Problem 1 – Bizone (Impact of financial asset classification)

On January 2, 2007, Bizone has purchased a bond which matures in 5 years. The bond has a face value of $100, and a 4 percent annual coupon. On December 31, 2007, 2008, 2009, 2010 and 2011 the bond market value was $103, $98, $92, $101, and $100 respectively.

Show how this investment has affected the assets, the net income and the equity of Bizone between 2007 and 2011. Assume successively that the bond is classified as a) held-to-maturity, b) available-for-sale, c) at fair-value through profit and loss. Show the firm's assets, net income *and equity would have been affected,* had the investment been reported in the 'traditional' way, in accordance with the prudence principle. Net income is systematically posted to accumulated retained earnings.

Problem 2 – Deutsche Bank (Classification of financial assets)

The balance sheet of Deutsche Bank for 2010 is given below. For each asset, you will determine whether it is a financial instrument or not. For each financial asset, you will indicate whether it is carried at fair value or at amortized cost. For financial assets at fair value, you will indicate whether fair value changes are reported with net income or with comprehensive income. You will determine the proportion of financial assets at fair value (amortized cost) in the bank's balance sheet.

in € m.	Notes	Dec 31, 2010
Assets:		
Cash and due from banks		17,157
Interest-earning deposits with banks		92,377
Central bank funds sold and securities purchased under resale agreements	20, 21	20,365
Securities borrowed	20, 21	28,916
Financial assets at fair value through profit or loss		
Trading assets		271,291
Positive market values from derivative financial instruments		657,780
Financial assets designated at fair value through profit or loss		171,926
Total financial assets at fair value through profit or loss of which € 91 billion and € 79 billion were pledged to creditors and can be sold or repledged at December 31, 2010, and 2009, respectively	12, 14, 21, 35	1,100,997
Financial assets available for sale of which € 3.9 billion and € 0.5 billion were pledged to creditors and can be sold or repledged at December 31, 2010, and 2009, respectively	16, 20, 21	54,266
Equity method investments	17	2,608
Loans	18, 19	407,729
Property and equipment	22	5,802
Goodwill and other intangible assets	24	15,594
Other assets	25, 26	149,229
Assets for current tax	34	2,249
Deferred tax assets	34	8,341
Total assets		1,905,630

Liabilities and equity:		
Deposits	27	533,984
Central bank funds purchased and securities sold under repurchase agreements	20 ,21	27,922
Securities loaned	20, 21	3,276
Financial liabilities at fair value through profit or loss	12, 14, 35	
Trading liabilities		68,859
Negative market values from derivative financial instruments		647,171
Financial liabilities designated at fair value through profit or loss		130,154
Investment contract liabilities		7,898
Total financial liabilities at fair value through profit or loss		854,082
Other short-term borrowings	29	64,990
Other liabilities	25, 26	181,827
Provisions	19, 28	2,204
Liabilities for current tax	34	2,736
Deferred tax liabilities	34	2,307
Long-term debt	30	169,660
Trust preferred securities	30	12,250
Obligation to purchase common shares		–
Total liabilities		1,855,238
Common shares, no par value, nominal value of € 2.56	31	2,380
Additional paid-in capital		23,515
Retained earnings		25,999
Common shares in treasury, at cost	31	(450)
Equity classified as obligation to purchase common shares		–
Accumulated other comprehensive income, net of tax		(2,601)
Total shareholders' equity		48,843
Noncontrolling interests		1,549
Total equity		50,392
Total liabilities and equity		1,905,630

Problem 3 - Jenlain (Derecognition of AFS financial assets)

Jenlain Inc. has purchased financial assets for 100 in 2008. Transaction costs came to 0.44. At 2008 year-end, the assets' fair value was 101.62. The assets were sold for 101.87 in 2009. Transaction costs came to 0.47. Show the entries related to the assets' acquisition, to their measurement at year-end, and to their derecognition. Assume respectively that the assets are classified a) as fair value through profit or loss; b) as available for sale.

Problem 4 - Albatros (Valuation of bonds)

On June 14, 2004 the city of Creusoix issued at 13 percent bonds with a par value of 500 francs each. The coupons are paid annually, each June 14. The bonds will be all redeemed at maturity on June 14, 2014. On December 2, 2009, the market rate for bonds of same maturity and same credit risk is 9 percent. What is the quoted "clean price" of the bond on this day? How much should an investor pay to purchase one bond?

Albatros Inc. purchased 10 of these bonds on December 2, 2009. On December 31, 2009, the "clean price" of the bonds came to 115.67 francs. Show the entries related to the purchase and to the measurement of bonds on December 31, 2009, at accounts closing date. The bond is available for sale.

