



FINANCIAL INSTRUMENTS

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A *financial instrument* is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FINANCIAL ASSETS

A **financial asset** is any asset that is:

- (a) Cash;
- (b) An equity instrument of another entity;
- (c) A contractual right:
 - (i) To receive cash or another financial asset from another entity; or
 - (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or
- (d) A contract that will or may be settled in the entity's own equity instruments and is:
 - (i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

FINANCIAL LIABILITIES (Same under PAS 39 and PFRS 9)

A *financial liability* is any liability that is:

- (a) contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
- (b) a contract that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

EQUITY INSTRUMENTS

An *equity instrument* is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. (Please refer to discussions on Share-Based Compensation and Stockholders' Equity)

Review Questions: Theoretical

1. A financial instrument is any contract that gives rise to
 - a. A financial asset of one entity and a financial liability or equity instrument of another entity.
 - b. A financial asset only.
 - c. A financial liability only.
 - d. A financial asset of one entity and a financial liability of another entity only.
2. A financial asset is any asset that is (choose the incorrect one)
 - a. Cash
 - b. An equity instrument of another entity.
 - c. Contractual right to receive cash or another financial asset from another entity.
 - d. Contractual right to exchange financial assets or financial liabilities with another entity under conditions that potentially unfavorable to the entity.
3. A financial liability is any liability that is a contractual obligation
 - I. To deliver cash or another financial asset to another entity.
 - II. To exchange financial assets or financial liabilities with another entity under conditions that potentially unfavorable to the entity.
 - a. I only
 - b. II only
 - c. Both I and II
 - d. Neither I nor II
4. In accordance with PAS32 *Financial instruments: presentation*, which of the following types of instrument is best described as a contract that evidences a residual interest in the assets of an entity after deducting the liabilities?
 - a. Financial liability
 - b. Equity
 - c. Guarantee
 - d. Financial asset
5. All of the following would be regarded as financial instruments except:
 - a. Bank overdraft;
 - b. Notes payable;
 - c. Cash;
 - d. Equipment.
6. Which of the following statements best describes the principle for classifying an issued financial instrument as either a financial liability or equity?
 - a. Issued instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability, financial asset, and an equity instrument.
 - b. Issued instruments are classified as liabilities or equity in accordance with the legal form of the contractual arrangement and the definitions of a financial liability and an equity instrument.
 - c. Issued instruments are classified as liabilities or equity in accordance with management's designation of the contractual arrangement.
 - d. Issued instruments are classified as liabilities or equity in accordance with the risk and rewards of the contractual arrangement.



