(1) A company invests $5,000 in 10% loan notes. The loan notes are repayable at a premium after 3 years. The effective rate of interest is 12%. The company intends to collect the contractual cash flows which consist solely of repayments of interest and capital and have therefore chosen to record the financial asset at amortised cost.

What amounts will be shown in the statement of profit or loss and statement of financial position for the financial asset for years 1–3?

(2) A company invested in 10,000 shares of a listed company in November 20X7 at a cost of $4.20 per share. At 31 December 20X7 the shares have a market value of $4.90.

Prepare extracts from the statement of profit or loss for the year ended 31 December 2007 and a statement of financial position as at that date.

(3) A company invested in 20,000 shares of a listed company in October 20X7 at a cost of $3.80 per share. At 31 December 20X7 the shares have a market value of $3.40. The company are not planning on selling these shares in the short term and elect to hold them as fair value through other comprehensive income.

Prepare extracts from the statement of profit or loss for the year ended 31 December 20X7 and a statement of financial position as at that date.

Example 2 – Measurement of financial liabilities

Debt is issued for $1,000. The debt is redeemable at $1,250. The term of the debt is five years and interest is paid at 5.9% pa. The effective rate of interest is 10%.

Show how the value of the debt changes over its life.

(1) A company issues 5% loan notes at their nominal value of $20,000 with an effective rate of 5%. The loan notes are repayable at par after 4 years.

What amount will be recorded as a financial liability when the loan notes are issued?

What amounts will be shown in the statement of profit or loss and statement of financial position for years 1–4?

(2) A company issues 0% loan notes at their nominal value of $40,000. The loan notes are repayable at a premium of $11,800 after 3 years. The effective rate of interest is 9%.

What amount will be recorded as a financial liability when the loan notes are issued?

What amounts will be shown in the statement of profit or loss and statement of financial position for years 1–3?