



Bài tập ôn luyện DipIFR phần B.7. Công cụ tài chính
(DipIFR material for syllabus B.7. Financial instruments)

Exercise 1

December 2018 - Question 3c

IAS® 33 – Earnings per Share – sets out requirements for the calculation and presentation of earnings per share in financial statements of listed entities. The requirements include the disclosure of basic earnings per share and, where an entity has potential ordinary shares in issue, the additional disclosure of diluted earnings per share in certain circumstances.

Kappa is a listed entity with a number of subsidiaries. Extracts from the consolidated statement of profit or loss and other comprehensive income of Kappa for the year ended 30 September 2018 appear below:

	Attributable to Kappa	Non-controlling interest	Total
	\$'000	\$'000	\$'000
Profit for the year	39,000	3,000	42,000
Other comprehensive income	5,000	Nil	5,000
	_____	_____	_____
Total comprehensive income	44,000	3,000	47,000
	_____	_____	_____

The long-term finance of Kappa comprises:

- (i) 200 million ordinary shares in issue at the start of the year. On 1 January 2018, Kappa issued 50 million new ordinary shares at full market value.
- (ii) 80 million irredeemable preference shares. These shares were in issue for the whole of the year ended 30 September 2018. The dividend on these preference shares is discretionary.



(iii) \$180 million 6% convertible loan stock issued on 1 October 2016 and repayable on 30 September 2021 at par. Interest is payable annually in arrears. As an alternative to repayment at par, the lenders on maturity can elect to exchange their loan stock for 100 million ordinary shares in Kappa. On 1 October 2016, the prevailing market interest rate for five-year loan stock which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of \$1 payable in five years is \$0.68 and the cumulative present value of \$1 payable at the end of years one to five is \$3.99.

In the year ended 30 September 2018, Kappa declared an ordinary dividend of 10 cents per share and a dividend of 5 cents per share on the irredeemable preference shares.

The annual rate of income tax applicable to Kappa and its subsidiaries is 20%.

All transactions have been correctly accounted for in the financial statements of Kappa for the year ended 30 September 2018.

Required:

(c) Compute the finance cost of the convertible loan stock which will be shown in the consolidated statement of profit or loss of Kappa for the year ended 30 September 2018 and the related loan liability which will be shown in the consolidated statement of financial position of Kappa at 30 September 2018. (6 marks)

Exercise 2

June 2018 - Question 2a

Delta is an entity which prepares financial statements to 31 March each year. The functional currency of Delta is the dollar (\$). The following events have occurred which are relevant to the year ended 31 March 2018:

Event (a)

On 1 January 2018, Delta entered into a contract with a foreign supplier. The terms of the contract were that the supplier would construct a large machine for Delta's use and deliver the machine on 30 June 2018. The total construction price of 20 million groats (the currency of the supplier) is due for payment on 31 July 2018.

On 1 January 2018, Delta entered into an agreement for the forward purchase of 20 million groats. The settlement date for this forward purchase of foreign currency was 31 July 2018. Delta intends to use this forward purchase as a hedge of the expected cash outflow flows arising under the construction contract on 31 July 2018.



Delta wishes to use hedge accounting for this arrangement if this is possible under International Financial Reporting Standards. Delta has prepared all relevant documentation which is necessary to enable hedge accounting to be used if the qualifying conditions are met.

Data relevant to the construction contract and to the forward purchase of currency is as follows:

- Increase in expected cash flows arising under the construction contract between 1 January 2018 and 31 March 2018 = \$2,600,000.
- Positive fair value of forward currency purchase contract at 31 March 2018 = \$2,700,000. (9 marks)

Required:

Explain and show how the two events would be reported in the financial statements of Delta for the year ended 31 March 2018.

Note: The mark allocation is shown against each of the two events above.

Exercise 3

June 2018 - Question 3a

One of the issues covered by IFRS 9 Financial Instruments (revised July 2014) is the classification and measurement of financial assets. The three possible measurement bases identified by the standard are:

- Amortised cost.
- Fair value through other comprehensive income.
- Fair value through profit or loss.