7. According to PAS 32 *Financial Instruments: Disclosure and Presentation*, which of the following items would be regarded as a financial liability?
 - a. Ordinary shares held in another entity;
 - b. A contract that is a non-derivative for which the entity is obliged to deliver a variable number of its own equity instruments;
 - c. A contractual right to exchange under potentially favorable conditions, an option to purchase shares below the market price;
 - d. The right of a depositor to obtain cash from a financial institution with which it has deposited cash.
8. The initial classification of investments in financial assets is generally based on
 - a. Whether the debt or equity securities are marketable or not
 - b. Whether the debt or equity securities are current or non-current
 - c. The intention of management on acquiring such investments
 - d. The entity's business model and contractual cash flow characteristics of the financial asset
9. *Which of the following is a correct statement in relation to classification of financial asset in accordance with PFRS 9?
 - a. Equity securities can be classified as financial asset at amortized cost.
 - b. Debt securities cannot be classified as financial asset at fair value through other comprehensive income.
 - c. A derivative asset can be classified as financial asset fair value through other comprehensive income.
 - d. Equity securities can be classified as financial asset through profit or loss.
10. *A financial asset is classified as held for trading if it is (choose the incorrect one)
 - a. Acquired or incurred principally for the purpose of selling it in the near term.
 - b. A derivative that is designated and effective hedging instrument.
 - c. Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
 - d. A derivative that is not designated as hedging instrument.
11. Which of the following statements is correct regarding the accounting for financial assets?
 - a. The tainting provision under PAS 39 is carried over to PFRS 9.
 - b. Investments in unquoted equity securities are automatically measured at cost
 - c. The election to classify financial assets at FVTOCI is available after initial recognition
 - d. When designating financial assets at FVTPL, an entity's management may disregard the entity's business model for managing financial assets and the contractual cash flow characteristics of the instrument.
12. It refers to purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.
 - a. Normal way
 - b. Regular way
 - c. Special way
 - d. No way
13. *Financial assets under PFRS 9 are initially measured at
 - a. Cost plus any directly attributable cost.
 - b. Fair value less cost to sell.
 - c. Fair value plus any directly attributable cost.
 - d. Lower of cost or fair value less cost to sell.
14. Financial instruments are initially recognized at fair value plus, in the case of FVTOCI and amortized cost, direct acquisition costs. The best evidence of fair value for financial instruments is
 - a. Quoted prices in active market.
 - b. Contract price in binding sales agreement.
 - c. Price in recent market transaction.
 - d. Valuation of an expert financial analyst.
15. The market value of Security A exceeds its cost, and the market value of Security B is less than its cost at the reporting date. Both securities are held as investments in debt securities; Security A is classified as FVTPL and Security B is classified as FVTOCI. How should each of these assets be reported on the statement of financial position?
 - a. Security A (market value); Security B (market value)
 - b. Security A (amortized costs); Security B (market value)
 - c. Security A (market value); Security B (amortized costs)
 - d. Security A (amortized costs); Security B (amortized costs)
16. Subsequent changes in fair value of financial assets measured at amortized cost are
 - a. Recognized in profit or loss.
 - b. Recognized in equity.
 - c. Recognized in other comprehensive income.
 - d. Not recognized.
17. *Which of the following reclassifications of financial assets is not permitted under PFRS 9?
 - a. Reclassification out of amortized cost to FVTOCI.
 - b. Reclassification out of held for trading equity securities to FVTOCI.
 - c. Reclassification out of amortized cost to held for trading securities.
 - d. Reclassification out of designated at FVTPL to amortized cost.
18. *This refers to the first day of the first reporting period following the change in business model that result in an entity reclassifying financial assets?
 - a. Beginning of the year
 - b. New beginning
 - c. Reclassification date
 - d. Prospective date



19. *Which of the following is a correct statement when a company reclassifies a financial asset from another classification?
- If reclassification is appropriate, it must be done retrospectively since this is considered to be a change in accounting policy.
 - If reclassification is appropriate, it must be done retrospectively and must restate any previously recognized gains and loss, but not interest.
 - If reclassification is appropriate, it must be done prospectively and must restate any previously recognized gains and loss, including not interest.
 - If reclassification is appropriate, it must be done prospectively from the reclassification date.
20. *Which of the following scenario is not an example in which an entity transfers all the risk and rewards of ownership in relation to a financial asset?
- An unconditional sale of a financial asset.
 - A sale of a financial asset together with an option to repurchase the financial asset at its fair value at the time of repurchase.
 - A securities lending agreement.
 - A sale of a financial asset together with an option that is so far out of the money it is highly unlikely to go into the money before expiry.
21. *How should gain or loss on derecognition of financial asset be reported?
- Gain or loss should always be reported in the profit or loss.
 - Gain or loss may be reported in profit or loss if it is a financial asset through profit or loss.
 - Gain or loss may be reported in profit or loss if it is a financial asset at amortized cost.
 - There is no clear guidance by PFRS 9 on which to report any gain or losses on derecognition of financial asset.

Review Questions: Practical Accounting 1
Financial Asset

1. The following are taken from the records of Paboy Co. as of year-end.

Cash and cash equivalents	₱ 1,152,000	Investment in subsidiary	₱ 1,220,000
Accounts receivable	1,260,000	Shares of stocks of Paboy Co.	1,224,000
Allowance for bad debts	(98,000)	Investment in bonds	1,148,000
Note receivable	1,120,000	Land	1,560,000
Interest receivable	18,000	Building	1,040,000
Claim for tax refund	148,000	Accumulated depreciation	(260,000)
Advances to suppliers	124,000	Investment property	1,200,000
Inventory	2,300,000	Biological assets	520,000
Prepaid expenses	120,000	Intangible assets	1,280,000
Prepaid interest	14,000	Deferred tax assets	240,000
Investment in equity instruments	2,152,000	Cash surrender value	480,000
Investment in associate	1,180,000	Sinking fund	180,000

How much is the total amount of financial assets to be disclosed in the notes?

