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SLFRS 09 – Financial Instruments

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Classification and measurement of financial assets

01. Example

X purchased a loan on 1 January 20X5 and classified it as measured at amortized cost.

Terms :

Nominal value	$50 million
Coupon rate	10%
Term to maturity	3 years
Purchase price	$48 million
Effective rate	11.67%

Required

Show the double entry for each year to maturity of the bond. (Ignore loss allowances).

ANSWER

An amortization table is a useful working as a starting point and is prepared as follows:

Year	Amortized cost b/f	Interest at 11.67%	Cash receipt	Amortized cost c/f
20X5	48.00	5.60	(5.00)	48.60
20X6	48.60	5.65	(5.00)	49.25
20X7	49.25	5.75	(55.00)	nil

(The amortized cost at each date would be more correctly described as "gross carrying amount of the financial asset")

The following table summarizes the above double entries.

Credit entries are shown as figures in brackets.

	Cash $m	Financial Asset $m	P & L $m
20X5			
Purchase of financial asset	(48.00)	48.00	
Interest accrual		5.60	(5.60)
Interest receipt	5.00	(5.00)	
Amortized cost		48.60	
20X6			
Brought forward		48.60	
Interest accrual		5.65	(5.65)
Interest receipt	5.00	(5.00)	
		49.25	
20X7			
Brought forward		49.25	
Interest accrual		5.75	(5.75)
Interest receipt	5.00	(5.00)	
Redemption	50.00	(50.00)	
		Nil	

Note that in this example the total cash flow interest received is $15m (being 3 receipts of $5m per annum).

The total interest recognized by applying the effective interest rate is $17m (being $5.6m + $5.65m + $5.75m).

The $2m difference is the difference between the amount paid for the bond ($48m) and the amount received on redemption (50m). The calculation of the effective interest rate takes this into account. Interest recognized using the effective rate includes the total interest received and the difference between the initial outlay and redemption proceeds if any.

In other words, the lender receives a total cash return of $17m on its investment of $48m (being 3 receipts of $5m plus the difference between the initial investment and the redemption proceeds). This has been recognized in the statement of profit or loss (as $5.6m + $5.65m + $5.75m).

02. Example

X purchased a loan on 1 January 20X5 and classified it as measured at fair value through OCI.

Terms :

Nominal value	$50 million
Coupon rate	10%
Term to maturity	3 years
Purchase price	$48 million
Effective rate	11.67%

Fair values at each year end to maturity are as follows

31 December 20X5	$49.2 million
31 December 20X6	$49.5 million
31 December 20X7	S50.0 million

Required

Show the double entry for each year to maturity of the bond. (Ignore loss allowances).

ANSWER

The amortisation table can be constructed in the usual way and it can be extended to show the cumulative fair value adjustment at each reporting date. This can then be used to calculate the annual fair value adjustment.

Year	Amortized cost b/f	Interest at 11.67%	Cash receipt	Amortized cost c/f	Fair value (given)	Cumulative fair value adjustment
20X5	48.00	5.60	(5.00)	48.60	49.20	0.60
20X6	48.60	5.65	(5.00)	49.25	49.50	0.25
20X7	49.25	5.75	(55.00)	Nil	Nil	nil

Only the fair value adjustments are recognized in OCI. Other transactions in respect of the financial asset (e.g. interest) are recognized in P&L in the usual way.

The following table summarizes the necessary double entries.

Credit entries are shown as figures in brackets

	Cash $m	Financial asset Sm	OCI $m	P & L $m
20X5				
Purchase of financial asset	(48.00)	48.00		
Interest accrual		5.60		(5.60)
Interest receipt	5.00	(5.00)		
Amortized cost		48.00		
Fair value adjustment		0.60	(0.60)	
		49.20	(0.60)	
20X6				
Brought forward		49.20	(0.60)	
Interest accrual		5.65		(5.65)
Interest receipt	5.00	(5.00)		
Fair value adjustment		(0.35)	0.35	
		49.50	(0.25)	
20X7				
Brought forward		49.50	(0.25)	
Interest accrual		5.75		(5.75)
Interest receipt	5.00	(5.00)		

Fair value adjustment		(0.25)	0.25	
Redemption	50.00	(50.00)		
		Nil	Nil	

Note that the balances carried down for the financial asset are at fair value.

03. Example

X purchased a loan on 1 January 20X5 and classified it as measured at fair value through OCI.

