

credit quality since initial recognition but do not have objective evidence of loss event	credit losses	amount
financial instruments with objective evidence of loss event	lifetime expected credit losses	calculated on asset net carrying amount
Simplified approach for trade receivables, lease receivables	lifetime expected credit losses	
Credit impaired at initial recognition	lifetime expected credit losses	
Change in credit risk is the change in prob. of default over the initial prob. of default	interest revenue calculated on credit adjusted effective interest rate on amortised cost	

SEMINAR 7: Translation Of Foreign Ccy Trns & Bal By A Stand-Alone Entity (FRS 21)

Functional Ccy: ccy of the primary economic environment in which the entity operates (demand & supply factors) Use judgement to determine FC that represents the economic effects of the underlying transactions, events and conditions

Primary Indicators: ccy which mainly influences sales prices for gds/svcs, country whose competitive forces and regulations mainly determine the sales price of its gds/svcs, ccy mainly influences labour, mat'l, and other costs of providing gds/svcs

Additional Indicators: ccy of financing activities (debt & equity issues), ccy in which receipts from operating activities are usually realized (operating OFS in the ccy of bank ac) **FC of Subsidiary likely to be Parent's ccy** if: 1. Operations of P is an extension of P (not autonomous), inter-co transactions with high proportion of S's operations, high impact of S's OFS on P, dependent on P in debt repayments

Stand-alone entity: Translation from Foreign Ccy To Functional Ccy

@ Initial recognition: Foreign ccy transaction x Spot @ B/S date (1) Foreign ccy monetary item @ mid-point; (2) Settlement of monetary item at Spot Rate (2) Extinction of non-monetary items (eg: Depreciation, COS) at historical/original spot rate

[Non-monetary items that are measured at fair value in a foreign ccy are translated using the exchange rates at the date when the FV was determined]

DR Fixed Asset @ HR
CR Payable @ HR
DR Payable @ HR
CR Bank @ SR
DR Depreciation @ HR
CR Acc. Depreciation @ HR

Monetary Items

Units of ccy held and assets and liab to be rec'd or paid or determinable no. of units of ccy right to receive or obligation to deliver a fixed or determinable no. of units of ccy

Unamortized premium/discount are monetary items following the nature of debt

Monetary Items	Non-Monetary Items
Variable rate interest loan, marketable debt securities, Debt/loan/bonds, Cash, A/R, A/P, pensions and employee benefits to be paid in cash, provisions that are to be settled in cash, cash dividends that are recognised as liability	Marketable equity securities, goodwill, intangible assets, inventories, provisions that are to be settled by the delivery of a non-monetary asset, inventory, PPE, prepaid expenses, non-refundable deposits, Equity securities, deferred revenue, deferred charges, common or preference stock
changes = E - sum of A to D -> P/L	

Opening net monetary asset	Monetary asset (A)	Monetary liability (B)	Change in monetary asset (C)	Change in monetary liability (D)	Change in net monetary asset (E)
X	X	X	X	X	X
Period's closing rate	Actual closing rate	Actual closing rate	Actual closing rate	Actual closing rate	Actual closing rate
A	B	C	D	E	F

Fair value of an Australian investment property:

On 1 Jan 20x5: A\$8,000,000
On 31 Dec 20x5: A\$10,000,000

Exchange rates:

On 1 Jan 20x5: A\$1: S\$1.00
On 31 Dec 20x5: A\$1: S\$1.10

Journal entry @ 31/12/20x5 (FV model for investment)

Dr. Investment property S\$3m
(A\$10m x 1.1 - A\$8m x 1.0)

Cr. Gain on FV S\$3m

Dr. Building S\$3m
Cr. Revaluation reserve S\$3m

not split between FX and FV changes

Revalued non-monetary asset = FV x FX rate at date of FV

Foreign Ccy depreciates	Foreign Ccy appreciates
Exposed asset Exchange Gain	Exchange Gain
Exposed liability Exchange Loss	Exchange Loss

Change in Function Ccy when economic environment changes

Apply new FC prospectively, translates all items (A/L/E) into the new FC using the exchange rate at the date of change. The resulting translated amounts for non-monetary items (eg: Fixed Asset) are treated at their historical cost.