- a. ₱9,646,000 b. ₱9,826,000 c. ₱9,812,000 d. ₱9,896,000

Financial Liabilities

2. The following are taken from the records of Shu Time Co. as of year-end.

Accounts payable	₱ 2,088,000	SSS contributions payable	₱ 124,000
Utilities payable	128,000	Cash dividends payable	216,000
Accrued interest expense	24,000	Property dividends payable	328,000
Advances from customers	544,000	Stock dividends payable	412,000
Unearned rent	536,000	Finance lease liability	1,140,000
Warranty obligations	220,000	Bonds payable	1,480,000
Unearned interest on receivables	112,000	Discount on bonds payable	(60,000)
Income taxes payable	18,000	Security deposit	78,000

How much is the total amount of financial liabilities to be disclosed in the notes?

- a. ₱5,112,000 b. ₱5,094,000 c. ₱5,154,000 d. ₱5,236,000

Principal market vs. Most advantageous market

Use the following information for the next two questions:

ABC Co. has an asset that is required by the standards to be measured at fair value. The asset is sold in two different active markets. ABC Co. has access to both of these markets. Information on these markets is shown below:

	Active market #1	Active market #2
Market price	₱150	₱145
Transaction costs	18	12
Transport costs	10	8

Case #1: Principal market

3. If "Active market #1" is the principal market for the asset, how much is the fair value of the asset?

- a. ₱150 b. ₱132 c. ₱140 d. ₱122

Case #2: Most advantageous market

4. If neither market is the principal market for the asset, how much is the fair value of the asset?

- a. ₱122 b. ₱125 c. ₱145 d. ₱137



Fact Pattern # 1: FVTPL and Financial asset at amortized cost – Initial and Subsequent Measurement

Da King Company, purchased a five-year bond on January 1, 2019 at a cost of ₱5,000,000 with annual interest of 5%, which is also the effective rate, payable on December 31 annually. Commissions paid to broker to purchase the bond was ₱110,000. At the reporting date of December 31, 2019, interest has been received as expected and the market rate of interest is now 6%.

Case No. 1: Assuming the financial asset is designated at fair value through profit or loss (FVTPL)

5. [Refer to fact pattern #1] How much is the initial carrying amount of the FVTPL on January 1, 2019?
 a. ₱5,000,000 b. ₱5,110,000 c. ₱4,826,775 d. ₱5,090,461
6. [Refer to fact pattern #1] How much is the carrying amount of the FVTPL on December 31, 2019?
 a. ₱5,000,000 b. ₱5,110,000 c. ₱4,826,775 d. ₱5,090,461
7. [Refer to fact pattern #1] How much is the unrealized loss to be recognized in profit or loss on December 31, 2019?
 a. ₱173,225 b. ₱250,000 c. ₱230,461 d. Nil
8. [Refer to fact pattern #1] How much is the interest income to be recognized in profit or loss on December 31, 2019?
 a. ₱241,339 b. ₱250,000 c. ₱230,461 d. ₱173,225

Case No. 2: Assuming the investment is classified as financial asset at amortized cost (FAAC)

9. [Refer to fact pattern #1] How much is the initial carrying amount of the financial asset at amortized cost on January 1, 2019?
 a. ₱5,000,000 b. ₱5,110,000 c. ₱4,826,775 d. ₱5,090,461
10. [Refer to fact pattern #1] How much is the carrying amount of the financial asset at amortized cost on December 31, 2019?
 a. ₱5,000,000 b. ₱5,110,000 c. ₱4,826,775 d. ₱5,090,461
11. [Refer to fact pattern #1] How much is the unrealized loss to be recognized in profit or loss on December 31, 2019?
 a. ₱173,225 b. ₱250,000 c. ₱230,461 d. Nil
12. [Refer to fact pattern #1] How much is the interest income to be recognized in profit or loss on December 31, 2019?
 a. ₱173,225 b. ₱250,000 c. ₱230,461 d. Nil

Solution Guide to Case No. 2

Date	Interest received (5%) (a)	Interest income (4.51%) (b)	Premium amortization (c) = (a) - (b)	Carrying value
January 1, 2019				₱5,110,000
December 31, 2019	₱250,000	₱ 230,461	₱ 19,539	5,090,461
December 31, 2020	250,000	229,580	20,420	5,070,041
December 31, 2021	250,000	228,659	21,341	5,048,700
December 31, 2022	250,000	227,696	22,304	5,026,396
December 31, 2023	250,000	226,690	*23,310	5,000,000

Fact Pattern # 2: FVTOCI – Initial and Subsequent Measurement

On January 1, 2019, Maybelle Co. purchased 10% of the 100,000 shares of Pamela Co., for ₱700,000. Maybelle Co. also paid ₱69,000 of commission and taxes. On initial recognition, the management of Maybelle Co. made an irrevocable choice to measure the investment in shares at fair value through other comprehensive income.