The amortized cost table and the fair value adjustments in the first two years were as follows:

Year	Amortized cost b/f	Interest at 11.67%	Cash paid	Amortized cost c/f	Fair value	Cumulative fair value adjustment
20X5	48.00m	5.60m	(5m)	48.60m	$49.2m	0.6
20X6	48.60m	5.65m	(5m)	49.25m	$49.5m	0.25

X sold the asset for $50m on 10 January 20X7.

The journal entry to record the disposal is as follows:

	$m	$m
DR Cash	50	
CR Investment		49.5
CR P & L		0.5
and		
DR OCI	0.25	
CR P & L		0.25

The total profit recognized on disposal is $0.75m ($0.5m + $0.25m).

This is the amount that would have been recognized on disposal of the asset if it had been measured at amortized cost. ($50m - $49.25m = $0.75m).

04. Example

X purchased a loan on 1 January 20X5 and classified it as measured at fair value through OCI.

In this case assume that the bond is denominated in a foreign currency (FC).

The loan is a monetary asset so it must be retranslated at the closing rate at each reporting date.

Terms :

Nominal value	FC50 million
Coupon rate	10%
Term to maturity	3 years
Purchase price	FC48 million
Effective rate	11.67%

Other information	fair values	Exchange rates (FCI = $)
1 January 20X5	FC48 million	5
Average for 20X5	-	6
31 December 20X5	FC49.2 million	7
Average for 20X6	-	7.5
31 December 20X6	FC49.5 million	8
Average for 20X7	-	7
31 December 20X7	FC50.0 million	6

Required

Show the double entry for each year to maturity of the bond.

Only the fair value adjustments are recognized in OCI. Other transactions in respect of the financial asset (e.g interest, and foreign exchange differences) are recognized in P&L in the usual way.

The exchange difference is calculated as a balancing figure in a translation of the amortized cost working.

ANSWER

An amortization table is constructed in the usual way in the foreign currency ($ in this case).

Year	Amortized cost b/f	Interest at 11.67%	Cash receipt	Amortized cost c/f	Fair value (given)	Cumulative fair value adjustment
20X5	48.00	5.60	(5.00)	48.60	49.20	0.60
20X6	48.60	5.65	(5.00)	49.25	49.50	0.25
20X7	49.25	5.75	(55.00)	Nil	Nil	nil

Each row of the amortization table is then translated into the reporting currency using appropriate rates and the exchange difference calculated as a balancing figure needed to ensure that the row sums to the amortized cost carried forward balance.

The fair value difference is calculated in the usual way and can be translated into the reporting currency at the year-end rate.

To calculate the exchange difference	To calculate the fair value adjustment

Year	AC b/f	Int. at 11.67%	Cash receipt	Exch. Diff (bal.fig)	AC c/f	Fair value (given)	Cumulative fair value adjustment
20X5	48.00	5.60	(5.00)		48.60	49.20	0.60
Rate	5	6	7		7	7	7
	240.00	33.60	-35.00	**101.6**	340.20	344.40	4.20
20X6	48.60	5.65	(5.00)		49.25	$49.50	0.25
Rate	7	7.5	8		8	8	8
	340.20	42.38	(40.00)	**51.42**	394.00	396.00	2.00
20X7	49.25	5.75	(5.00)		50.00	$50.00	Nil
Rate	8	7	6		6	6	6
	394.00	40.25	(30.00)	**(104.25)**	300.00	300.00	nil

The following table summarizes the above double entries.

Credit entries are shown as figures in brackets

	Cash $m	Financial asset Sm	OCI (FV adi) $m	P & L $m
20X5				
Initial recognition of				
Financial asset	(240.00)	240.00		
Interest accrual		33.60		(33.60)
Interest receipt	35.00	(35.00)		
Exchange gain on asset		101.60		(101.60)
Fair value adjustment		4.20	(4.20)	
		344.40	(4.20)	
20X6				
Brought forward		344.40	(4.20)	
Interest accrual		42.38		(42.38)
Interest receipt	40.00	(40.00)		
Exchange gain on asset		51.42		(51.42)
Fair value adjustment		(2.20)	2.20	
		396.00	(2.00)	
20X7				
Brought forward		396.00	(2.00)	
Interest accrual		40.25		(40.25)
Interest receipt	30.00	(30.00)		
Exchange gain on asset		(104.25)		104.25
Fair value adjustment		(2.00)	2.00	
Redemption	300.00	(300.00)		
		Nil	Nil	

05. Example

An equity investment is purchased for $30,000 plus 1% transaction costs on 1 January 20X6.