Required:

Explain how IFRS 9 requires entities to select the appropriate measurement basis for a financial asset. You should include any options available to entities regarding classification in your explanation.

Note: You are NOT required to define a financial asset. (7 marks)

Exercise 4

June 2018 - Question 3b



(b) Epsilon prepares financial statements to 31 March each year. The following events have occurred which are relevant to the year ended 31 March 2018:

(i) On 1 April 2017, Epsilon loaned \$30 million to another entity. Interest of \$1·5 million is payable annually in arrears. An additional final payment of \$35·3 million is due on 31 March 2020. Epsilon incurred direct costs of \$250,000 in arranging this loan. The annual rate of interest implicit in this arrangement is approximately 10%. Epsilon has no intention of assigning this loan to a third party at any time. (4 marks)

(ii) On 1 April 2017, Epsilon purchased 500,000 shares in a key supplier – entity X. The shares were purchased in order to protect Epsilon's source of supply and Epsilon has no intention of trading in these shares. The shares cost \$2 per share and the direct costs of purchasing the shares were \$100,000. On 1 January 2018, the supplier paid a dividend of 30 cents per share. On 31 March 2018, the fair value of a share in entity X was \$2·25. (5 marks)

(iii) On 1 January 2018, Epsilon purchased 100,000 call options to purchase shares in entity Y – an unconnected third party. Each option allowed Epsilon to purchase shares in entity Y on 31 December 2018 for \$6 per share. Epsilon paid \$1·25 per option on 1 January 2018. On 31 March 2018, the fair value of a share in entity Y was \$8 and the fair value of a share option purchased by Epsilon was \$1·60. This purchase of call options is not part of a hedging arrangement. (4 marks)

Required:

Explain and show how the three events should be reported in the financial statements of Epsilon for the year ended 31 March 2018. In part (b) you should assume that Epsilon only measures financial assets at fair value through profit or loss when required to do so by IFRS 9.

Note: The mark allocation is shown against each of the three events above.

Exercise 5

December 2017 - Question 4a

You are the financial controller of Omega, a listed entity which prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). You have recently prepared the financial statements for the year ended 30 September 2017 and these are due to be published shortly. The managing director has reviewed these financial statements and has prepared a list of queries arising out of the review.



Query One

I'm confused about our treatment of equity investments in listed entities that we don't control. There seem to be two different treatments in our financial statements. One of the notes to the financial statements says that the equity investments we hold to temporarily invest surplus cash balances are measured at fair value and that changes in fair value are recognised in profit or loss. Another note says that the equity investment we hold in a key supplier is measured at fair value and that changes in fair value are recognised in other comprehensive income (OCI). Earnings per share (EPS) is a key performance indicator for Omega, so please explain how it can be justified to use two different treatments for equity investments made by the same entity. Please also explain what the impact on EPS might be if a gain or loss is reported in OCI rather than profit or loss. (6 marks)

Required:

Provide answers to the queries raised by the managing director. You should justify your answers with reference to relevant International Financial Reporting Standards.

Note: The mark allocation is shown against each of the four queries above.

Exercise 6

June 2017 - Question 4b

You are the financial controller of Omega, a listed entity which prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). One of your assistants, a trainee accountant, is involved in the preparation of the consolidated financial statements for the year ended 31 March 2017. She is also involved in the preparation of the individual financial statements for the entities in the group. She has sent you an email with the following queries:

Query Two

I notice that on 1 April 2016 we lent \$50 million to a key supplier. The loan has an annual rate of interest of 5%, with interest of \$2.5 million payable on 31 March each year in arrears. The loan is repayable on 31 March 2026 but I believe that if interest rates change, we might consider assigning the loan to a third party. As it turns out, interest rates have fallen since 1 April 2016 and the fair value of the loan asset at 31 March 2017 was \$52 million. I have been told that this loan asset should be measured at 'fair value through other comprehensive income'. Why is this? I thought loan assets were measured at amortised cost. If the loan asset is measured at fair value through other comprehensive



income, does the interest income get recorded in other comprehensive income rather than profit or loss? (6 marks)

Required:

Provide answers to the three queries raised by the trainee accountant. Your answers should refer to relevant provisions of International Financial Reporting Standards.

