigato in 2021 (Avi,Mancin, Vigato 2021) showed that many companies do not apply this methodology, even though it is, by law, mandatory.

The application of amortized cost in the financial statements referring to the first year of application has been analyzed by Sòstero and Agostini (2018) in the article "Amortized cost" and will be summarized in this paragraph.

The application of the criterion within the financial statements prepared in the ordinary form, due to the provisions of Legislative Decree 139/2015 and the new OIC accounting standards, is subject to a preliminary analysis regarding the relevance of the effects produced by the application of the criterion.
Relevance, as provided for by art. 2423 c. 4 of the Italian Civil Code, acts in the application of the amortised cost as a "vector through which to scan, at the time of the initial valuation, the recourse to the criterion of amortised cost and/or actualization, rather than to nominal value. In other words, the application of the effective interest rate would make sense where useful information is provided to the reader of the financial statements." (Agostini *et al*., 2018)
According to the authors, what has been said would be ascribable to the primary purpose of the amortised cost criterion, i.e. to attribute on an accrual basis to the various financial years the economic effects of any differences between the initial value and the value at maturity of the receivable/debt; what has been said in the case of "short-term" receivables or payables or when there is no significant difference between the initial value and the value at maturity, the application of the amortised cost is exhausted in "any write-downs to be made to take into account the lower realisable value". (Agostini and Sostero, 2018)
The concept of materiality played a significant role in the application of amortised cost. It was, therefore, a focal point in the analysis of financial statements about the investigation carried out when the criterion was first applied.
Turning now to the presentation of the results that emerged from the survey carried out, a clarification must also be made regarding the sample of companies taken into consideration for the analysis of the 2017 and 2018 financial statements.
The first question investigated in the study of the financial statements of first application concerned the degree of adoption of the amortised cost regarding the companies considered to be smaller, that is, those that prepared their financial statements according to the dictates of art. 2435 bis of the Italian Civil Code.
Of the fifty companies that drew up abridged financial statements in the sample initially analysed, none had opted for the application of amortised cost and, for this reason, within the survey carried out on the financial statements for the years 2017 and 2018; it was decided to exclude the category of smaller companies from the analysis, focusing attention on companies that draw up financial statements in the ordinary form.
The choice by smaller companies not to apply the amortised cost was attributed by the authors primarily to a greater level of complexity in the application of the criterion together with the way the various accounting items are presented in the balance sheet. The authors concluded that "in the face of such concise information, it is entirely understandable that none of the companies in the sample that prepared the financial statements in an abbreviated form deemed it appropriate to "invest" in the adoption of a more refined but more complex method for the valuation of receivables and payables".
Turning now to the analysis carried out on the part of the sample that drew up the financial stateents in the ordinary form, the first question investigated related to the disclosure provided in the notes to the financial statements the number of companies that had mentioned the amortised cost in their prospectus was investigated; in this regard, 95 companies out of 100 had said it, only five medium-sized companies had not done so as they did not apply the evaluation criterion in question to any item in their financial statements.
The next question concerned the number of companies that had applied the amortized cost criterion and those that had not used it had resorted to the postulate of the relevance of effects.

Table 1: Presence and application of amortized cost basis - fiscal year 2016

	The criterion is applied to receivables and payables	The irrelevance of the standard for receivables and/or payables is declared	The standard is not used (without saying its irrelevance)	Total
Medium Companies	3	42	5	50
	6%	84%	10%	100%
Large Companies	7	43	0	50
	14%	86%	0%	100%
Total	10	85	5	100
	10%	85%	5%	100%

As can be seen from the figures just presented, the full application of the criterion of amortised cost was found only in a limited number of companies, equal in total to 10% of the sample.
The scope of the investigation subsequently shifted to the analysis of the irrelevance of the effects produced by the amortised cost:

- the irrelevance was only mentioned in the notes to the financial statements (it was, therefore, impossible to determine whether the irrelevance had been applied);
- irrelevance had been declared for some specific items (partial application of amortised cost);
- irrelevance had been declared for all the items affected by the amortised cost (amortised cost not applied and consequent recourse to the criterion of the presumed realisable value for receivables and nominal value for payables).

Table 2: Types of insignificance stated about the effects of applying the amortized cost method - the fiscal year 2016

	Irrelevance only mentioned	Irrelevance applied to some items	Irrelevance applied to all items	Total
Medium Companies	1	19	22	42
	2%	38%	44%	80%
Large Companies	5	31	7	43
	10%	62%	14%	86%
Total	6	50	29	85
	6%	50%	29%	85%

The declaration of irrelevance pronounced by the majority of the companies concerned only a few specific items within the balance sheets of the companies analysed; this peculiarity, in the opinion of the authors, was due to a combination of factors determined mainly by:

a) the possibility of not applying the amortised cost criterion to "short-term" receivables and payables and to those items that did not present a significant difference between initial and final value;
b) the existence of the option to apply the criterion prospectively;
c) the physiology of medium/long-term receivables and payables.

The combination of the factors under a) and b) determined the application of the amortised cost "only to medium/long-term receivables and payables arising in the same financial year (2016), but not to those arising in previous financial years", whereas the factor under c) would be attributable to the non-pervasive application of the criterion within the financial statements of first-time application as "by their nature, medium- and long-term receivables and payables arise less frequently than others and it is possible that in a given year no new ones arise" (Sòstero and Agostini, 2018).
The amortised cost was, therefore, applied within 60% of the financial statements for the year of the first application of the criterion. Still, only 10% of the companies had decided to apply it to all receivables and payables.