FX Templates

USD	SGD	Reconciliation Process	USD	SGD
USD Receivables as at 1 Jan 2015	USD A/R	USD A/R	USD	SGD
+ Sales	USD A/P	USD A/P	USD	SGD
+ Sundry	USD Bank	USD Bank	USD	SGD
USD Receivables as at 31 Dec 2015	Net monetary assets at start of year	Net monetary assets at start of year	USD	SGD
Transferred at Y/E	- Monetary assets (cash)	- Monetary assets (cash)	USD	SGD
Exchange gain/loss (JOURNAL ENTRY REQUIRED)	- Monetary assets (prepayments)	- Monetary assets (prepayments)	USD	SGD
	Monetary assets at end of year	Monetary assets at end of year	USD	SGD
Unamortised loan premium, 1 Jan	Contingent liability	Contingent liability	USD	SGD
Amortised loan premium	Bank	Bank	USD	SGD
Unamortised loan premium, 31 Dec	A/R	A/R	USD	SGD
Transferred at Y/E rate	A/P	A/P	USD	SGD
Exchange gain/loss	Net monetary assets at end of year	Net monetary assets at end of year	USD	SGD
	Exchange gain/loss	Exchange gain/loss	USD	SGD

Net Exchange Gain/Loss	USD	SGD
Exchange loss on interest expense on LT loan payable	(53,360)	
Exchange gain on equity investments receivable	\$38,000	
Exchange gain on contingency receivable	\$65,000	
Exchange loss on dividend payable	(4,800)	
Exchange loss on unamortised loan premium	(57,747)	
Exchange loss on loan payable	(154,000)	
Exchange gain on bank balance	\$171,200	
Net exchange gain	\$400,293	

Movement in net monetary assets	USD	Rate	SGD
USD Bank	\$1,500,000		
USD A/R	\$0		
USD A/P	(\$1,265,006)		
Net monetary assets at start of year	\$234,994	1.27	\$298,442
Prepayments	(46,000)	1.27	(58,260)
Contingency Receivable	(600,000)	1.27	(762,000)
Sale of equity investments (cash)	\$2,400,000	1.34	\$3,216,000
Sale of equity investments (receivables)	\$6,600,000	1.34	\$8,844,000
Purchase of intangible assets	(\$1,200,000)	1.35	(\$1,620,000)
Dividends payable	(\$120,000)	1.36	(\$163,200)
Interest expense on loan payable	(53,360)	1.33	(\$70,974)
Increase in contingency receivable	\$200,000	1.4	\$280,000
Net monetary assets at end of year	\$6,517,044		\$7,323,569

Compliance (USD)	SGD
Bank	\$920,000
Contingency Receivable	\$700,000
A/R	\$5,600,000
Dividend Payable	(\$120,000)
Loan Payable	(\$24,000)
	\$5,517,044

SEMINAR 8: Hedge Accounting

Derivatives based on l/r, fx, equities, credit and commodities. D hedge I/R risk, credit risk, market price risk, fx risk, counterparty credit risk. IAS39 Embedded D to be separately recognized from the host instrument, elected for FVO, no need to bifurcation

Futures - standardized size, traded on exchange, margin calls, reduce counterparty risk, marked to market, can close position | **Forwards** - tailored made, counterparty risk, lower transaction costs

Fwd rate converges to the spot rate at the date of maturity. FV of fwd contract at maturity: diff btw the SR at maturity date and the contracted fwd rate x notional amt of the contract

Premium (or discount) on the fwd contract is the interest or time value.

Time value -> difference btw forward & spot rate at a point in time. Changes in TV are due to these factors: cost of holding, risk free rate and period to maturity.

Current forward rate < contracted forward rate	Current forward rate > contracted forward rate	Fair Value Hedge	Cash Flow Hedge
<ul style="list-style-type: none"> Fair value is positive Gain is recorded Forward contract is an asset 	<ul style="list-style-type: none"> Fair value is negative A loss is recorded Forward contract is a liability 	<ul style="list-style-type: none"> Fixed rate debt - variability in interest exposed to FV change Firm/non-cancellable contract (e.g. sales contract); recognised asset or liability 	<ul style="list-style-type: none"> Variable rate debt - variability in interest FV of debt constant Forecast transaction

Derivatives classified under FVTPL and changes in FV to P/L. **Exception:** designated as a hedge of an identified risk and designated as an effective hedge, follows hedge acct rules

FV hedge only takes into account FV changes. therefore some asset don't have to use historical rate, just historical cost x relevant rate. A hedge of the exposure to changes in FV of a recognised asset or liab or an unrecognised firm commitment, or an identified portion of such an asset, liab, or firm commitment that is attributable to a particular risk and could affect P/L

Firm commitment, fin assets classified as FVOCI, inventory -> Fair value hedge, uses Current SR - Previous SR x notional amt

Δ fair value of a Forward Purchase Contract = (Current fwd rate - Previous fwd rate) x Notional amt