Note: The split of the mark allocation is shown against each of the items above.

Exercise 7

June 2016 - Question 4ii

You are the financial controller of Omega, a listed entity which prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The managing director, who is not an accountant, has recently attended a business seminar at which financial reporting issues were discussed. Following the seminar, she reviewed the financial statements of Omega for the year ended 31 March 2016. Based on this review she has prepared a series of queries relating to those statements:

Query Two

‘Another issue discussed at the seminar was financial reporting by farming entities. The issue of ‘biological assets’ was mentioned. I don’t really understand what these are or how they’re recognised and measured in the financial statements. Please explain this to me.’ (5 marks)

Required:

Provide answers to the three questions raised by the managing director. Your answers should refer to relevant provisions of International Financial Reporting Standards.

Note: The mark allocation is shown against each of the three issues above.



Exercise 8

June 2015 - Question 2a

Delta is an entity which prepares financial statements to 31 March each year. The financial statements for the year ended 31 March 2015 are to be authorised for issue on 30 June 2015. The following events are relevant to these financial statements:

(a) On 1 April 2014, Delta purchased 1 million options to acquire shares in Epsilon, a listed entity. Delta paid 25c per option, which allows Delta to purchase shares in Epsilon for a price of \$2 per share. The exercise date for the options was 31 December 2014. On 31 December 2014, when the market value of a share in Epsilon was \$2.60, Delta exercised all its options to acquire shares in Epsilon. In addition to the purchase price, Delta incurred directly attributable acquisition costs of \$100,000 on the purchase of the 1 million shares in Epsilon. Delta regarded the shares it purchased in Epsilon as part of its trading portfolio. However, Delta did not dispose of any of the shares in Epsilon between 31 December 2014 and 31 March 2015. On 31 March 2015, the market value of a share in Epsilon was \$2.90. (9 marks)

Required:

Explain and show how the three events should be reported in the financial statements of Delta for the year ended 31 March 2015.

Note: The mark allocation is shown against each of the three events above.

Exercise 9

June 2014 - Question 2b

Delta is an entity which prepares financial statements to 31 March each year. During the year ended 31 March 2014 the following events affected Delta:

(b) On 1 April 2013, Delta completed the manufacture of some inventory at a total cost of \$800,000. In order to be suitable for sale in the ordinary course of business, the completed inventory needed to be stored in controlled conditions for a two-year period. The inventory is expected to sell for \$1,200,000 after the two-year storage period. On 1 April 2013, Delta sold the inventory to Epsilon, a bank. The agreed sales proceeds were \$810,000 but Epsilon charged Delta an administration fee of \$10,000, so the net amount received by Delta was \$800,000. Delta retained physical custody of the inventory and continued to ensure that it was stored in the appropriate conditions. Delta indemnified Epsilon against any losses caused by theft or inappropriate storage of the inventory. Delta



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has the option to repurchase the inventory on 31 March 2015 for \$933,120. On 1 April 2013, Epsilon would have required an annual return of 8% on loans made to customers such as Delta. (7 marks)

Required:

Explain and illustrate (where possible by quantifying amounts) how the three events would be reported in the financial statements of Delta for the year ended 31 March 2014.

Note: The mark allocation is shown against each of the three events above.