Tabella 3: Motivi di irrilevanza degli effetti derivanti dall'applicazione del metodo del costo ammortizzato – esercizio 2016

	Short-term receivables and payables	Difference between initial and final value not significant	Both reasons	Reason not specified
Medium Companies	4	0	29	9
	8%	0%	58%	18%
Large Companies	4	0	30	9
	8%	0%	60%	18%
Total	8	0	59	18
	8%	0%	59%	18%

The last series of data now presented concerns the reasons underlying the irrelevance of the effects, as illustrated in the various explanatory notes.
As can be seen, the majority of the sample attributed the recourse to the postulate of relevance to the simultaneous presence of "short-term" payables and receivables and of payables and receivables whose differential between initial value and value at maturity was judged to be not relevant; the two cases just mentioned are those provided for within the accounting standards OIC 15 and 19.
Finally, a small part of the sample made use of the case regarding exclusively "short-term" payables and receivables; for these companies, two different interpretations can be hypothesized:

1. the exclusion of short-term payables and receivables was sufficient to allow the non-application of amortized cost;
2. the company has chosen to partially apply the amortized cost by using the criterion exclusively to payables and receivables with a maturity of over 12 months.

The last figure discussed is that relating to companies which did not provide reasons for not applying amortized cost; without going into excessive detail, the research showed that the number of companies which provided partial and incomplete information on the subject of amortized cost represented a significant portion of the sample analyzed (18%).
Starting from these results, the authors of the research concluded that, in their opinion, the use of amortized cost would be incremental over the years. In other words, with the passing of the years, they hypothesized a progressive diffusion and a more significant application of amortized cost deriving from increasing familiarity with this new valuation criterion. According to the authors, "it could be expected, therefore, that the examination of financial statements after the year of first adoption [...] will reveal a greater adoption of the amortized cost criterion because there will be an increasing "accumulation" of medium-long term receivables/payables which will have to be compulsorily valued with this criterion in ordinary financial statements". (Sòstero and Agostini, 2019)
In light of the conclusions that emerged from the research work relating to the financial statements of the first adoption of amortized cost, in the following paragraph the results describing to the financial statements of the years 2017 and 2018 will be presented to verify the evolution of the methods of application of amortized cost, extending the time horizon over three years.
The purpose of this research is to continue the research carried out by Sòstero and Agostini to assess the diffusion and application of amortised cost in the financial statements after the first application, for the years 2017 and 2018.
For reasons of comparability, the data concerning the 2016 financial statements - presented in the previous paragraph -

have been readjusted to the number of financial statements available for the analysis of the years 2017 and 2018 [2].
The sample taken as reference concerns the same companies used in Sòstero Agostini's work (Sòstero, Agostini 2018), limiting ourselves to those still existing at the time of data collection to assess whether there have been any changes in the application of this valuation criterion by the same preparers of the financial statements.
The purpose of the proposed analysis is to verify whether in the financial years following the first application of the amortised cost criterion there is a greater diffusion of this criterion - compared to the first application financial statements - due to the emergence of new medium-long term receivables and payables., or whether, on the contrary, companies have continued to recognise receivables at their estimated realisable value and payables at their nominal value. This was the thesis argued in the work of Sòstero and Agostini (2018) following the empirical evidence of their research; the possibility of adopting this criterion on a prospective basis led many companies not to apply amortised cost in the financial statements of the first application (i.e. the 2016 financial statements).
Attention will be focused in particular on the companies that in 2016 declared not to apply the amortised cost due to the irrelevance of the effects produced within the financial statements and on those that did not provide reasons in the notes to the financial statements (also regarding the non-application).
The first figure presented concerns the use of amortised cost in the notes to the financial statements. Compared to 2016, this figure shows a slight increase from 94.3% in 2016 to 95.4% in 2018 (96.6% in 2017). Only a minority of medium-sized and large companies (around 4%) do not mention the criterion in the notes to the financial statements. Consequently, for these companies, it is not known whether the amortised cost has been adopted without being mentioned in the notes to the financial statements or whether the lack of mention implies a non-application of the same in the valuation of receivables and payables in the financial statements.
This first result, moreover, is impressive if crossed with the series of data reported in the table "Table 4" concerning the actual application of the amortised cost in the financial statements. The data collected from the sample of financial statements analysed allow us to state that while the criterion was more "descriptive" in the notes to the financial statements in 2017 and 2018, there was, in fact, a general reduction in the number of companies that decided to adopt it.

Table 4: Presence and application of the amortised cost method - comparison between 2016, 2017 and 2018.

	The criterion is applied to receivables and payables			**It is declared that the criterion is irrelevant for receivables and/or payables**			**The criterion is not applied (without declaring its immaterial information)**		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Medium Companies	1	1	1	39	40	39	5	4	5
	2,2%	2,2%	2,2%	86,7%	88,9%	86,7%	11,1%	8,9%	11,1%
Large Companies	4	2	2	38	40	40	0	0	0
	9,5%	4,8%	4,8%	90,5%	95,2%	95,2%	0%	0%	0%
Total	5	3	3	77	80	79	5	4	5
	5,7%	3,4%	3,4%	88,5%	92%	90,8%	5,7%	4,6%	5,7%

The main result that emerges from a reading of the data is that over the three years the number of companies that extensively applied amortised cost to all receivables and payables fell significantly from 5.7% - an already modest initial result - to 3.4% of the sample. The most surprising aspect is that this reduction is entirely ascribable to the larger companies, where it goes from 9.5% adoption of amortised cost at the first application stage to 4.8% in the following two years. On the other hand, there was a modest increase in the number of companies that referred to the criterion in the notes to the accounts, although not applying it because of the declared irrelevance of the effects on the valuation of the items (from 88.5% to 90.8%).
Within the category of "medium-sized companies", the behaviour of a company that:
- in 2016, had decided not to apply amortised cost by resorting to the pre-reform criteria, also under the possibility of the prospective application allowed by Legislative Decree 139/2015;
- in 2017, it opts for the application of amortised cost;
- in 2018, it decides to return to using the "traditional" estimated realisable value for receivables and nominal value for payables.