On September 30, 2019, Pamela Co. declared and paid dividends of two peso for every share held. On December 31, 2019, the shares are quoted at ₱69 per share.

13. [Refer to fact pattern #2] How much is the initial carrying amount of the FVTOCI on January 1, 2019?
 a. ₱700,000 b. ₱769,000 c. ₱690,000 d. Nil
14. [Refer to fact pattern #2] How much is the carrying amount of the FVTOCI on December 31, 2019?
 a. ₱700,000 b. ₱769,000 c. ₱690,000 d. Nil
15. [Refer to fact pattern #2] What amount should be reported in the profit or loss on December 31, 2019?
 a. ₱20,000 b. ₱10,000 c. ₱79,000 d. ₱69,000
16. [Refer to fact pattern #2] What amount should be reported as component of other comprehensive income on December 31, 2019?
 a. ₱20,000 b. ₱10,000 c. ₱79,000 d. ₱69,000

Initial Measurement – Financial asset at amortized cost

17. On January 1, 2019 Angelica Company purchased 5-year bonds with face value of ₱8,000,000 and stated interest of 10% per year payable semiannually January 1, and July 1. The bonds were acquired to yield 8%. Present value factors are:

Present value of an annuity of 1 for 10 periods at 5% 7.72
 Present value of an annuity of 1 for 10 periods at 4% 8.11

What is the purchase price of the bonds?

- a. ₱8,688,800 b. ₱8,617,600 c. ₱8,648,800 d. ₱7,351,200



Fact Pattern # 3: Financial assets at amortized cost – acquisition at a discount

On January 1, 2019, Krizza Co. acquired 10%, ₱4,000,000 bonds for ₱3,807,853. The principal is due on January 1, 2022 but interest is due annually every January 1. The yield rate on the bonds is 12%.

18. [Refer to fact pattern #3] How much is the interest income recognized in 2019?
a. ₱456,942 b. ₱463,776 c. ₱471,429 d. ₱400,000
19. [Refer to fact pattern #3] How much is the carrying amount of the investment on December 31, 2019?
a. ₱3,807,853 b. ₱3,864,796 c. ₱3,928,571 d. ₱4,000,000

Financial assets at amortized cost - purchased accrued interest - annual

20. On April 1, 2019, Erika Co. acquired 12%, ₱4,000,000 bonds dated January 1, 2019 at 98 **excluding** interest. The bonds mature on December 31, 2021 but pays annual interest at each year-end. How much is the initial carrying amount of the investment?
a. ₱3,920,000 b. ₱3,800,000 c. ₱4,000,000 d. ₱4,120,000
21. On April 1, 2019, Christine Co. acquired 12%, ₱4,000,000 bonds dated January 1, 2019 at 98 **including** interest. The bonds mature on December 31, 2021 but pays annual interest at each year-end. How much is the initial carrying amount of the investment?
a. ₱3,920,000 b. ₱3,800,000 c. ₱4,000,000 d. ₱4,120,000

Financial assets at amortized cost - purchased accrued interest – semi-annual

22. On August 1, 2019, Shayne Co. acquired 12%, ₱4,000,000 bonds dated January 1, 2019 at 98 including interest. The bonds mature on December 31, 2021 but pays semiannual interest every January 1 and July 1. How much is the initial carrying amount of the investment?
a. ₱3,920,000 b. ₱3,640,000 c. ₱3,880,000 d. ₱4,000,000

Derecognition of FVTPL

23. On January 1, 2018, Loveless Co. purchased ₱1,000,000 bonds at 98. The bonds mature on January 1, 2022 and pay 12% annual interest beginning January 1, 2019. Commission paid on the acquisition amounted to ₱50,000. The objective of the Loveless' business model is to sell such bonds in the near term to take advantage of fluctuations in fair values for short-term profit taking. Accordingly, the bonds were classified as held for trading securities.