At the end of the financial year (31 December 20X6) the investment is revalued to its fair value of $40,000.

On 11 December 20X7 it is sold for $50,000.

Required

Explain the accounting treatment for this investment.

ANSWER

1 January 20X6 The investment is recorded at cost at $30,000 and transaction costs of $300 are expensed to profit or loss.

31 December 20X6 The investment is revalued to its fair value of $40,000. There is a gain of $10,000 ($40,000 – $30,000).

11 December 20X7 The journal entry to record the disposal is as follows:

	$	$
DR Cash	50,000	
CR Investment		40,000
CR Profit or loss		10,000

06. Example

An equity investment is purchased for $30,000 plus 1% transaction costs on 1 January 20X6.

The company made an irrevocable decision to designate the investment as at fair value through OCI.

At the end of the financial year (31 December), the investment is revalued to its fair value of $40,000.

On 11 December 20X7 it is sold for $50,000.

Required

Explain the accounting treatment for this investment.

ANSWER

1 January 20X6 The investment is recorded at $30,300. This is the cost plus the capitalized transaction costs.

31 December 20X6 The investment is revalued to its fair value of $40,000. There is a gain of $9,700 ($40,000 – $30,300). This gain of $9,700 is included in other comprehensive income for the year and may be accumulated in a separate reserve.

11 December 20X7

The journal entry to record the disposal is as follows:

	$	$
DR Cash	50,000	
CR Investment		40,000
CR Profit or loss		10,000

Amounts previously recognized in OCI in respect of equity instruments for which an irrevocable designation has been made must not be reclassified to P&L.

Classification and measurement of financial liabilities

01. Example

A company issues a bond (borrows) for $1 million.
The company designates the bond as measured at fair value through profit or loss.

Situation 1

Suppose at the end of the first year the company's credit risk had improved. This would make the company's debt more desirable to investors causing its fair value to increase say to $1.1 million.

In the absence of the above rule the double entry to reflect the fair value change would be:

Dr	P & L	$0.1 million	
	Cr	Liability	$0.1 million

In other words, the improvement in the company's economic situation would result in the recognition of an expense in its P&L account.

Situation 2

Suppose at the end of the first year the company's credit risk had deteriorated. This would make the company's debt less desirable to investors causing its fair value to decrease say to $0.9 million.

In the absence of the above rule the double entry to reflect the fair value change would be:

Dr	Liability	$0.1 million	
	Cr	P& L	$0.1 million

In other words, the deterioration in the company's economic situation would result in the recognition of a gain in the P&L account.

The requirement to recognize change in fair value due to a change in the entity's own credit risk in other comprehensive income is an attempt to reduce the perceived effect of the above.

02. Example

X issued a loan on 1 January 20X5 and classified it as measured at amortized cost.

Terms :

Nominal value	$50 million
Coupon rate	10%
Term to maturity	3 years
Purchase price	$48 million
Effective rate	11.67%

Required

Show the double entry for each year to maturity of the bond. (Ignore loss allowances).

ANSWER

An amortization table is a useful working as a starting point and is prepared as follows:

Year	Amortized cost b/f	Interest at 11.67%	Cash payments	Amortized cost c/f
20X5	48.00	5.60	(5.00)	48.60
20X6	48.60	5.65	(5.00)	49.25
20X7	49.25	5.75	(55.00)	nil

This is the same as the table from the lender's viewpoint except the interest is an expense rather than income and the cash flows are outflows rather than inflows.

The following table summarizes the above double entries.

Credit entries are shown as figures in brackets.

	Cash $m	Financial libaiality $m	P & L $m
20X5			
Proceeds of issue	48.00	(48.00)	
Interest accrual		(5.60)	5.60
Interest receipt	(5.00)	5.00	
Amortized cost		(48.60)	
20X6			
Brought forward		(48.60)	
Interest accrual		(5.65)	5.65
Interest receipt	(5.00)	5.00	
		(49.25)	
20X7			
Brought forward		(49.25)	
Interest accrual		(5.75)	5.75
Interest receipt	(5.00)	5.00	
Redemption	(50.00)	50.00	
		Nil	

03. Example

On 1st January Year 1, P Ltd gave a guarantee of a $50m loan taken by its subsidiary, S Ltd on that date.

S Ltd was to repay the loan in four equal annual instalments (to cover the $50m principal together with related interest) on 31st December in Years 1 to 4.