Table 5 provides details on how companies use immaterial information in their financial statements. The numbers below refer, therefore, to the companies falling in the second column of the previous table (77, 80 and 79 companies respectively in the three years under observation).

Table 5 - Types of irrelevance declared about the effects of applying the amortised cost method - comparison between 2016, 2017 and 2018

	Immaterial information only mentioned			**Immaterial information applied to some items**			**Immaterial information applied to all items**			**Total**		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Medium Companies	1	0	0	18	11	12	20	29	27	39	40	39
	2,2%	0%	0%	40%	24,4%	26,7%	44,4%	64,4%	60%	86,7%	88,9%	86,7%
Large Companies	4	4	4	28	22	22	6	14	14	38	40	40
	9,5%	9,5%	9,5%	66,7%	52,4%	52,4%%	14,3%	33,3%	33,3%	90,5%	95,2%	95,2%
Total	5	4	4	46	33	34	26	43	41	77	80	79
	5,7%	4,6%	4,6%	52,9%	37,9%	39,1%	29,9%	49,4%	47,1%	88,5%	92,0%	90,8%

The analysis of the accounting items for which the insignificance of effects is invoked paints a completely different picture from that shown in the first set of data. If we take into consideration the results reported in "Table 5", at an aggregate level a sort of "immobility" emerges. Only very few companies seem to have changed their behaviour compared to the first year of application. It is, however, within the perimeter delineated by the relevance postulate that one can appreciate the change that has taken place over the three years.
Leaving aside the four companies for which it is not possible to determine whether or not there was a full or partial application (reported in the column "Irrelevance only mentioned"), the most significant results can be deduced in the next two columns, where the application of irrelevance is analysed. While in 2016 the majority of companies (52.9%) had recourse to the principle of materiality only for certain specific credit/debit items - compared with 29.9% who had recourse to irrelevance for all balance sheet items (in order not to use amortised cost) - as of the following year, a clear reversal of this distribution can be seen. In 2017, the number of companies that continue to use amortised cost partially - by claiming immaterial information only for specific balance sheet items - fell to 37.9%. In contrast, companies opting for a total misapplication of amorised cost rose to 49.9%.
The distribution emerges very differently if we look at these figures separately for medium-sized and large companies. The recourse to the non-application of amortised cost for all balance sheet items was a choice adopted by almost two out of three companies among medium-sized companies (64.4%), compared with only one in three (33.3%) in the large category. However, for both groupings, the number of companies that opted not to apply amortised cost grew considerably between 2016 and 2017: +20% for medium-sized companies and +19% for large companies.
The 2018 figures confirm the distribution of the previous year with a reduction of two in the number of companies declaring the total irrelevance of the effects produced by amortised cost. One of them is that a company returns to partially apply amortised cost in 2018 by valuing debt securities according to amortised cost precisely as it did in 2016. In 2017, the same company declared the total irrelevance of the effects produced as there were no securities on the balance sheet.

In summary, from the data collected, a general tendency emerges for companies to move towards a complete non-application of amortised cost in the preparation of their financial statements. This result does not seem to depend on the size of the company, as it is found among both medium-sized and large companies, although slightly less for the latter. The results lead to confirm that about one in two companies, in their 2017 and 2018 financial statements, explicitly refers to the principle of materiality to justify the non-application of amortised cost (to be precise, 49.4% in 2017 and 47.1% in 2018).
The last part of the research focused on the underlying reasons for the immaterial information of the effects in relation to the application of amortised cost. The results that emerged from reading the financial statements of the sample in the years 2017 and 2018 did not vary significantly compared to 2016, with the majority of companies recalling both reasons (short-term receivables/payables; the difference between initial and final value of the receivable/payable) provided for by accounting standards OIC 15 and OIC 19. Detailed results are shown in "Table 6".

Table 6: Types of immaterialiy declared about the effects of applying the amortised cost method - comparison between 2016, 2017 and 2018.

	Short-term receivables and payables			**Difference between initial and final value not significant**			**Both reasons**			**Reason not specified**		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Medium Companies	4	7	7	0	0	0	28	25	25	7	8	7
	8,9%	15,6%	15,6%	0%	0%	0%	62,2%	55,6%	55,6%	15,6%	17,8%	15,6%
Large Companies	4	5	5	0	0	0	26	25	25	7	6	6
	9,5%	11,9%	11,9%	0%	0%	0%	61,9%	59,5%	59,5%	16,7%	14,3%	14,3%
Total	8	12	12	0	0	0	54	50	50	14	14	13
	9,2%	13,8%	13,8%	0%	0%	0%	62,1%	57,5%	57,5%	16,1%	16,1%	14,9%

In detail, none of the companies explicitly mention the difference between the initial and final value as the only reason for adopting immaterial information. This result was to be expected considering that all companies have short-term receivables and payables and it would be entirely unreasonable to use the amortised cost for the latter and not

to apply it (at the same time) to long-term receivables/payables with insignificant differences between their initial and final values. For this reason, those who justify irrelevance cite only the presence of short-term items or both.

However, it should be noted that some of the companies that state that they do not apply amortised cost only to "short-term receivables and payables" also present in their balance sheet medium- and long-term receivables and payables that are not measured at amortised cost. This aspect, read together with the generality with which many of the notes to the financial statements in the sample are compiled, may help to provide a possible interpretation of the significant change in the distribution of the percentages over the three years. In many of the financial statements the disclosures in the notes to the financial statements were partial and incomplete or based on predefined formats, often related (most likely) to the particular accounting software used to prepare the financial statements. We are therefore of the opinion that the change in the distribution of the percentages within the different categories is not so much due to a change in the behaviour of the preparer of the financial statements as, for many financial statements, to a lack of attention to the preparation of the notes to the financial statements.

