速成教育
SPEED UP EDUCATION

BUS 320

Intermediate Accounting

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SFU Week 9 Class | 2022/3/19

SPEED UP EDUCATION

IFRS 9 (final version 2014)

4 specific accounting models (and corresponding investment categories) that you must learn:

1. **Financial assets measured at Amortized cost**
2. **Financial assets measured at fair value through profit and loss (FV-NI)**
3. **Financial assets measured at fair value through other comprehensive income (FV-OCI) for investments in equity securities**
4. **Financial assets measured at fair value through other comprehensive income (FV-OCI) for investments in debt securities**

introduced in the 2014 final version of IFRS 9

Amortized cost

4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FV-OCI (debt securities)

4.1.2A A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FV-NI if not the other models … ,
i.e., FV-NI is the default case

FV-NI

4.1.4 A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A. However an entity may make an irrevocable election at initial recognition for particular investments in *equity instruments* that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see paragraphs 5.7.5–5.7.6).

para. 5.7.5 is the election to use FV-OCI (equity securities); to be covered on the next page (p.23) election is required; otherwise, cannot use FV-OCI (equity securities)

FV-OCI (equity securities)

Investments in equity instruments

5.7.5 At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither *held for trading* nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. (See paragraph B5.7.3 for guidance on foreign exchange gains or losses.)

para. 5.7.5 Election to use FV-OCI (equity securities)

- applies to equity instruments only
- applies to investments not held for trading
- this is an irrevocable option
- the option must be elected on the initial recognition of the investment
- the election is made separately on an instrument-by-instrument basis

a special requirement on how to account for transaction costs

5.1 Initial measurement

5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, *transaction costs* that are directly attributable to the acquisition or issue of the financial asset or financial liability.

In other words, transaction costs are included (i.e., capitalized) in the cost of the investment at acquisition for all investments measured at Amortized cost, FV-OCI (debt securities), and FV-OCI (equity securities). However, transaction costs are expensed (i.e., not included in the cost of the investment) at acquisition for investments measured at FV-NI.

FV-OCI (equity securities)

a special restriction on FV-OCI (equity securities)

B5.7.1 Paragraph 5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (i.e., share-by-share) basis. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity. Dividends on such investments are recognised in profit or loss in accordance with IAS 18 unless the dividend clearly represents a recovery of part of the cost of the investment.

In other words, "FV-OCI with recycling" is not allowed for FV-OCI (equity securities)

If election (para.5.7.5) is made to use FV-OCI (equity securities), IFRS 9 requires the use of "FV-OCI without recycling"

a special requirement on FV-OCI (debt securities)

FV-OCI (debt securities)

5.7.10 A gain or loss on a financial asset measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A shall be recognised in other comprehensive income, except for impairment gains or losses (see Section 5.5) and foreign exchange gains and losses (see paragraphs B5.7.2–B5.7.2A), until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (see IAS 1). … Interest calculated using the effective interest method is recognised in profit or loss.

In other words, for financial assets measured at FV-OCI (debt securities), IFRS 9 requires the use of "FV-OCI with recycling"

For FV-OCI (debt securities), interest (calculated using effective interest method) goes through income; impairment gains and losses go through income

FV-OCI

- At acquisition, investments are recognized at fair value plus transaction costs
- At each reporting date, F V-O C I investments are adjusted to current fair value and any holding gain or loss is recognized in other comprehensive income (O C I) net of income tax
- When investments are disposed, previously unrealized holding gains or losses need to be transferred out of O C I /A O C I
- Under F V-O C I with recycling, unrealized holding gains or losses are transferred (i.e., "recycled") into net income (and as part of net income, closed into retained earnings)—used for debt investments
- Under F V-O C I without recycling, unrealized holding gains or losses are transferred directly into retained earnings (bypassing net income)—used for equity investments

Purchase

	Fair value and cost at acquisition
Nova Industries Ltd.	$259,700
Columbia Soup Corp.	317,500
St. Boniface Pulp Ltd.	141,350
Total cost	$718,550

On December 6, 2019, the company receives a cash dividend of $4,200 on its investment in the common shares of Columbia Soup.

Example 9.14 | FV-OCI Model—Investment in a Portfolio of Shares, December 31, 2019

Facts Assume the same information as in Example 9.13. In addition, the carrying amounts (and cost), fair values, and unrealized gains and losses at December 31, 2019, for Manitoba's FV-OCI investments are noted below.