Under the terms of the guarantee, P Ltd would be called on to repay the principal amount of the loan in the event of S Ltd defaulting on any of these payments.

The fair value of the guarantee at inception was assessed as $1.6m.

P Ltd's reporting date is 31 December.

Situation 1

S Ltd makes all payments in accordance with the terms of the loan.

P Ltd would account for the guarantee as follows (ignoring time value):

1st January Year 1 (initial recognition)

Dr	P & L	$1.6m	
Cr	Liability		$1.6m

31st December Years 1 to 4

Dr	Liability	S0.4m	
Cr	P & L		$0.4m

The amortization of the guarantee over its life reflects the recognition of income (through reduction of the liability) as the service is provided.

Situation 2

S Ltd made the first payment in accordance with the loan but failed in Year 2

1st January Year 1 (initial recognition)

Dr	P & L	$1.6m	
Cr	Liability		$1.6m

31st December Year 1

Dr	Liability	S0.4m	
Cr	P & L		$0.4m

31st December Year 2

Dr	P & L	$36.3m	
Cr	Liability		$36.3m

($50m $12.5m (Year 1 repayment) $1.2m (financial liability brought forward from year 1).

This results in a liability at the end of year of $37.5m ($1.2m + 36.3m) being ¾ of the initial loan of $50m.

Impairment of financial assets

01. Example

X purchased a loan on 1 January 20X5 and classified it as measured at amortized cost.

Terms :

Nominal value	$50 million
Coupon rate	10%
Term to maturity	3 years
Purchase price	$48 million
Effective rate	11.67%

Loss allowances (estimated in accordance with IFRS 9):

1 January 20X5	$1 million
31 December 20X5	$1.5 million
31 December 20X6	$1.2 million
31 December 20X7 (principal repaid)	nil

Required

Show the double entry for each year to maturity of the bond.

ANSWER

The amortization table and the double entry for the financial asset are not affected by the existence of the loss allowance.

Accounting for the loss allowance sits alongside the accounting treatment for the financial asset.

(The amortized cost at each date would be more correctly described as "gross carrying amount of the financial asset").

The amortization table is prepared as follows (in the same way as before):

Year	Amortized cost b/f	Interest at 11.67%	Cash receipts	Amortized cost c/f
20X5	48.00	5.60	(5.00)	48600
20X6	48.60	5.65	(5.00)	49.25
20X7	49.25	5.75	(55.00)	nil

The loss allowance is established as a credit balance in the statement of financial position and is premeasured at each reporting date. In this example there are no changes to the loss allowance over the life of the bond.

The redemption of the loan brings certainty that no loss is incurred so the loss allowance is released to P&L when this happens.

The following table summarizes the above double entries.

Credit entries are shown as figures in brackets.

	Cash $m	Financial asset $m	Loss Allowance $m	P & L $m
20X5				
Initial recognition of				
Financial asset	(48.00)	48.00		
Loss allowance			(1.00)	1.00
Interest accrual		5.60		(5.60)
Interest receipt	5.00	(5.00)		
Re-measurement of loss				
Allowance			(0.50)	0.50
		48.60	(1.50)	
				20X6
Brought forward		48.60	(1.50)	
Interest accrual		5.65		(5.65)

Interest receipt	5.00	(5.00)		
Re-measurement of loss				
Allowance			0.30	(0.30)
		49.25	(1.20)	
				20X7
Brought forward		49.25	(1.20)	
Interest accrual		5.75		(5.75)
Interest receipt	5.00	(5.00)		
Redemption	50.00	(50.00)		
Re-measurement of loss			1.20	(1.20)
Allowance		Nil	Nil	

02. Example

X purchased a loan on 1 January 20X5 and classified it as measured at fair value through OCI.

Terms :

Nominal value	$50 million
Coupon rate	10%
Term to maturity	3 years
Purchase price	$48 million
Effective rate	11.67%

Fair values at each year end to maturity are as follows

31 December 20X5	$49.2 million
31 December 20X6	$49.5 million
31 December 20X7	$50.0 million

Loss allowances (estimated in accordance with IFRS 9):

1 January 20X5	$1 million
31 December 20X5	$1.5 million
31 December 20X6	$1.2 million
31December 20X7 (principal repaid)	Nil

Required

Show the double entry for each year to maturity of the bond.

ANSWER

The amortization table and the double entry for the financial asset are not affected by the existence of the loss allowance.

Accounting for the loss allowance sits alongside the accounting treatment for the financial asset.