The decrease in the number of companies using the amortised cost in the valuation of their accounting items - which emerges from the analysis of the data - is, in our opinion, to be found on the one hand in the contradiction of the instrument concerning the typical logic of the statutory financial statements, and on the other hand in the methods of application of the postulate of relevance introduced to the OIC accounting standards.

About the first aspect, it should be noted that the adoption of the amortised cost was a free decision of the national legislator since Directive 2013/34/EU did not provide for the extension of this criterion to non-IFRS compliant companies.

The introduction of the financial logic underlying the amortised cost differs and is incongruent with the purposes of financial statement reporting typical of "European-continental" systems inspired by prudential drafting principles and preservation of assets in favour of company creditors. For unlisted companies, the application of amortised cost is almost exclusively applied to financial debts in the balance sheet. Suppose it is true that the application of amortised cost, on the one hand, leads to a reduction in the company's profit, which will have to discount the higher interest expense implicit in the debt, on the other hand. In that case, it is true that for the entire duration of the loan, the value of the debt shown in the balance sheet will tend to be lower than the final (nominal) value, leading to a systematic underestimation of the company's level of indebtedness. The above can be easily understood by analysing Baldissera's statement, according to which "a first point to consider concerns the restatement of the amount of the debt which, being calculated net of transaction costs, is shown in the financial statements at an ideal value, i.e. a value that is not representative of either the actual undue payment or the disbursement that will follow its extinction". (Baldissera A. 2018).

Concerning the application of the relevance postulate, the non-application of the amortised cost has been implemented by resorting to the postulate governed by Article 2423, paragraph 4 of the Italian Civil Code, according to which it is not necessary to comply with the obligations for recognition, measurement, presentation and disclosure when their observance would have irrelevant effects for giving a true and fair view.

The broad discretion allowed by the OIC accounting standards in applying this postulate, together with the absence of any quantitative limit that helps to define the threshold of "materiality", allows management to make wide use of it to reduce or avoid the use of amortised cost.

Given that the current approach to accounting standards always considers the effects produced by "short-term" receivables and payables as immaterial, about the valuation of "medium- and long-term" receivables and payables, it is necessary to bear in mind that the main form of remuneration of these transactions is represented by the contractual interest rate, while the transaction costs are unlikely to reach considerable amounts concerning the total size of the transaction; therefore, unless the contractual interest rate is not significantly different from the market rate, it is necessary to take into account the fact that the main form of remuneration of these transactions is represented by the contractual interest rate. In contrast, the transaction costs rarely reach considerable amounts for the total size of the transaction (,In the event of a significant difference from current market rates, it would be mandatory to discount the credit or debit) it is quite probable that the use of amortised cost will lead to a credit/debit value that differs little from the application of the pre-reform criteria.

The most common type of shareholder loan is non-interest-bearing and subordinated

The paradox is that for these companies, the transaction costs related to financing transactions - from which most long-term receivables and payables arise - are often insignificant compared to the amount of the transaction. The paradox is that for these companies, the transaction costs related to financing transactions - from which most long-term receivables and payables arise - are often insignificant compared to the amount of the transaction, making the application of the materiality principle justified.

Concerning the reduction of receivables, whether financial or commercial, OIC Principle No. 15 does not specify any other rules of conduct. Instead, the provisions of IFRS 9 are much more extensive. In extremely concise terms, it can state that the most relevant rules, illustrated in great detail by IFRS 9, can be summarised in a few fundamental principles that must apply to all receivables.

First, it must remember that IFRS 9 replaced IAS 39 by making far-reaching changes to what had previously been in place. One of the most important changes concerns the Standard indicated by IFRS 9, according to which the recognition of expected losses on receivables must, when the conditions exist, be carried out through a provision for expected losses, based on the so-called Expected Loss Model (ECL), which has superseded and annulled the Incurred Loss Model provided for by the previous IAS 39. This model for determining losses provided for the recognition of loan losses only when objective evidence was known that led to the claim that there was an impairment loss, as the same expression used by the Standard (incurred

loss) tells us.
According to the Expected Loss Model provided for by IFRS 9, as of 2018, a loan or, in general, a financial asset is written at amortised cost; it must be valued in the balance sheet net of the risk of the expected loss, regardless of whether these circumstances related to the determination of the risk have already been realised or will be realised in the future. Under this model, a loan, or in general a financial asset carried at amortised cost, is to be measured net of the risk of expected loss, regardless of whether those risk circumstances have already materialised or will materialise in the future, as is again understood from the phrase used in the International Standard.
In general, to calculate Expected Credit Losses (ECL), it is possible to multiply the Probability of Default (PD) by the Estimated Loss Given Default (LGD) by the Exposure at Default (EAD), resulting in the following formula:

$$ECL=PD\times LGD\times EAD$$

In addition, to assess expected credit losses, as will be shown in the following pages, it is also necessary to consider expected cash flows from collateral and other credit risk mitigation instruments that are part of the contractual terms and that are not recognised separately.
This method of calculating losses essentially provides for classifying loans into three levels, which provide different forms of calculating interest.
The first sector, termed stage in technical terms, includes performing loans, i.e. loans that have not shown an increased risk of loss since initial recognition or that have a shallow risk of failure at the time of closing the accounts. These are certain so-called credits for which full repayment is expected without having to go through any special procedures to collect the money that the company has to come into possession of when the credit is due. In this first stage, any losses that can be expected, with shallow risk, are determined per year, considering a time frame of 12 months. And it should note that some authors have pointed out that this time frame is not always suitable because in particular situations in which payments are not significant in the first 12 months of financing, the credit or the credits change based on factors that only have a risk impact within 12 months, the calculation is not a correct and significant point. In this case, it should make further observations to verify whether the credit belongs to this sector or the next sector of Underperforming credits.
The second sector includes the so-called Underperforming credits, i.e. credits that, compared to the time of recording, have shown a dangerous increase in the risk of not being able to take possession of the money at the natural maturity of the credit over months. In the case of underperforming loans, there is as yet no objective evidence of impairment, but there is this tendency towards a steady increase in credit risk. The circumstance of including credits in this sector is generally connected to the occurrence of specific situations that represent alarm bells concerning the absence of credit risk, such as a default of more than 30 days and for the natural maturity of the credit or the worsening of the credit rating level, or evident economic-financial difficulties of the entity from which the company has the credit. In this regard, it is worth mentioning how the European Central Bank banking supervision issued March 2017 the Guidance to Banks on Non-Performing Loans, a valuable document for identifying underperforming loans. This guidance highlights all the elements that represent warning indicators and for situations of danger and risk concerning credit; therefore, this guide contains a series of warning indicators that help to understand when a loan has a low, medium or high risk of non-collection.
In the last sector, we find the so-called non-performing receivables, i.e., those assets in which objective elements can be seen that make a loss at the balance sheet reference date almost certain, and the financial instruments and receivables connected to this third sector of non-performing assets show a significant risk for which the loss has, practically speaking, already effectively manifested itself. When such situations occur, the calculation of the loss is carried out analytically about individually impaired loans in proportion to the remaining life of the individual loan outstanding.
Loans belonging to the underperforming credits and non-performing credits sectors take as their time reference the residual contractual term of the credit, i.e. they refer to the natural maturity of the loan. At this point, this time frame is defined as a lifetime. It should note that the time considered adopted with reference in particular to under performing credits, derives from a relative presumption that is based on the consideration that if the contractual payment is more than 30 days past due and has not been collected, the credit risk of the financial asset has increased significantly since the initial recognition point is to note, however, that the company can show that this delay is not due to an increase in credit risk OA debtor problems but simply has bureaucratic problems that do not affect the credit risk of a financial instrument point think of the case in which the non-payment results from an administrative error or from a banking or interbanking bureaucratic problem in which case proof can be given to the contrary of the basic principle that on the due date of the thirtieth day and comma if the credit has not been collected there is an increase in credit risk. In order to determine whether the risk has really increased significantly, one would have to consider additional information available at a reduced cost and for the company to prove that non-payment on the claim's natural due date does not represent an increase in credit risk. This information should be based on market indicators, factors and information specific to the debtor comma and on the characteristics of the credit itself comma, all of which make it possible to determine whether the credit risk has increased or not. Assuming significant evidence of no increase in credit risk, the credit itself may be placed in the performing credit sector or the underperforming credit sector if initially considered inclusion in the non-performing credit sector.

3) The reclassification of receivables in the financial reporting governed by the Italian Civil Code and in the balance sheet prepared for internal company analysis purposes.

After having identified the characteristics of trade and financial receivables and having briefly illustrated the main rules that must be followed for the valuation of both, the problem of their reclassification in financial reporting arises. And here, we deem it appropriate to highlight the

classification provided by the Italian Civil Code and the reclassification that must be followed using a balance sheet proposed by the article's writer for the company's internal financial and equity analysis to be truly effective. As may be noted, the two balance sheets are differentiated points; the civil code aims to homogenise the company's disclosure to third parties. This balance sheet, as well as the statutory profit and loss, is not sufficiently informative to implement a complete and exhaustive balance sheet analysis for internal company purposes. This is why, as part of an integrated information system, we propose a balance sheet reclassified according to a financial criterion that allows a complete analysis by ratios and enables a full understanding of the company's financial and equity situation.

As a first step, we will analyse the situation provided for by the Italian civil code by reporting the assets of the balance sheet regulated by national legislation point we will not report the liabilities and shareholders' equity as the subject of this article are the receivables that are on the asset side of the balance sheet.

Art. 2424. c.c - the content of the balance sheet - stipulates that the balance sheet must prepare following the following format:

Assets

A. Receivables from shareholders for payments still due, with separate indication of the part already called up.
B. Fixed assets, with separate indication of leased assets:

1) Intangible fixed assets:

1. Start-up and expansion costs;
2. Development costs;
3. Industrial patent rights and rights to use intellectual property;
4. Concessions, licences, trademarks and similar rights;
5. Goodwill;
6. Assets under construction and advances;
7. Other.

Total

2). Tangible fixed assets

1. land and buildings;
2. plant and machinery;
3. industrial and commercial equipment;
4. other assets;
5. fixed assets under construction and advances.

Total.

3) Financial fixed assets, with separate indication, for each item of receivables, of the amounts due within one year

1) Equity investments in:

a) Subsidiary companies;
b) Associated undertakings;
c) Parent undertakings;
d) Undertakings controlled by parent companies;
e) (d-bis) other undertakings;

2) Receivables

a) From subsidiary undertakings
b) (b) from affiliated companies;
c) (c) from parent companies;
d) from companies subject to the control of parent companies; d-bis) from others; (d-bis) due from others;

3) other securities

4) derivative financial instruments receivable

Total.

Total fixed assets (B)

C) Current assets

1) Inventories

1. raw, ancillary and consumable materials;
2. work in progress and semi-finished products;
3. contract work in progress;
4. finished products and goods;
5. payments on account.

Total

2) Accounts Receivable, with separate indication, for each item, of amounts due after one year:

1. from customers;
2. from subsidiary companies;
3. from associated companies;
4. from parent companies;
5. from companies subject to the control of parent companies;

5-bis) tax receivables;
5-ter) deferred tax assets;
5-quater) due from others;
Total.