On December 31, 2018, the bonds are quoted at 102. On January 6, 2019, the bonds were sold at 105.

How much is the amount of gain on the sale of the investment in bonds classified as FVTPL?

- a. ₱70,000 b. ₱50,000 c. ₱30,000 d. ₱20,000

Fact Pattern # 5: Derecognition

On January 1, 2018, Claire Co. purchased 12,000 shares of Charlene, Inc. for ₱400,000. Commission paid to broker amounted to ₱20,000. Management made an irrevocable choice to subsequently measure the shares at fair value through other comprehensive income. On December 31, 2018, the shares are quoted at ₱40 per share. On January 3, 2019, all of the shares were sold at ₱60 per share. Commission paid for the sale amounted to ₱24,000.

24. [Refer to fact pattern #4] How much is the initial carrying amount of the investment?
a. ₱420,000 b. ₱400,000 c. ₱380,000 d. 20,000
25. [Refer to fact pattern #4] How much is the unrealized gain (loss) recognized in profit or loss on December 31, 2018?
a. (₱60,000) b. ₱60,000 c. ₱80,000 d. Nil
26. [Refer to fact pattern #4] How much is the unrealized gain (loss) recognized in other comprehensive income on December 31, 2018?
a. (₱60,000) b. ₱60,000 c. ₱80,000 d. Nil
27. [Refer to fact pattern #4] Assuming the investment is classified as financial asset through other comprehensive income (FVTOCI) under PFRS 9, how much is the realized gain (loss) on the sale on January 3, 2019?
a. ₱216,000 b. ₱240,000 c. ₱276,000 d. ₱296,000
28. [Refer to fact pattern #4] Assuming the investment is classified as financial asset through other comprehensive income (FVTOCI) under PFRS 9, what amount is recycled in profit or loss related to the sale on January 3, 2019?
a. ₱60,000 b. ₱80,000 c. ₱240,000 d. Nil

Sale of bonds on interest date

29. On January 1, 2018, Catherine Co. acquired 12%, ₱1,000,000 bonds for ₱1,049,737. The principal is due on January 1, 2021 but interest is due annually starting December 31, 2018. The yield rate on the bonds is 10%. On January 1, 2020, the entire bonds were sold at 110. Commission paid to the broker amounted to ₱10,000. How much is the gain (loss) on the sale?
a. ₱81,818 b. ₱71,818 c. (₱18,182) d. ₱55,289

Sale of bonds in between interest payment dates

30. On January 1, 2018, Hyacin Co. acquired 12%, ₱1,000,000 bonds for ₱1,049,737. The principal is due on January 1, 2021 but interest is due annually starting December 31, 2018. The yield rate on the bonds is 10%. On July 1, 2019, the entire bonds were sold at 110. Commission paid to broker amounted to ₱10,000. How much is the gain (loss) on the sale?
a. ₱47,025 b. ₱57,025 c. ₱55,289 d. ₱3,554

Investment in Equity Securities - Dividends

31. Primitive Company received dividends from its common stock investments during the year 2019 as follows:
- A stock dividend of 20,000 shares from A Company when the market price of A's shares was ₱30 per share.
 - A cash dividend of ₱2,000,000 from B Company in which Primitive owns a 20% interest.



- A cash dividend of ₱1,500,000 from C Company in which Primitive owns a 10% interest.
- 10,000 shares of common stock of D Company in lieu of cash dividend of ₱20 per share. The market price of D Company's shares was ₱180. Primitive holds originally 100,000 shares of D Company common stock. Primitive owns 5% interest in D Company.

What amount of dividend revenue should Primitive report in its 2019 income statement?

- a. ₱3,300,000 b. ₱5,300,000 c. ₱3,500,000 d. ₱2,500,000

32. Data pertaining to dividends from Carmela Company's common stock investments for the year 2019 follow:

- On October 1, 2019, Carmela received ₱2,000,000 liquidating dividend from X Company. Carmela owns a 5% interest in X Company.
- Carmela owns a 10% interest in Y Company which declared a ₱30,000,000 cash dividend on November 15, 2019 to stockholders of record on December 15, 2019 payable on January 15, 2020.
- On December 1, 2019, Carmela received from Z Company a dividend in kind of one share of V Company common stock for every 5 Z Company common shares held. Carmela holds 200,000 Z Company shares which have a market price of ₱50 per share on December 1, 2019. The market price of V Company common is ₱30 per share.

