December 2019 – Q2 a

As HP is facing a serious loss of capital situation, it should choose an option that will enhance its equity and overcome serious loss of capital status.

Option 1 – Participative Units (PU's).

Generally instruments with put options are classified as liabilities as the entity has an obligation to pay cash to the holder of the instrument when the holder presents the instrument to the entity. However, certain puttable instruments can be classified as equity if the following criteria are met.

- Entitles holder to net assets on liquidation
- Ranks below all other instruments
- Returns are based on profit or losses

In this case, as the PU's has no preferential rights to the net assets of the company on liquidation, ranks similar to other equity instruments on a liquidation and dividend will be paid based on the discretion of the entity subject to a maximum of 8% per unit based on the availability of distributable profits of the particular year, it satisfies the above conditions and therefore can be classified as an **equity instrument.**

Option 2 – Bonds

In the case of the Bonds as HP has to pay the capital back after 5 years, has a commitment to pay a 6% annual interest and on maturity is entitled to either cash or a variable number of ordinary shares based on the market price of the shares at that time, it satisfies all the characteristics of a liability and therefore should be classified as a **liability**.

Between the two options as the PU's are the one that satisfies the equity classification criteria and Hope PLC should choose that option to overcome the serious loss of capital situation.

June 2019 Q 1

Rs'mn

1/1/17 — 31/12/17 — 1/1/18

Initial application of SLFRS 9 — No cost option

Cost - 14
AFS — cost
CA = 14

FV = 15

1/1/18 → FV
- Increase the CA of Inv — 15 (14 + 1)
- Credit R/E in equity as an opening balance adj.

	S/C	R/E
1.1.18 - Balance		xx
1.1.18 - Adjustment on SLFRS 9 adoption		1
1.1.18. Restated balance		xx

From 2018 onwards, the investment will be classified as FVTOCI and will be measured at FV with changes reflected in OCI and accumulated in a separate reserve in equity. This is an irrevocable option and all FV changes will only be reflected in OCI and never in the P&L.

December 2018 Q2

(I) Share portfolio

As the entity holds the shares to obtain short term gains from rise in share prices and achieve overall profit targets, this indicates that the entity holds the share portfolio for trading purposes and therefore should be classified as FVTPL. Subsequent measurement of this portfolio should be at FV and the change in FV should be reflected in P&L.

FVTOCI option should not be chosen as under that option all FV changes is reflected in OCI and even on disposal it is not reclassified back to P&L.

(II) Treasury bill portfolio

The treasury bills satisfies the cash flow characteristics test of solely payment of principle and interest (SPPI test) and therefore classification is driven by the business model.

As the entity holds the investment for part trading and part collecting cash flows, it should carry the portfolio at FVTOCI with interest income recognized in P&L and FV changes recognized in OCI. Upon disposal the cumulative FV change can be classified to P&L.

Alternatively, they can segregate the portfolio and the held for sale component can be classified as FVTPL while the held to collect cash flow portfolio can be classified as Amortized cost.

June 2017 Q 1

1.) An instrument is classified as liability when there's an obligation to pay cash, either in terms of capital repayment or return payment. If both are at the discretion (Option) of the entity, then it can be classified equity.

In this case since the redemption is at the option of the issuer, the classification will depend on the commitment to pay the return of 14% dividend. If the dividend payment is mandatory then it should be classified as a liability and if the dividend payment is discretionary, then it will be classified as an equity instrument.

2.) Debtors

Note A – Sale of debtors

A financial asset is derecognized when the right to receive cash flows expire or when the right to to receive cash flows is transferred together with the risk associated with it.

In this case as SCP takes the responsibility to pay the bank in case of a default by the debtors, they have not transferred the risk associated with it. Therefore, the Rs.40mn debtor value cannot be derecognized and should remain in the books of SCP. The cash received from the bank should be recognized as a liability and any difference between the money received and the debtor value should be recognized as interest expense up until the debtor settles.

Note B – Impairment on debtors

The impairment on debtors is not in line with SLFRS 9. The debtor balance should be segregated to significant and non significant. Anil and Basil can be identified as significant customers and they should be tested for impairment individually by projecting cash flows expected from them. If they are not impaired, then those debtors together with the non significant debtors should be tested for impairment collectively.

In calculating collective impairment, expected credit losses should be estimated based on historical experience adjusted to current market situation and should be based on reasonable forecasts. As debtors are short term receivables, life time expected credit losses (ECL) can be used instead of measuring 12 month ECL. Impairment provision should be calculated as,

Outstanding amount x probability of default x loss given default

The impairment should be adjusted for time value of money as well.

3.) Loan from bank
The loan received from the bank at 5% interest while the market rates are are at 8% needs to be checked whether the SCP has received it under any scheme which the bank grants loans at lower interest rates, such as government encouraged loans. Assuming the interest rates are under a scheme as this with no conditions attached, then the fair value of the loan should be calculated based on the present value of cash flows discounted using 8% and the difference should be recognized in P&L. Subsequent measurement of the loan should be based on an interest rate of 8%.

In Rs'

Fair value of the loan

Year	CF	DF at	PV
		8.00%	
1	50,000	0.926	46,296
2	50,000	0.857	42,867
3	50,000	0.794	39,692
4	50,000	0.735	36,751
5	1,050,000	0.681	714,612
			880,219

Initial FV adjustment to be recognized in P&L

Amount received			1,000,000
Initial FV			880,219
Initial FV to be recognized in P&L			119,781

Subsequent measurement of the loan

Beginning of the year			880,219
Interest for the year 8%			70,417
Repayment			(50,000)
Closing balance			900,636

June 2016 Q2

A financial asset is derecognized when the right to receive cash flows has expired or the right to receive cash flows is transferred together with the risk associated with it. In this case since the company is retaining the responsibility of recovering the dues from the receivables, even though it has transferred the right to receive cash flows it has not transferred the risk associated with it. Therefore, the cash received from the factoring company should be accounted as a liability and the receivables should continue on the statement of financial position as an asset.

The cash received from the factoring company is initially accounted at Rs.27.5mn and Rs.2.5mn interest is accrued until the due date of the receivables. If the receivables honor their payment to the Factor then the receivables and the liability to the Factor is removed from the SFP. However, if the receivables do not pay the Factor on the due date, the Company needs to pay the Factor the due of Rs.30mn