III) Financial assets not constituting fixed assets

1) equity investments in subsidiaries;
2) equity investments in affiliated companies;
3) equity investments in parent companies;

3-bis) equity investments in companies controlled by parent companies; (7)

4) other equity investments;
5) derivative financial instruments receivable;
6) other securities.

Total.

IV) Cash and cash equivalents

1. bank and postal deposits;
2. cheques;
3. cash on hand.

Total.
Total current assets (C).
(D) Accruals and deferrals.

Article 2424a illustrates the difference between fixed assets and current assets. According to this provision, assets are fixed if the assets are intended to be used long-term in the business.

A particular circumstance concerns the different treatment of receivables and securities/equity investments.

Receivables included in current assets whose payments are expected beyond the next financial year (item BIII2 of assets) or the following year (item CII under assets). Principle OIC 15 emphasises that 'the classification of receivables between current assets and financial fixed assets disregards the principle of collectability (i.e. based on the period within which it will transform the assets into cash, conventionally represented by the year), but is carried out

based on the role played by the various assets in the company's ordinary operations. In essence, the classification of assets is based on the criterion of their 'destination' (or origin) in the ordinary course of business. In particular, the legislator requires a separate indication of receivables included in financial fixed assets (i.e. of financial origin) whose amounts are due within the next financial year (see item BIII2 of assets).

To indicate amounts due within or beyond the financial year, classification is made concerning their contractual or legal maturity, also taking into account

- Facts and events provided for in the contract that may lead to a change in the original due date, occurring by the balance sheet date;
- The debtor's realistic ability to fulfil its obligation under the contract; and
- The time horizon in which the creditor reasonably expects to be able to collect the receivable.
  Receivables, as noted above, are shown in the balance sheet net of write-downs necessary to bring them down to their estimated realisable value.

Receivables from subsidiaries, associates or parent companies and companies subject to the control
of parent companies, are recorded in the appropriate items BIII2 a), b), c), and d) (if financial) or
in items CII 2), 3), 4), and 5) (if of a commercial nature). For the definition of subsidiaries,
associated companies, parent companies or companies subject to the control of parent companies, please refer to the regulatory provisions of
of Article 2359 of the Civil Code, which states that "Subsidiaries are considered to be

1) companies in which another company holds the majority of the votes that can exercise in the ordinary shareholders' meeting;
2) companies in which another company has sufficient votes to exercise a dominant influence in the ordinary shareholders' meeting;
3) companies that are under another company's dominant influence by special contractual ties with it.

For the application of numbers 1) and 2) of the first paragraph, votes held by subsidiaries, trust companies and third parties shall also be counted: votes held on behalf of third parties shall not be counted.

Companies over which another company exercises significant influence shall be deemed affiliated. Influence is presumed when at least one-fifth of the votes can be exercised in the ordinary shareholders' meeting, or one-tenth if the company has shares listed on regulated markets."

Items BIII2c) and CII4 also include claims on parent companies above the first level, i.e. parent companies that control the company, indirectly, through their intermediate subsidiaries." Note that, while concerning receivables, one must look at the origin of the claim involving securities and participations, and one must look at the board of directors' intention regarding the sale or continued possession of those securities. In other words, concerning receivables, once they have been placed under current assets in the fixed assets, they must remain there until maturity. From the above concept outlined in OIC 15 and the concept outlined in the Civil Code, it is understood that trade receivables are always considered current assets. Trade receivables must, therefore, always be included in aggregate C II, possibly highlighting the long-term portion.

On the other hand, about long-term receivables, if the receivable of a financial nature, for example, had a maturity of 10 years, since it is permanently included in the company's economy, it must be classified as a fixed financial asset, and in that position, the receivable must remain until maturity. In the last year before maturity, it will simply be a short-term item included in fixed assets, just as it may happen that trade receivables, although included in current assets, are long-term. And if the financial receivables are annual, i.e. they are due within 360 days, they may be considered, even though they are financial, as receivables belonging to current assets and therefore will have to be entered in the C II aggregate. If, on the other hand, the due date is later than two or three years, the item must be considered multi-year and, therefore, must be included in fixed assets BIII and, as already noted, must remain in that position until the natural maturity of the receivable.

The rule changes radically if attention is shifted to securities and participation points. In this case, one does not look at the origin of the item but at the options that the directors of the company drawing up the balance sheet intend to apply. This means that if the securities and participations at 31 12 closings represent values the company wants to retain for the long term, these securities and participations should be classified under fixed assets and thus under aggregate B III. If, on the other hand, securities and participations are to be mobilised at year-end, regardless of whether they were previously fixed assets, they are to be moved to current assets CII. Thus, while securities and participations can be moved from one year to the next from fixed assets to current assets and vice versa, depending on the sale intentions of the board of directors, receivables are immovable until the natural maturity of the amount.

Concerning tax receivables, they may be considered either as current assets if they are not immobilised in the economy of the company or immobilised if they are expected to be collected over several years. In the first case, the receivables must be recognised in aggregate CII; in the second case, they must identify in financial fixed assets B III.

As regards sundry receivables, it can generally state that a short maturity characterises them. In almost all cases, therefore, such receivables are to be recognised under current assets CII.

Quite different is the situation that must handle if the item of trade and financial receivables is to be reclassified as part of a balance sheet used for internal company analysis. In this article, the balance sheet reclassified according to the financial criterion is proposed as part of an integrated information system.

From the point of view of an integrated information system, the reclassification scheme of the balance sheet and the balance sheet budget must be very structured and complete to guarantee an in-depth examination of the company's balance sheet and financial situation, and simplified structures do not allow. Generally, the forms proposed by academics are simplified to facilitate the analyst's work. This is not acceptable because such simplification makes a

complete, exhaustive and, above all, reliable analysis of financial reporting impossible.
The reclassification scheme of the balance sheet and the balance sheet budget of the integrated information system must be structured as follows:

Reclassification scheme balance sheet/budget balance sheet implemented as part of an integrated information system.