What amount should Carmela report as dividend income in its 2019 income statement?

- a. ₱6,200,000 b. ₱4,200,000 c. ₱3,000,000 d. ₱5,000,000

33. Carla Company owns 1,000,000 shares of Sunshine Company's 5,000,000 shares of ₱50 par, 10% cumulative, nonparticipating preferred stock and 500,000 shares (2%) of Sunshine's common stock. During 2019, Sunshine declared and paid dividends of ₱40,000,000 on preferred stock. No dividends had been declared or paid during 2018. In addition, Carla received a 15% common stock dividend from Sunshine when the quoted market price of common stock was ₱100. What amount should Carla report as dividend income in its 2019 income statement?

- a. ₱15,500,000 b. ₱20,000,000 c. ₱10,000,000 d. ₱8,000,000

34. On January 2, 2019, Nena Company acquired 100,000 shares of ABC Company common stock for a total consideration of ₱6,000,000. On October 1, 2019, Nena received from ABC a preferred stock dividend of one share for every 10 common shares held. On this date, the market price of ABC common is ₱75 per share and the ABC preferred, ₱50 per share. Nena Company should report its investment in ABC Company preferred stock at

- a. ₱500,000 b. ₱750,000 c. ₱375,000 d. Nil

Reclassification - Amortized cost to Held for trading

35. On January 1, 2018, Irish Co. acquired 10%, ₱4,000,000 bonds for ₱3,807,853. The principal is due on January 1, 2021 but interest is due annually starting December 31, 2018. The yield rate on the bonds is 12%.

At the middle of 2018, Irish Co. changed its business model. It was ascertained that the investment in bonds at amortized cost should be reclassified to held for trading securities on reclassification date. On January 1, 2019, the bonds were quoted at 104. How much is the gain on reclassification on January 1, 2019?

- a. ₱352,147 b. ₱295,204 c. ₱231,429 d. Nil

Reclassification from Held for trading to amortized cost

36. On January 1, 2018, Jessica Co. acquired 10%, ₱4,000,000 bonds for ₱3,807,853. The objective of Jessica's business model is to sell such bonds in the near term to take advantage of fluctuations in fair values for short-term profit taking. Accordingly, the bonds were classified as held for trading securities. On December 31, 2018, the bonds are quoted at 98. In 2019, Jessica Co. changed its business model. It was ascertained that the investment should be reclassified to financial asset measured at amortized cost on reclassification date. On December 31, 2019, the bonds are quoted at 103. On January 1, 2020, the bonds are quoted at 104. How much is the gain on reclassification?

- a. ₱295,204 b. ₱40,000 c. ₱240,000 d. ₱200,000

Fact Pattern # 6: Reclassification of FVTPL to amortized cost

On January 1, 2017, Kristal Company purchased 5-year bonds with face value of ₱8,000,000 and stated interest of 10% per year payable semiannually January 1 and July 1. The bonds were acquired ₱8,648,800 to yield 8%. The objective of Kristal's business model is to sell such bonds in the near term to take advantage of fluctuations in fair values for short-term profit taking.

The yield rate was 9% and 7% on December 31, 2017 and December 31, 2018, respectively. During The last quarter of 2018, the business model of Kristal Company was changed in which the bonds will be held until maturity. The company's fiscal year ends on December 31.

37. [Refer to fact pattern #5] When is the reclassification date?

- a. January 1, 2018 c. December 31, 2018
b. December 31, 2017 d. January 1, 2019

38. [Refer to fact pattern #5] How much is the new cost of the financial asset at amortized cost?

- a. ₱8,639,440 b. ₱8,000,000 c. ₱8,648,800 d. ₱8,800,000

39. [Refer to fact pattern #5] How much is the gain (loss) on reclassification?

- a. (₱375,480) b. ₱375,480 c. ₱240,000 d. Nil

Fact Pattern # 7: Reclassification from amortized cost to FVTPL

On January 1, 2017, Janine Company purchased 5-year bonds with face value of ₱8,000,000 and stated interest of 10% per year payable semiannually June 30, and December 31. The bonds were acquired ₱8,648,800 to yield 8%. The objective of Janine's business model is to hold the investment until maturity and to collect the contractual cash flows (principal and interest).

