QUESTION 7: IFRS 9 – FINANCIAL INSTRUMENTS

On July 1, 2010, Star Company made a loan to Moon Company of Rs. 10 million for 5 years. The coupon rate is same as the effective rate of interest i.e. 9%.

On June 30, 2012, it becomes clear that Moon Company is financial crisis and it has become evident of impairment. It is estimated that the remaining future cash flows from the loan will only be Rs. 7.50 million at the end of the fifth year (inclusive of interest of remaining years).

Interest is received at the end of each year and current market interest rate is 10.50%.

Required:
Show the effect of the above transactions on statement of financial position and Statement of Comprehensive Income for the year ended June 30, 2012. **(05)**

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ANSWER TO QUESTION 7: IFRS 9 – FINANCIAL INSTRUMENTS

The carrying amount of loan shall be restated to revised amount of loan's recoverable amount of Rs. 7.5 m x $(1.09)^{-3}$ = Rs. 5.79 and impairment loss of Rs. 4.21 m (i.e. Rs. 10 m – 5.79) shall be charged to profit or loss.

The amount of interest income for the year is Rs. 10 m x 9% = Rs. 0.9m. There is no effect on interest as interest income of year 2012 has to be charged before impairment loss.

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