ANSWER

Exercise 1

The carrying amount of the convertible loan at 1 October 2016 (in \$'000) will be 10,800 $(180,000 \times 6\%) \times 3.99 + 180,000 \times 0.68 = 165,492$.	1 + 1
The finance cost for the year ended 30 September 2017 will be $165,492 \times 8\% = 13,239$.	1
So the loan liability at 30 September 2017 will be 167,931 $(165,492 + 13,239 - 10,800)$.	1
The finance cost for the year ended 30 September 2018 will be 13,434 $(167,931 \times 8\%)$.	1
So the closing loan liability at 30 September 2018 will be 170,565 $(167,931 + 13,434 - 10,800)$.	1

Exercise 2

Under the principles of IFRS 9 – Financial Instruments (revised 2014) – Delta is permitted to use hedge accounting when reporting the hedging arrangement in its financial statements. This is because:	2 (½ for the overall decision and ½ for each component of the justification)
– The relevant documentation has been prepared.	
– There is a clear economic relationship between the hedged cash flows and the hedging instrument.	
– Delta is entering into a forward purchase of exactly the required amount of foreign currency.	
The hedging instrument is a derivative financial instrument. Derivatives are normally measured at fair value in the financial statements with changes in fair value being recognised in profit or loss.	1



On 31 March 2018, the derivative would be recognised in the financial statements as a current asset at its fair value of \$2·7 million.	1
The hedged item is designated to be the changes in the expected cash flows arising on the contract. For the year ended 31 March 2018, changes in the expected cash flows arising under the contract would not be recognised since the contract is an executory contract (a contract made by two parties in which the terms are set to be fulfilled at a later date).	1
Since the hedging documentation indicates that the hedged item is the changes in the expected cash flows, then cash flow hedge accounting is used. In this case this involves comparing the change in the value of the derivative (the recognised hedging instrument) with the (unrecognised) changes in the value of the expected cash flows arising under the contract.	1
To the extent that the change in the value of the derivative is less than or equal to the change in the value of the expected cash flows (the effective portion of the hedge), the change in value of the derivative is recognised in other comprehensive income rather than profit or loss. However, any over-hedging would result in any gains or losses arising on the hedging instrument which relate to the over-hedging (the ineffective portion of the hedge) being immediately being recognised in profit or loss.	1
In this case the overall gain in fair value of the derivative between 1 January 2018 and 31 March 2018 is \$2·7 million.	1
In that same period, the change in the expected value of the cash flows arising under the contract is \$2·6 million. Therefore \$2·6 million of the gain on the derivative would be recognised in other comprehensive income with the balance of \$100,000 being recognised in profit or loss	1

Exercise 3

Under IFRS 9, the basis for classifying and measuring financial assets is the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.	1
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Where the business model for managing the financial asset is to hold the financial asset to collect the contractual cash flows and where the contractual terms of the financial asset give rise on specified dates to cash flows which are solely payments of principal and interest on the principal amount outstanding, then the financial asset is measured at amortised cost.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
Where the business model for managing the financial asset is to both hold the financial asset to collect the contractual cash flows and to sell the financial asset and where the contractual terms of the financial asset give rise on specified dates to cash flows which are solely payments of principal and interest on the principal amount outstanding, then the financial asset is measured at fair value through other comprehensive income.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
If a financial asset is not measured at amortised cost or fair value through other comprehensive income, then it is measured at fair value through profit or loss (the default category).	
An entity can make an optional irrevocable election on initial recognition that particular investments in equity instruments which would otherwise be measured at fair value through profit or loss be measured at fair value through other comprehensive income. This election is only possible if the equity investment is not 'held for trading'.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
Notwithstanding the above, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if to do so would eliminate or reduce a measurement or recognition inconsistency which would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases (an 'accounting mismatch').	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$

Exercise 4

(i) Since the business model is to collect the contractual cash flows and the cash flows consist solely of the repayment of principal and interest, this asset is measured at amortised cost.	1 (explanation)
The initial carrying amount of the financial asset will be \$30.25 million (\$30 million fair value + \$250,000 transaction costs).	1