Δ time value of a fwd purchase contract or change in premium = [(Current FR - Current SR) - (Previous FR - Previous SR)] x notional amt. Δ intrinsic value of fwd purchase contract = (Current SR - Previous SR) x notional amt

If FV hedge, changes in FV of hedging instrument taken to P/L. If Cash Flow hedge, changes in FV of hedging instrument that is an effective hedge taken to equity (OCI) and ineffective portion

then to P&L. Perfect hedge: amt and timing match, -ve correlation of -1

Cash flow hedge - changes in IV derived in equity, the deferred gains/losses in equity are transferred out to the cost of the asset when the asset is recognized, changes in TV (a tax cost) is passed off. No firm commitment ac, only deferred gain/loss account (OCI balance)

Effective hedge only if In-The-Money, OTM - time value amount goes to P/L

Cash flow and P&L effect of hedging is the same amount

Interest Rate Swaps

FVTPL unless it's hedging instrument. Involves exchanging variable (fixed) int rate payments for fixed (variable) int rate obligations. Principle amt not exchanged.

Convert from floating rate debt to fixed rate debt -> Cash Flow Hedge

Convert from floating rate investment (hedge variable cash inflows) into fixed rate investment -> Cash Flow Hedge

Fixed rate debt swapped to changes in FV -> Fair Value Hedge (I/R up, FV of debt falls)

$\Delta \text{ debt value} = \Delta \text{ swap value}$

Swaps - fair value determined using discounted cash flow.

Cash flow hedge is hedge of variable interest rates - changes in FV of swap taken to equity; ΔOCI=Δswap value

Fair value hedge applies to fixed rate debt-fixed rate debt carried at fair value ΔFV of debt=Δswap value

DR Interest exp CR Cash
DR Interest exp CR Accr
DR FV adj (OCI) CR IPS Liab
DR IRS Liabilities CR FV adj

Criteria for Hedge Accounting

@ inception, there has to be formal designation and documentation of hedging risk, risk mgmt objective and strategy for undertaking the hedge. Hedge effectiveness tests under IFRS 9 are (i) economic r/s btw hedge item and hedging instrument (ii) credit risk does not dominate the value changes from (i) (iii) hedge ratio of hedging r/s is the same as that resulting from qty of hedged item and entity hedges and quantity of hedging instrument the entity uses to hedge that qty of hedge liability

IFRS 9 requires that change in time value component of hedged item is recognized in OCI. Cumulative change in fair value as a separate component of equity is accounted for as follows: (a) if hedge item results in recognition of non-financial asset or liab -> change in FV is removed from equity and added to the initial cost of asset or liab (b) For other hedging r/s, the amount is reclassified from equity to P/L as a reclassification adjustment in the same period during which the hedged expected future cash flows affect P/L (c) any portion that is not expected to be recovered is reclassified into P/L as reclassification adj

Rate	Notional	Fixed Rate	Variable Rate	Net Interest	Periods	Fair Value	Change in Fair Value
3.00%	100,000	3.00%	LIBOR + 50bps	(6.75%)	3	(72,518)	(72,518)
Quarter 30.6.15	199,750	199,750	20,000	2	9,710	82,248	
Quarter 31.3.16	199,750	199,750	20,000	1	6,127	(3,583)	
Quarter 30.6.16	199,750	199,750	20,000	0	0	(6,127)	

Put Option USD Rate SGD

Initial FV Loss in FV Gain in FV

Net Value XX YY

FX Gain/Loss XI XXXI

Forward Contract Journal Entries

(FR as contracted - Spot rate on settlement date) x Notional amount

The settlement amount should be equal to the balance in the forward contract

IMPORTANT THINGS TO NOTE: Reclassification of deferred loss in equity into inventory upon delivery, reverse deferred gain to sales, transfer firm commitment to sales.

Use spot rate when computing firm commitment, ask if less or more needed to be paid in SGD

SEMINAR 9: Earnings Per Share (FRS 33)

Basic EPS: (Net income - Pref Dividends) / Weighted Ave No. of Common Shares Outstanding

Preferred dividends are subtracted on cumulative pref share, whether declared or not. Treasury share = buy back shares. Contingently issuable shares = contingent on certain condition. Dilutive means the ability to influence the EPS in a downward direction. Contingently issuable shares. Contingently issuable ordinary shares are treated as outstanding and included in the calculation of both basic and diluted EPS if the conditions have been met. If the conditions have not been met, the number of contingently issuable shares included in the diluted EPS calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period. Restatement is not permitted if the conditions are not met when the contingency period expires.