Problem 5 – Strafor (Financial liability at amortized cost)

On June 30, 2010, Strafor has issued debt securities with a stated principal amount of €100 and a stated coupon interest of 4 percent per year payable annually, each June 30. The securities are issued at €98 with a discount of 2 percent. They will be repaid at maturity in 3 years at 103€ with a premium of 3 percent. What will the carrying value of the debt be on December 31, 2011, at closing date? Show the entry relating to the debt recorded on that day? The effective rate of the debt is 5.7 percent.

Problem 6 - Alban (Derecognition of AFS bonds)

Alban Inc. purchased 10 bonds on December 1, 2010. They were classified as available for sale. Acquisition fees came to 20.25 CHF. With a par value of 200 CHF each, the bonds pay annual coupons

at a rate of 3.5 percent on each January 15. They will be all redeemed at par on January 15, 2012. The "clean price" of the bonds came to 101.23 on December 1, 2010, and to 100.98 on December 31, 2010, at the accounting closing date. Show the entries related to the purchase of the bonds and to their measurement at year-end.

The 10 bonds are sold by Alban Inc. for 2107.62 CHF on January 12, 2011. Transaction fees amounted to 19.84 CHF. Show the entries related to the derecognition of bonds.

Problem 7 – There is no problem 7

Problem 8 – Major (Impairment of financial assets at amortized cost)

On July 1, 2009, Major purchased zero-coupon bonds for 79'118.10 CHF. The bonds will be all redeemed for 100'000 CHF at bonds maturity, on June 30, 2012. They are recognized at cost. Acquisition costs came to 265.12 CHF.

On December 31, 2010, because of insolvency problems, several credit agencies downgraded the bonds. It was then expected that the issuer will pay only 20'000 CHF at bonds maturity. These expectations did not change on December 31, 2011. On June 20, 2012, the bonds were redeemed for 22'000 CHF. Show the entries relating to the purchase of the bonds, to their measurement at year-ends, and to their redemption at maturity.

Problem 9 – Trader (Recognition of exchange gains and losses on financial instruments at cost)

On May 15, Trader, a Swiss company, sold goods to a US customer for 25'000 USD. The CHF exchange rate was 1.37 CHF per USD. The goods had to be paid on July 15. On June 30, at the company closing date, the exchange rate was 1.45 CHF per USD. On July 15, when the receivable was paid, the exchange rate amounted to 1.42. Show all the necessary entries.

Problem 10 - Zorg - (Recognition of exchange gains and losses on AFS financial assets)

An available-for-sale financial asset is purchased for 100 $ by a European entity when the exchange rate was 1.04 € per $. At the accounts closing date, the asset fair value was 99.28 $. The exchange rate was then 1,069 € per $. Show the entries related to the purchase and to the reevaluation of the financial asset.

Problem 11 - Forwardix (Accounting for FVTPL forwards)

On June 25, an entity buys a forward contract for 10. The contract does not meet the conditions for hedge accounting. The contract price is 12 on June 30 at the entity closing date. At maturity, on July 17, the contract price comes to 15. Show the relevant entries.

Same question but assume that the forward price comes to 7 and 11 on June 30 and July 17 respectively.

Problem 12 - Futurix (Accounting for FVTPL futures)

On December 22, an entity sold futures for 300. It paid an initial margin of 10. The contract did not meet the conditions for hedge accounting. The position was closed on January 8. Margins were paid or received on December 29 and January 6. The accounts are closed on December 31 every year. Show all the relevant entries.

Dates	12/29	12/31	1/6	1/8
Future prices	304	302	301	303

Problem 13 – Call One (Accounting for FVTPL options)

On November 15, Call-One buys for 15€ a call option on an underlying asset with an exercise price of 300€. The option expires on January 15. Show the relevant entries if

a) the option premium comes to 25 on December 31, when accounts are closed. The price of the underlying asset is 332 on January 15.

b) the option premium comes to 3 on December 31, when accounts are closed. The price of the underlying asset is 287 on January 15.

Same questions, but assume that Call-One purchased a put option.

Problem 14 – Call Next (Accounting for FVTPL options)

On November 15, Call-Next sells for 15€ a call option on an underlying asset with an exercise price of 300€. The option expires on January 15. On December 31, at the end of Call-Next's accounting period, the premium of the option came to 2.70€.

Show the relevant entries if

a) the option premium comes to 25 on December 31, when accounts are closed. The price of the underlying asset is 332 on January 15.

b) the option premium comes to 3 on December 31, when accounts are closed. The price of the underlying asset is 287 on January 15.