	ASSETS	**31/12/N**		**Liabilities and Equity**	**31/12/N**
	Short-Term Assets			**Short-Term Liabilities**	
1.	Immediate liquidity		1.	Short-term financial liabilities	
2.	Deferred liquidity				
	* Trade receivables				
	* Financial liquidity		2.	Short-term tax liabilities	
	* Tax-deferred income				
	* Non-characteristic deferred income				
3.	Availability (inventories)		3.	Short-term non-financial liabilies	
4.	Short-term assets non-characeristic				
5.	Advances to trade suppliers				
	LONG-TERM ASSETS			Long-term Liabilities	
1.	Long-term tangible assets		1.	Long-term financia liabilities	
2.	Long-term intangible assets		2.	Long-term tax liabilities	
3.	Long-term credit assets				
	* *Trade accounts receivable*				
	* *Financial assets*				
	* *Tax assets*		3.	Long-term non-financial liabilities	
	* *Non-typical accounts receivable*				
				Equity	
4.	**Long-term assets non characteristic**				
	Stand-alone items			Stand-alone items	
	Net Assets			Balance Total	

If the reclassification concerns the balance sheet above, receivables must be included in the following aggregates:

- Trade receivables due within 360 days:
  Deferred liquidity
  Trade receivables
- Trade receivables with a maturity of more than 360 days:
  Long-term credit assets
  Trade accounts receivable
- Trade receivables due within 360 days:
  Deferred liquidity
  Financial liquidity
- Financial receivables due over 360 days
  Long-term credit assets
  Fifinancial assets
- Tax receivables due within 360 days:
  Deferred liquidity
  Tax assets
- Tax receivables due in more than 360 days:
  Long-term credit assets
  Tax assets
- Sundry receivables due within 360 days:
  Deferred liquidity
  Non typical account receivables
- Sundry receivables due over 360 days
  Long-term credit asstes
  Non typical account receivables

Per concludere la problematica riguardante la riclassificazione dei crediti non si può non citare quanto indicato dal principio internazionale IAS 1 il quale non impone una struttura obbligatoria ma semplicemente elenca una serie di voci che devono essere considerate nella redazione del bilancio . In tale principio si stabilisc che lo Statement of financial position deve essere contraddistinto dalle seguenti informazioni:

a) Property, plant and equipment;
b) Investment property;
c) Intangible assets;
d) Financial assets (excluding amounts shown under (e), (h) and (i));
   (da) groups of contracts within the scope of IFRS 17 that are assets,disaggregated as required by paragraph 78 of IFRS 17;
e) Investments accounted for using the equity method;
f) Biological assets within the scope of IAS 41 Agriculture;
g) Inventories;
h) Trade and other receivables;
i) cash and cash equivalents;
j) The total of assets classified as held for sale and assets included indisposal groups classified as held for sale in accordancewith IFRS 5 Non-current Assets Held for Sale and DiscontinuedOperations;
k) trade and other payables;
l) provisions;
m) Financial liabilities (excluding amounts shown under (k) and (1));
   ma) groups of contracts within the scope of IFRS 17 that are liabilities,disaggregated as required by paragraph 78 of IFRS 17;

n) liabilities and assets for current tax, as defined in IAS 12 Income Taxes;
o) Deferred tax liabilities and deferred tax assets, as defined in IAS 12;
p) Liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;
q) Non-controlling interests, presented within equity; and
r) Issued capital and reserves attributable to owners of the parent.

As can be seen, IAS 1C requires that trade and other receivables must be present, as a matter of course. The standard also specifies that " An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:
a) the nature and liquidity of assets;
b) the function of assets within the entity; and
c) the amounts, nature and timing of liabilities."

It also points out that "An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial ….. when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.
Whichever method of presentation is adopted, an entity shall disclose theamount expected to be ecovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:
a) no more than twelve months after the reporting period, and
b) more than twelve months after the reporting period.

When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.
For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.
For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets
An entity shall classify an asset as current when:
a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
b) it holds the asset primarily for the purpose of trading;
c) it expects to realise the asset within twelve months after the reporting period; or
d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. An entity shall classify all other assets as non-current.

This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IFRS 9) and the current portion of non-current financial assets."

4) Receivables, trade, financial, tax and miscellaneous credits, in the monetary flows
Trade, financial, tax and other receivables should be considered differently in determining monetary flows. In monetary flows, receivables behave differently depending on their nature. Regarding trade receivables, this does not create a separate cash flow; instead, the value of the difference between initial and final receivables of a commercial nature must be linked with characteristic revenues. This source, which derives from the link between characteristic revenues and the difference between trade receivables at the beginning and end of the year, forms part of the calculation of characteristic cash flow, i.e. the cash flow from the performance of the company's typical business activity. In this way, the cash flow resulting from characteristic revenues can be determined, which must, of course, also be deducted from the write-off of receivables and thus from the utilisation of the allowance for doubtful accounts or from actual losses that have been realised during the year concerning receivables that arose during the year.
As far as financial receivables are concerned, it must not link this item to any other item in the financial statements; point financial receivables can give rise to both sources and needs depending on whether the receivables are granted or collected this item falls within the scope of financial management. Therefore, the incoming and outgoing flow must be considered part of this management.
As for credits of a tax nature, they generally create an income that is included within the scope of tax management, even though in reality, only outflows related to the payment of tax debts should appear in that management; the presence of credits, however, poses the problem of the correct reclassification of the inflow of this type of credit. Since the nature is fiscal, the incoming flow, should it be realised comma, cannot but be of a fiscal nature point, so it must include the flow connected with this type of credit in the tax management. Concerning miscellaneous receivables, on the other hand, a separate discussion must be made since

miscellaneous receivables contain various types of credit; in theory, to calculate the flows perfectly, one should separate the miscellaneous receivables and identify the origin of the receivable so that each receivable can be linked to the revenue or cost to which it relates. For example, suppose there was a receivable in the accounts that gave to a lawyer. In that case, it is clear that the difference between the initial and final receivable value for the year in question should be linked to the cost incurred for legal fees. Therefore, the various receivables must be split and separated to identify the different types of receivables to allow the perfect calculation of the flows. Suppose there are receivables that have no connection with costs and revenues present in the accounts and therefore do not change the input-output flow of costs and revenues already current in the accounts. In that case, it is necessary to identify the difference between the initial and final receivable, and this value will constitute a monetary income or output depending on whether the receivable increases or decreases.