The finance income recorded under investment income category in the statement of profit or loss for the year ended 31 March 2018 will be \$3·025 million (\$30·25 million x 10%).	1
The carrying amount of the financial asset in the statement of financial position at 31 March 2018 will be \$31·775 million (\$30·25 million + \$3·025 million – \$1·5 million).	1
(ii) Since this is an equity investment which Epsilon has no intention of selling, Epsilon can measure the investment at fair value through other comprehensive income (provided irrevocable election on initial recognition has been made).	1
Since the financial asset is measured at fair value through other comprehensive income, the transaction cost (agent's commission) is included in the initial fair value of shares (500,000 x \$2 + \$100,000).	2
The carrying amount of the financial asset in the statement of financial position at 31 March 2018 will be \$1·125 million based on fair value of shares at the year end (500,000 x \$2·25).	1
The difference (fair value gain) of \$25,000 (\$1·125 million – \$1·1 million) will be recognised in other comprehensive income.	1
Dividend income of \$150,000 (500,000 x 30 cents) will be recognised as other income in the statement of profit or loss.	1
(iii) The call option cannot be measured at amortised cost or fair value through other comprehensive income, so it must be measured at fair value through profit or loss.	1
The initial carrying value of the call option will be \$125,000 (100,000 x \$1·25).	1
At the year end, the call option will be re-measured to its fair value of \$160,000 (100,000 x \$1·60).	1
The fair value gain of \$35,000 (\$160,000 – \$125,000) will be recognised in the statement of profit or loss.	1

Exercise 5

Query One	
The accounting treatment of equity investments which we do not control or significantly influence is dealt with in IFRS 9 – Financial Instruments.	$\frac{1}{2}$
Under IFRS 9, equity investments are financial assets which fail the ‘contractual cash flow test’. Equity investments must be measured at fair value.	$\frac{1}{2} + \frac{1}{2}$
Under IFRS 9, gains or losses on the remeasurement of financial assets measured at fair value are normally taken to profit or loss.	$\frac{1}{2}$
In the case of equity investments not held for trading, it is possible to make an irrevocable election at initial recognition to recognise gains or losses on the remeasurement to fair value in other comprehensive income.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
The IASB Conceptual Framework for Financial Reporting makes no clear conceptual distinction between gains and losses reported in profit or loss and gains and losses reported in other comprehensive income.	$\frac{1}{2}$
The distinction between profit or loss and other comprehensive income does have some practical relevance, however.	$\frac{1}{2}$
The distinction is particularly important for listed entities. Such entities are required to report their earnings per share under IAS 33 – Earnings per Share. Gains and losses reported in profit or loss affect earnings per share whereas gains or losses reported in other comprehensive income do not.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$

Exercise 6

Query Two	
The measurement basis for financial assets is set out in IFRS 9 Financial Instruments. The measurement basis depends on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.	1



In order for the financial asset to be measured at amortised cost, the contractual terms should give rise to cash flows on specified dates which are solely payments of principal and interest on the amounts outstanding. This condition is satisfied in the case of the loan you are querying.	1
There is, however, another condition to be satisfied. The asset should be held under a business model whose objective is to hold the financial asset in order to collect the contractual cash flows. This condition is not satisfied, given the possibility of assigning the loan should interest rates rise.	1
A financial asset is measured at fair value through other comprehensive income where the ‘contractual cash flow test’ is passed and the asset is held under a business model whose objective is achieved both by collecting the contractual cash flows and by selling the financial asset. This appears to be the case here, so classification as fair value through other comprehensive income seems appropriate.	1
Where a financial asset is measured at fair value through other comprehensive income, the interest income which is included in profit or loss is the same amount as would be recorded were the asset to be measured at amortised cost. Therefore interest income of \$2.5 million will be recorded in profit or loss.	1
The increase in fair value of \$2 million (\$52 million – \$50 million) will be recorded in other comprehensive income.	1

Exercise 7

Query Two	
A biological asset is defined in IAS 41 – Agriculture – as a living plant or animal.	1
The majority of non-biological assets of an entity have an initial acquisition cost which can be computed with sufficient reliability to be used as its initial carrying value. For biological assets (e.g. a new born calf) this is often not the case.	1