(The amortized cost at each date would be more correctly described as "gross carrying amount of the financial asset").

The amortization table is prepared as follows (in the same way as before):

Year	Amortized cost b/f	Interest at 11.67%	Cash receipt	Amortized cost c/f	Fair value (given)	Cumulative fair value adjustment
20X5	48.00	5.60	(5.00)	48.60	49.20	0.60
20X6	48.60	5.65	(5.00)	49.25	49.50	0.25
20X7	49.25	5.75	(55.00)	Nil	Nil	Nil

The loss allowance on financial assets at FVOCI is not recognized as a separate balance but is recognized in OCI.

The following table has split out the OCI into two columns in order make it easier to keep track of the double entries.

Credit entries are shown as figures in brackets.

	Cash	Financial asset $m	OCI (FV adi) $m	OCI (loss all) $m	P & L $m
20X5					
Initial recognition of					
Financial asset	(48.00)	48.00			
Loss allowance				(1.00)	1.00
Interest accrual		5.60			(5.6)
Interest receipt	5.00	(5.00)			
Fair value adjustment		0.60	(0.60)		
Re-measurement of loss					
Allowance				(0.50)	0.50
		49.20	(0.60)	(1.50)	
20X6					
Brought forward		49.20	(0.60)	(1.50)	
Interest accrual		5.65			(5.65)
Interest receipt	5.00	(5.00)			

Fair value adjustment		(0.35)	0.35		
Re-measurement of loss					
Allowance				0.30	(0.30)
		49.50	(0.25)	(1.20)	
20X7					
Brought forward		49.50	(0.25)	(1.20)	
Interest accrual		5.75			(5.75)
Interest receipt	5.00	(5.00)			
Fair value adjustment		(0.25)	0.25		
Redemption	50.00	(50.00)			
Re-measurement of loss					
Allowance				1.20	(1.20)
		Nil	Nil	Nil	

03. Example

X purchased a loan on 1 January 20X5 and classified it as measured at fair value through OCI.

Terms :

Nominal value	$50 million
Coupon rate	10%
Term to maturity	3 years
Purchase price	$48 million
Effective rate	11.67%

Other Information	Fair Values	Loss Allowance	Exchange rates
1Januray 20X5	S48 million	$1 million	5
Average for 20X5	-	-	6
31 December 20X5	$49.2 million	$1.5 million	7
Average for 20X6	-	-	7.5
31 December 20X6	$49.5 million	$1.2 million	8
Average for 20X7	-	-	7
31 December 20X5	$50.0 million	Nil	6

Required

Show the double entry for each year to maturity of the bond.

ANSWER

An amortization table is constructed in the usual way in the foreign currency ($ in this case). A working is also needed to identify the exchange difference on the loss allowance.

Year	Amortized cost b/f	Interest at 11.67%	Cash receipt	Amortized cost c/f	Fair value (given)	Cumulative fair value adjustment
20X5	48.00	5.60	(5.00)	48.60	49.20	0.60
20X6	48.60	5.65	(5.00)	49.25	49.50	0.25
20X7	49.25	5.75	(55.00)	Nil	Nil	Nil

Translation of amortization table into reporting currency

Year	AC b/f	Int. at 11.67%	Cash receipt	Exch. Diff (bal.fig)	AC c/f	Fair value (given)	Cumulative fair value adjustment
20X5	48.00	5.60	(5.00)		48.60	49.20	0.60
Rate	5	6	7		7	7	7
	240.00	33.60	-35.00	**101.6**	340.20	344.40	4.20
20X6	48.60	5.65	(5.00)		49.25	$49.50	0.25
Rate	7	7.5	8		8	8	8
	340.20	42.38	(40.00)	**51.42**	394.00	396.00	2.00
20X7	49.25	5.75	(5.00)		50.00	$50.00	Nil
Rate	8	7	6		6	6	6
	394.00	40.25	(30.00)	**-104.25**	300.00	300.00	nil

Exchange difference on loss allowance

Year	Loss at start	Remeasurement	Exch. Diff	Loss at end
20X5	1.00	0.50		1050
Rate	5	6		7
	5.00	3.00	2.50	10.50
20X6	1.50	(0.30)		1.20
Rate	7	7.5		8
	10.50	(2.25)	1.35	9.60
20X7	1.20	(1.20)		Nil
Rate	8	7		6
	9.60	(8.40	(1.20)	Nil

The following table summarizes the above double entries.