5) Ratios in which credits, directly or indirectly, have the greatest impact

Receivables inevitably impact all ratios in which total assets are at the numerator or denominator. Being part of the assets, it is evident how the presence of receivables directly affects the ratios in which such an aggregate is recorded at the numerator or denominator. We do not intend to list all the indices in which the company's assets are present, as it would mean describing the complete analysis by income and financial indices without any real benefit from this list.

In this paragraph, we intend to address the ratios in which the receivables have a powerful impact on the ratio as they identify the characterising element of the ratio itself, first and foremost, if you may recall, the average duration of receivables. This ratio is derived from the contrast between total trade receivables and daily revenues. This formula is stated in the lines above in all books and articles. This is not a problem if one knows exactly the meaning of the values to be entered in the numerator to the denominator of this ratio. And to avoid interpretation errors, it is necessary to point out that trade receivables placed in the numerator must be reported net of the allowance for doubtful accounts. Indicating trade receivables gross of the funding for doubtful debts would, in fact, mean disregarding those bad debts, i.e. those considered in the calculation of the allowance for doubtful debts, and that represent precisely those receivables that extend the average life of trade receivables. This is a frequent error found in the calculation of this index. One can see at the level of doctrine and practice the mistake of indicating trade receivables gross of the provision, thus calculating an index that can be completely incorrect and misleading.

While trade receivables include value-added tax Hey, this tax is not included in revenues. The daily revenues that must indicate in the denominator have a characteristic that differentiates them from the value of the numerator. This inhomogeneity leads to the calculation of an incorrect and misleading index point, which is why the correct analysis of the average receivables duration index involves the addition to the revenues of the value added tax is the division of this total value by 360 to identify the daily revenues..

The average duration of accounts receivable is a highly relevant ratio, as it is helpful from the financial and income sides. From an economic point of view, this ratio is considered to compare with the average duration of payables and to see if there is a balance between extensions granted to customers and extensions obtained from suppliers. Therefore, the average time of receivables is a fundamental index in the static financial analysis by ratios of a company. However, the average duration of receivables also has considerable relevance in earnings analysis. When analysing the rotation index of the short-term characteristic assets invested in the characteristic asset management, in particular, the average duration of receivables represents a fundamental index for understanding whether the short-term characteristic assets have been managed positively or negatively precisely, it must remember that together with the average duration of receivables, it is also necessary to consider the rotation of inventories. In this case, the average time of receivables expresses an income aspect and serves to understand, from an income point of view, the impact of the management of company assets.

It should be noted, however, that analysing the average duration of receivables solely as an element explaining the trend of characteristic short-term asset turnover is not sufficient for a complete analysis of the company. You were aware that, at the income level, a fundamental index is a return on investment, i.e. the ROI point; this index highlights the income trend of the characteristic management and derives from the contraposition between Gross operating profit, i.e. the income from the characteristic activity comma and the characteristic assets, i.e. the assets invested in activities related to the typical company activity. To study ROI, it is necessary to identify the profitability of sales, i.e. the ROS. This index is derived from the contrast between the large wall in profit and the total characteristic revenues. Directly, the average duration of receivables has no impact on this index, as the ROS is made up of numerator and denominator, which are derived from cost and revenue aggregates. In reality, however, the average duration of receivables can have a very considerable impact on ROS since the company's credit policy can strongly influence both the p-turn and the revenues. For example, the following situation may arise the average credit duration increases. This means that the credit terms granted to customers become longer. This has a direct, negative impact on the rotation of short-term, characteristic assets since as the average duration of receivables worsens, so does the rotation of short-term, characteristic assets. However, this may indirectly have an extremely positive effect on Ros in that the company's policy of granting credit to its customers may be the winning element of its sales strategy. This is the typical example of an index that impacts directly on one ratio and indirectly on other ratios, perhaps in a contrasting manner, i.e. positively on one ratio and negatively on another ratio. The average loan maturity, therefore, identifies one of those ratios in which several aspects are studied at the same time, i.e. the financial and the earnings point, and in the earnings area the ratio may have different impacts on several ratios, impacts that may generally act in contrasting ways. The final judgement will depend on the weight of each impact point; if the average duration of receivables has a heavier impact on the rotation of characteristic short-term assets and a very slight effect on

ROS, there will be a worsening of the company's typical profitability point if, on the contrary, the average duration of receivables worsens. There is a notable improvement in ROS and consequently also in the company's characteristic profitability, i.e. ROI.

Concerning other receivables, i.e. financial receivables, tax receivables and sundry receivables, no particular indices study their performance. These items are therefore included in the enormous aggregate of the balance sheet assets. Therefore, they directly impact all indices in which either the numerator or the denominator, as already pointed out above, contains either the total balance sheet assets or a part of the same. As already explained, it is not deemed appropriate to list all indices because, in reality, they are directly and indirectly linked to all income and financial indices. However, this list would be misleading concerning the specific objective of the article. Therefore, the analysis of the average duration of receivables is considered the most exciting analysis concerning trade receivables in particular.

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