(Note: Exact words NOT needed here, just the sense of the point.)	
For the vast majority of biological assets their initial measurement should be at its fair value less costs to sell. Gains or losses arising from such initial measurement should be recognised in profit or loss.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
As the biological asset transforms and its fair value less costs to sell changes, the carrying amount of the asset should be updated with changes being recognised in profit or loss.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$

Exercise 8

(a) Under the provisions of IFRS 9 – Financial Instruments – the option to acquire shares in Epsilon would be regarded as a derivative financial instrument.	$\frac{1}{2}$
This is because the value of the option depends on the value of an underlying variable (Epsilon's share price), it requires a relatively small initial investment and it is settled at a future date.	$\frac{1}{2}$
A derivative financial instrument is initially measured at its fair value.	$\frac{1}{2}$
In this case fair value will be the price paid – which is \$250,000 at 1 April 2014.	$\frac{1}{2}$
Derivative financial instruments are remeasured to fair value at the reporting date and gains or losses on remeasurement recognised in the statement of profit or loss.	$\frac{1}{2}$
However, in this case the derivative is derecognised on 31 December 2014, when the option is exercised.	$\frac{1}{2}$
On 31 December 2014, the investment in Epsilon's shares would be regarded as a financial asset.	$\frac{1}{2}$
Under IFRS 9, financial assets are initially measured at fair value, so the initial carrying value of the shares in the books of Delta will be \$2.6 million (1 million X \$2.60).	$\frac{1}{2}$



The difference between the carrying value of the new asset – \$2·6 million and the price paid plus the derecognised derivative – \$2·25 million (\$2 million + \$250,000) will be taken to profit or loss for the year ended 31 March 2015 as investment income. In this case \$350,000 will be included as investment income.	$\frac{1}{2} + \frac{1}{2}$
Because the investment in Epsilon is an equity investment, it will continue to be remeasured to fair value at each year end.	1
Because the investment is part of a trading portfolio, the investment is measured at fair value through profit or loss.	$\frac{1}{2}$
Therefore the acquisition costs of \$100,000 must be recognised as an expense in the statement of profit or loss for the year ended 31 March 2015.	$\frac{1}{2}$
The investment is included in the statement of financial position at 31 March 2015 as a current asset at its fair value of \$2·9 million.	$\frac{1}{2} + \frac{1}{2}$
The increase in fair value of \$300,000 (\$2·9 million – \$2·6 million) is taken to the statement of profit or loss.	$\frac{1}{2} + \frac{1}{2}$

Exercise 9

(b) This transaction is governed by the principles of IAS 18 – Revenue.	$\frac{1}{2}$
One of the conditions which IAS 18 imposes before revenue on the sale of goods can be recognised is that the risks and rewards of ownership need to have been passed to the ‘buyer’.	$\frac{1}{2}$
Given Delta’s continued responsibility for the custody of the goods, and the fact that they are highly likely to be repurchased, this has clearly not happened here.	1
One of the illustrative examples in the appendix to IAS 18 states that in such circumstances what we effectively have is a financing transaction.	$\frac{1}{2}$
Therefore, the goods will remain in inventory at cost – being their manufactured cost of \$800,000 plus one year’s storage costs (or their net realisable value, if this is lower than cost).	1



The net proceeds of \$800,000, being a financial liability, are accounted for under the principles of IFRS 9 – Financial Instruments.	1/2
Under IFRS 9, most financial liabilities are measured at amortised cost using the effective interest method and this would certainly apply here.	1
The finance cost for the period would be \$64,000 (\$800,000 x 8%). This would be shown in the statement of profit or loss.	1
The closing financial liability would be \$864,000 (\$800,000 + \$64,000). This would be shown as a current liability since the ‘repurchase’ occurs on 31 March 2015 – 12 months after the reporting date.	1