Diluted EPS < Basic EPS (Must be a smaller +ve if it's profit, or larger negative than Basic EPS)

Shares dividend & stock split to be applied retroactively. Co need to restate the shares outstanding

Stock options: Treasury stock method => Incremental shares = New shares - Treasury Shares (amount rec'd is used to buy back shares) Options & warrants - dilutive if the issue of shares is above the average market price. **Employee share options** are treated as outstanding on the grant date = contingently issuable shares.

Convertible securities (convertible bond & convertible pref shares): if converted method. Assumed conversion of convertible bonds or preferred stock has two effects on dilutive EPS: - increase the denominator by the no. of common shares issuable upon conversion, - increases the numerator by decreasing after-tax interest expense on convertible bonds, and dividends on convertible preferred stock. **Calculate Numerical value impact on diluted earnings per share. Lowest numerical impact = most dilutive. First convertible security to be included in DEPS after options and warrants.**

Diluted EPS ("All-in") Step 1: Compute the basic EPS. Step 2: Include dilutive stock options, warrants and contingently issuable shares and compute a tentative diluted EPS (DEPS). Step 3: Develop a ranking of the impact of each convertible preferred stock and convertible bond on DEPS. Step 4: Include each dilutive security in DEPS in a sequential order based on the ranking and compute a new tentative DEPS. Step 5: Select the lowest possible DEPS as the diluted EPS. Continue the process as long as each recalculated earnings per share is smaller than the previous amount. **When entity issue contract that may be settled in ordinary shares or cash at the entity's option, entity shall presume that the contract will be settled in ordinary shares and the potential shares shall be included in DEPS if dilutive.**

Remember the duration/period outstanding! Convertible preference shares - outstanding 300,000 x 2 x 1.05. Convertible preference shares - converted - 400,000 x 2 x 1.05

Look at income from continuing operations under BEPS & DEPS, used B at the control number, from S240 to S25 yes dilutive

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Date	Put Option	Market Price	Exercise Price	FV (M+TV)	Intrinsic Value (Ex Price-MP)	Time Value	Change in TV	Exchange Rate

Forward Contract Journal Entries

(FR as contracted - Spot rate on settlement date) x Notional amount

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Use spot rate when computing firm commitment, ask if less or more needed to be paid in SGD

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Remember the duration/period outstanding! Convertible preference shares - outstanding 300,000 x 2 x 1.05. Convertible preference shares - converted - 400,000 x 2 x 1.05

Look at income from continuing operations under BEPS & DEPS, used B at the control number, from S240 to S25 yes dilutive

SEMINAR 10: Introduction to Joint Arrangements & Equity Accounting

FRS 111- A joint arrangement is an arrangement of which two or more parties have joint control. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. Joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement. Need to specify which combi of the parties is required to agree unanimously to decisions at the relevant activities of the arrangement. The contractual agreement must specify that decisions at relevant activities of the arrangement require both A and B agreeing. More than one combi possible - unanimous consent criterion not met. Framework agreement can specify for diff joint arrangements to deal with specific activities n therefore can have both joint op and JV.

Characteristics of Joint Control: - contractually agreed sharing of control, unanimous consent on decisions about relevant activities (that significantly affect returns, prodn, mktg, r&d, invest/financing). **Main principle of FRS 111:** Consider rights & obligations, type of joint arrangements & acct treatment. Rights to assets & obligations for liab = joint operations -> measure A, L, R and E in relation to share (Proportional Consolidation) Right to net assets = joint venture -> Equity method. **Information for decision: (1) Legal form:** is a separate legal entity formed? (2) Contractual terms (rights & obligations) (3) Other facts and circumstances (purpose & design of the joint arrangement)

When the contractual arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances for the purposes of classifying the joint arrangement. Only when the contract does not specify, then we consider other facts n circumstances -> primarily designed for the provision of output to the parties = parties have rights to substantially all the economic benefits of the assets of the arrangement. When parties are substantially the only source of cash flows contributing to the continuity of the ops, indicates that the parties have obligations for the liab.

Joint Operator recognizes: (1) its assets, incl its share of any assets held jointly (2) its liab, incl its share of any liab incurred jointly (3) its revenue from the sale of its share of the output arising from the JO, (4) its share of the revenue from the sale of the output by the JO and its expenses incl its share of any expenses incurred jointly -> **Proportional consolidation**

For unrealized profit on upstream and downstream sale, use one-line adjustment approach, adjust thru the investment lab and the share of profit (w footnote disclosures to explain). Gains and losses only to the extent of unrelated investors' int in the associate or JV. Upstream tsfr -> investor buys from associate Downstream tsfr -> investor sells to associate

Investment in Z = Share of Z's shareholders equity (net book value) on acquisition date + Share of (FV-BV) difference in identifiable assets of Z on acq date + Implicit goodwill