During 2018, the business model of Janine Company changed in which bonds are sold in the near term to take advantage of fluctuations in fair values for short-term profit taking. The quoted market price of the investment on January 1, 2019 was 104.



40. [Refer to fact pattern #6] How much FVTPL will be reported on December 31, 2018?
 a. ₱8,419,287 b. ₱ 8,320,000 c. ₱8,000,000 d. Nil
41. [Refer to fact pattern #6] How much is the gain or (loss) on the reclassification of the financial asset at amortized cost to FVTPL?
 a. ₱99,287 b. (₱99,287) c. ₱60,797 d. (₱60,797)

Solution Guide:

Date	Interest received (5%) (a)	Interest income (4%) (b)	Premium amortization (c) = (a) - (b)	Carrying value
January 1, 2017				₱8,648,800
June 30, 2017	400,000	345,952	54,048	8,594,752
December 31, 2017	400,000	343,790	56,210	8,538,542
June 30, 2018	400,000	341,542	58,458	8,480,084
December 31, 2018	400,000	339,203	60,797	8,419,287
June 30, 2019	400,000	336,771	63,229	8,356,059
December 31, 2019	400,000	334,242	65,758	8,290,301
June 30, 2020	400,000	331,612	68,388	8,221,913
December 31, 2020	400,000	328,877	71,123	8,150,789
June 30, 2021	400,000	326,032	73,968	8,076,821
December 31, 2021	400,000	323,179	*76,821	8,000,000

Fact Pattern # 8: Reclassification of FVTOCI to FVTPL

On January 1, 2018, Karylle Co. purchased 20% of the 200,000 shares of Anne Co., for ₱1,200,000. Karylle Co. also paid ₱100,000 of commission and taxes. On initial recognition, the management of Karylle Co. made an irrevocable choice to measure the investment in shares at fair value through other comprehensive income.

On September 30, 2018, Anne Co. declared and paid dividends of two peso for every share held. On December 31, 2018, the shares are quoted at ₱39 per share.

On February 14, 2019, Karylle Co. decided to reclassify the asset at FVTPL to take advantage of the volatility of the price of the Anne Co. shares. On January 1, 2020, the shares of Anne Co. are quoted at ₱42 per share.

42. [Refer to fact pattern #7] What is the new cost of the FVTPL after the reclassification?
 a. ₱1,680,000 b. ₱1,300,000 c. ₱1,560,000 d. Nil
43. [Refer to fact pattern #7] How much is the gain (loss) on reclassification from FVTOCI to FVTPL?
 a. ₱120,000 b. ₱480,000 c. ₱160,000 d. Nil

Fact Pattern # 9: Purchase – Trade date vs Settlement date

On December 29, 2018, Karao Company commits itself to purchase a financial asset for ₱10,000, which is its fair value on commitment (trade) date. Transaction costs are immaterial. On December 31, 2018 (financial year-end) and on January 5, 2019 (settlement date) the fair value of the asset is ₱10,200 and ₱10,300, respectively.

Required:

Provide the entries using (a) trade date accounting and (b) settlement accounting assuming the financial asset purchased is

44. Financial asset at fair value through profit or loss (FVTPL)
 45. Financial asset at fair value through other comprehensive income (FVTOCI)
 46. Financial asset at amortized cost (FAAC)

Fact Pattern # 9: Sale – Trade date vs Settlement date

On December 29, 2018 (trade date) Daclan Company enters into a contract to sell a financial asset for its current fair value of ₱10,100. The asset was acquired one year earlier for ₱10,000 and its amortized cost is ₱10,000. On December 31, 2018 (financial year-end), the fair value of the asset is ₱10,200. On January 5, 2019 (settlement date), the fair value is ₱10,300.

Required:

Provide the entries using (a) trade date accounting and (b) settlement accounting assuming the financial asset sold is

47. Financial asset at fair value through profit or loss (FVTPL)
 48. Financial asset at fair value through other comprehensive income (FVTOCI)
 49. Financial asset at amortized cost (FAAC)

If you aim for the moon, you may only reach the treetop, but if you aim only for the treetop, you may never leave the ground.

"Determination is often the first chapter in the book of excellence."

"If you don't seek perfection, you can never reach excellence."

☺ -- END OF HANDOUT -- ☺