

TUTORIAL IAS 32 with SOLUTION

EX1-Company A is evaluating whether each of these items is a financial instrument and whether it should be accounted for under IAS 32

- (a) Cash deposited in banks
- (b) Gold bullion deposited in banks
- (c) Trade accounts receivable
- (d) Investments in debt instruments
- (e) Investments in equity instruments, where Company A does not have significant influence over the investee
- (f) Investments in equity instruments, where Company A has significant influence over the investee
- (g) Prepaid expenses
- (h) Finance lease receivables or pay
- (i) Deferred revenue
- (j) Statutory tax liabilities
- (k) Provision for estimated litigation losses
- (l) An electricity purchase contract that can be net settled in cash

Required

Help Company A to determine (1) which of the above items meet the definition of a financial instrument

and (2) which of the above items fall within the scope of IAS 32

SolutionEX1-

(a) Yes, cash deposited in a bank is a financial instrument. If an entity deposits cash in a bank, it is a financial asset of the entity and a financial liability of the bank, because the bank has a contractual

obligation to repay the cash to the entity. It falls within the scope of IAS 32.

(b) No, gold is not a financial instrument. It is a commodity. It is outside the scope of IAS 32.

(c) Yes, a trade accounts receivable is a financial instrument. Trade accounts receivable is a financial

asset because the holder has a contractual right to receive cash. It falls within the scope of IAS 32.

(d) Yes, an investment in a debt instrument is a financial instrument.

Investments in debt instruments are financial assets because the investor has a contractual right to receive cash. It falls within the scope of IAS 32.

(e) Yes, an investment in an equity instrument is a financial instrument.

Investments in equity instruments are financial assets because the investor holds an equity instrument issued by another entity. It falls within the scope of IAS 32.

(f) While an investment in an equity instrument is a financial instrument (a financial asset), if the investor has significant influence, joint control, or control over the investee, the investment generally is scoped out of IAS 32 and instead accounted for as an investment in an associate, joint venture, or subsidiary.

EX2- Presentation :Liabilities and Equity

Company (X) issued a number of financial instruments during 2022as follow:
1-Fixed or perpetual bonds (i.e. bonds with no maturity date) that pay interest at the rate of 8% per annum.

2. Necessarily redeemable shares (i.e. shares that will be redeemed by the entity at a future date).

3. Shares that can be redeemed at the option of the holder.

4. A written put option that allows the holder to purchase a specified number of common shares of the company (X)for a specified amount of cash.

Required: For each of the above instruments, state whether it should be classified as a financial liability and if so, why.

Solution EX2-

(a) An issued perpetual bond (i.e., a bond that does not have a maturity date) that pays 6% interest each year should be classified as a **financial liability**. **Because the instrument contains an obligation to pay interest, it meets the definition of a financial liability.**

(b) An issued mandatorily redeemable share (i.e., a share that will be redeemed by the entity at a future date) with a fixed redemption amount should be classified as a **financial liability**. **Because the instrument contains an obligation to pay a fixed amount of cash or other financial assets on redemption of the share, it meets the definition of a financial liability.**

(c) An issued share that is redeemable for a fixed amount of cash at the option of the holder should be classified as a **financial liability**. Because the entity cannot avoid settlement through delivery of cash should the holder demand redemption, the share meets the definition of a financial liability

d) A sold (written) call option that allows the holder to purchase a fixed number of ordinary shares from Entity A for a fixed amount of cash should be classified as **equity**. As discussed later in this chapter, a contract that will or may be settled in own equity is classified as equity if it provides for the exchange of a fixed number of own equity instruments for a fixed amount of cash.

EX3- Compound financial instruments

On Jan 1, 2022 Company (S) issued convertible bonds into common shares worth 500,000 dinars in cash at an interest rate of 12% for a period of 5 years. The value of the discounted bonds amounted to 410,000 dinars (representing the fair value of the bonds without the right to convert).

Required -how to account for this compound instrument under IAS 32?

SolutionEX3

Value of equity portion = Fair value of compound instrument - Fair value of liability element = 500,000 - 410,000 = 90,000 dinars

	Debit	Credit
Cash	500000	
Loan Bonds		410000
Premuim– Conversion Option to Equity		90000

EX4- treasury stock

On Jan1,2022 - A company purchased 50,000 shares of its stock from the financial market at a cost of 30 dinars per share,

On April 5,2022 - It sold 20,000 shares of treasury stock at a price of 40 dinars per share,

On May 6, 2022 - It sold 20,000 shares at a price of 15 dinars per share

• **Required** - Record the previous transactions in the company's journal.

SolutionEX4**Journal entries**

1- record company purchase its shares(50000 @ 30 D/share

	Debit	Credit
Treasury stock	1500000	
Cash		1500000

2-Ressell of treasury stock 20000 shares @ 40D/share

	Debit	Credit
Cash	800000	
Treasury stock		600000
Additional capital - Treasury stock		200000

3- Ressell of treasury stock 20000 shares @15 D/share

	Debit	Credit
Dr. Cash	300000	
Dr. Additional capital - Treasury stock	200000	
Dr. Retained Earnings ¹	100000	
Cr Treasury stock		600000
¹ charged to RE		

Dr. Debit

Cr. Credit

EX5- Reporting Interest, Dividends, Losses and Gains

A company issued shares with a nominal value of 500,000 dinars for 800,000 dinars in cash. The expenses of issuing the shares (issuance fees and fees of the bank executing the issuance) amounted to 40,000 dinars. The company is subject to tax at a rate of 20%, knowing that the issuance expenses are subject to tax deduction (taxable).

Required- Record the necessary transactions in accounting

EX5 –Homework for students