Equity Accounting Journal Entries

EA1: Recognize share of post-acquisition RE of RE of A as at 1 Jan xx

DR Investment in A CR Opening RE RE of A as at date of acquisition

EA2: Adjustment for past year unrealized profit in fixed (Transfer price- NBV) x 0.8 x share asset transfer

DR Opening RE CR Investment in A (Transfer price-NBV)/No. of revised

EA3: Adjustment for past years after-tax depreciation on

unrealized profit on FA transfer

DR Investment in A CR Opening RE

EA4: Adjustment for past after-tax depreciation on unrealized fixed assets

DR Opening RE CR Investment in A

EA5: Adjustment for unrealized profit in beginning inventory (sales of A to P)

DR Opening RE CR Investment in A

EA6: Reclassify dividend income as a reduction of investment

DR Dividend Income CR Investment in A

EA: Recognize change in OCI (cumulative)

DR Investment in A CR OCI

EA: Adjustment of undervalued inventory being disposed

DR Opening RE CR Investment in A

EA: Recognise impairment of intangible assets in past year

DR Opening RE CR Investment in A

EA: Recognise difference in AR writedown

DR Investment in A CR Opening RE

EA: Reverse interest income capitalized as FA

DR Opening RE CR Investment in A

EA: Adjust past excess depreciation (1 July to 31 Dec 10) due to interest income capitalized as fixed asset

DR Investment in A CR Opening RE

EA: Adjustment of past year's unrealized profit in xx (eg: construction profit, in building material transfer)

DR Opening RE CR Investment in A

EA: Recognise share of current year profit after tax of A

DR Investment in A CR Share of Tax in A CR Share of Profit of X

Profit before tax of A

Less depreciation of undervalued fixed asset

Add impairment expense (current year)

Add current depreciation of fixed asset transfer

Add current year depreciation (interest income)

Add revaluation gain

Less residual inventory less inventory written off

Add realized profits (recognized amortized amt)

Adjusted profit before tax of A

Share of adjusted profit before tax of A

Share of adjusted profit before tax of A

Less depreciation of undervalued fixed asset

Add impairment expense (current year)

Add current depreciation of fixed asset transfer

Add current year depreciation (interest income)

Add revaluation gain

Less residual inventory less inventory written off

Add realized profits (recognized amortized amt)

Adjusted profit before tax of A

Share of adjusted profit before tax of A

Analytical Check of Investment in A

Book Value of Shareholders' Equity of A

Less adj for unrealized profit in fixed asset

Less unamortized interest cost capitalized

= (Profit/useful life) x Remaining life x 0.8

Less adj for unrealized profit in Building (...)

Adjusted book value of A's identifiable net assets

P's share of A's INA @ x%

Adj for P's share of amortized FV of intangible asset

= FV (at end of FY) x 0.8 x share

Implicit goodwill in investment in A:

investment in Z

Book value of net assets at acquisition

Intangible asset

AR writedown

Unrealized inventory

FV of net assets of Z at investment

Share of FV of net assets of Z at acquisition

Goodwill in Z implicit in the investment (investment - share of ina)

Total = Goodwill + the first part

Investment in A, at 31 Dec

EA 1, EA 2, ...

Investment in A as at 31 Dec xx

Total EA adjustments to cost should reconcile with above

Misc Notes

Journal entries	30.9.15	31.12.15
Dr Interest exp	193,750	168,750
Cr Accrued interest/Int Payable	193,750	168,750
Dr Interest exp on floating rate loan (payment to lender)		25,000
Cr Cash		25,000
Cr Cash	25,000	
Dr Interest exp		25,000
Cr Cash		25,000

Being settlement of swap differential (payment to counterparty)

Dr Fair value: 72,518

adjustment (OCI)

Cr Interest Rate Swap Liability 72,518

Cr Interest Rate Swap Liability 72,518

Cr Interest Rate Swap Liability (net P/L bcc of hedge)

Dr Interest Rate Swap Liability/Asset (BS) 82,248

Cr Fair Value adjustment (OCI)

Fair Value Favorable adjustment 82,248

Log into the contract	Does the legal form of the contract specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement?	Yes	No	How hedging arrangements "look" in the values	Time

Terms of the contractual arrangement	Do the terms of the contractual arrangement specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement?	Yes	No	Cash Payment of Inventory	Type of Hedge

Other facts and circumstances	Do the parties dependent on each other in order to provide the parties with an output to which they have rights to substantially all the economic benefits of the assets held in the separate venture?	Yes	No	Cost	(0'000'000 "1.3)

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