Credit entries are shown as figures in brackets

	Cash	Financial asset $m	OCI (FV adi) $m	OCI (loss all) $m	P & L $m
20X5					
Initial recognition of					
Financial asset	(240.00)	240.00			
Loss allowance				(5.00)	5.00
Interest accrual		33.60			(33.60)
Interest receipt	35.00	(35.00)			
Exchange gain on asset		101.60			(101.60)
Fair value adjustment		4.20	(4.20)		
Re-measurement of loss					
Allowance				(3.00)	3.00
Exchange loss on loss					
Allowance				(2.50)	2.50
		344.40	(4.20)	(10.50)	
20X6					
Brought forward		344.40	(4.20)	(10.50)	

Interest accrual		42.38			(42.38)
Interest receipt	40.00	(40.00)			
Exchange gain on asset		51.42			
Fair value adjustment		(20.20)	2.20		
Re-measurement of loss					
Allowance				2.25	(2.25)
Exchange loss on loss					
Allowance				(1.35)	1.35
		396.00	(2.00)	(9.60)	
20X7					
Brought forward		396.00	(2.00)	(9.60)	
Interest accrual		40.25			104.25
Interest receipt	30.00	(30.00)			
Exchange gain on asset		(104.25)			104.25
Fair value adjustment		(20.00)	2.00		
Redemption	300.00	(300.00)			
Re-measurement of loss					
Allwoance				8.40	(8.40)
Exchange gain on loss					
Allowance				1.20	(1.20)
		Nil	Nil	Nil	

04. Example

Company X invests in a bond.

The bond has an issue value of $1 million and pays a coupon rate of 5% interest for two years, then 7% interest for two years.

Interest is paid annually on the anniversary of the bond issue.

The bond will be redeemed at par after four years.

The effective rate for this bond is 5.942%

At the end of the second year it becomes apparent that the issuer has financial difficulties and it is estimated that Company X will only receive 60c in the dollar of the future cash flows.

At the end of year 2 the amortized cost is:

Year	Amortized cost brought forward	Interest at 5.942%	Cash receipts	Amortized cost carried forward
1	1,000,000	59,224	(50,000)	1,009,424
2	1,009,424	59,983	(50,000)	1,019,407

The recoverable amount is calculated as follows:

Year	Future Cash Flows	Discount Factor (@5.942%)	
3	70,000@60%=42,000	0.9439	39,644
4	1,070,000@60%=642,000	0.891	572,022
Recoverable amount			611,666
Carrying amount			1,019,407
Impairment			407,741

Note that the recoverable amount could have been calculated easily as 60% of the carrying amount:

60% of 1,019,407 = 611,644 (22 difference due to rounding)

Future revenue recognition

Interest is recognized in the future by applying the effective rate to the new amortized cost (after the recognition of the impairment loss).

The amortization table becomes as follows:

Year	Amortized cost brought forward	Interest at 5.942%	Cash receipts	Amortized cost carried forward
1	1,000,000	59,224	(50,000)	1,009,424
2	1,009,424	59,983	(50,000)	1,019,407
				(407,741)
				611,666
2	611,666	36,345	(42,000)	606,011
2	606,011	35,989	(642,000)	Nil

05. Example

Suppose in the above example there was a loss allowance of $100,000 recognized on the asset before the impairment event.

The necessary double entries would be as follows:

	Number of days past due (overdue)				
	Current	1 to 30	31 to 60	31 to 90	More than 90
Default rate	0.3%	1.6%	3.6%	6.6%	10.6%

Required

Calculate the lifetime expected credit loss, show the necessary double entry to record the loss and state the amounts to be recognized in the statement of financial position (given the gross carrying amounts that relate to each time slot).

ANSWER

The expected lifetime credit loss is measured as follows:

	Gross carrying amount of trade receivables $	Default rate %	Life time expected credit loss $
Current	15,000,000	0.3	45,000
1 to 30 days	7,500,000	1.6	120,000
31 to 60 days	4,000,000	3.6	144,000
61 to 90 days	2,500,000	6.6	165,000
More than 90	1,000,000	10.6	106,000
	30,000,000		580,000

X plc must recognize a loss provision of $580,000

The following double entry would be necessary to increase the opening loss provision to this amount:

	Debit	Credit
Statement of profit or loss	80,000	
Loss allowance		80,000

The trade receivables would be presented at an amount net of this allowance in the statement of financial position ($30,000,000 - $580,000 = $29,420,000).