FV-OCI Investment Portfolio December 31, 2019			
Investments in Shares	**Carrying Amount**	**Fair Value**	**Holding Gain (Loss) for Period**
Nova Industries Ltd.	$259,700	$275,000	$ 15,300
Columbia Soup Corp.	317,500	304,000	(13,500)
St. Boniface Pulp Ltd.	141,350	104,000	(37,350)
Total of portfolio	$718,550	$683,000	$(35,550)

Instructions

How would the company record the change in fair value?

Example 9.15 | FV-OCI Model—Portfolio of Shares; Sale of Shares

Facts Now assume that Manitoba sells all of its Nova Industries Ltd. common shares on January 23, 2020, receiving proceeds of $287,220. This is $12,220 more than the current carrying amount of the Investment in Nova Industries in the accounts.

Instructions

Prepare the journal entries to record the revaluation and sale of the shares.

1. The **first entry** adjusts the investment's carrying amount to its fair value at the date of disposal and captures the holding gain or loss up to that date in OCI.

2. The **second entry** removes the investment's carrying amount from the asset account and records the proceeds on disposal.

3. The **third entry** is a **reclassification adjustment** that transfers the holding gain or loss that is now realized out of OCI and into retained earnings (**FV-OCI without recycling under IFRS 9**). This is an optional entry under IFRS 9.

Example 9.15 | FV-OCI Model—Portfolio of Shares; Sale of Shares

Facts Now assume that Manitoba sells all of its Nova Industries Ltd. common shares on January 23, 2020, receiving proceeds of $287,220. This is $12,220 more than the current carrying amount of the Investment in Nova Industries in the accounts.

Instructions

Prepare the journal entries to record the revaluation and sale of the shares.

Solution

Jan. 23/20	(a) FV-OCI Investments	12,220	
	Unrealized Gain or Loss—OCI		12,220
	($287,220 – $275,000)		
	(b) Cash	287,220	
	FV-OCI Investments		287,220
	($275,000 + $12,220)		
	(c) Accumulated Other Comprehensive Income[14]	27,520	
	Retained Earnings		27,520
	($287,220 – $259,700) or ($15,300 + $12,220)		

Accounting for impairment losses

- Investments must be reviewed for possible impairment to ensure that future benefit justifies the measurement/ valuation on the balance sheet
- Different treatments for investments measured at
  - Amortized cost – testing for impairment is important; use of "Expected Loss Model" required by IFRS 9; used of "Incurred Loss Model" required by ASPE
  - FV-NI – investment already carried at FV under both IFRS and ASPE
  - FV-OCI – investment already carried at FV; use of "Expected Loss Model" required by IFRS 9 for FV-OCI (debt securities) investments
- Under IFRS 9 for FV-OCI (equity securities), "without recycling" is required; impairment losses on such investments will never go through income and never show up on any of the investor company's income statements

these losses will go through OCI instead

from our Textbook

a nice summary

Also see Examples 9.21, 9.22, and 9.23 in our Textbook

… important too, for Q14 and Q15 in your homework assignment #8

Impairment Models	ASPE	IFRS 9
Incurred loss	Used for all investments measured at cost/amortized cost. Reduce carrying value to the higher of the discounted cash flow (discounted using the current market interest rate) and net realizable value (either through sale or by exercising the entity's rights to collateral). May use an allowance account or reduce carrying value directly. Impairment losses may be reversed.	N/A
Expected loss	N/A	Used for all investments carried at cost/amortized cost as well as debt investments carried at FV-OCI. Must determine whether the credit risk has significantly increased. If not, use a 12-month time frame for assessing defaults. Otherwise, consider defaults over the lifetime of the investment. Must consider a probability-weighted range of outcomes and the time value of money using the historical rate. Based on information that is reasonable, supportable and available without undue cost.
Fair value	Used for all investments accounted for as FV-NI. No need to do a separate impairment test because the assets are continually revalued to fair value with gains and losses booked to net income.	Used for all investments that are accounted for as FV-NI and equity investments accounted for at FV-OCI. No need to do a separate impairment test because the assets are continually revalued to fair value under the FV-NI model with gains and losses booked to net income. Impairment losses on equity investments accounted for at FV-OCI are not recycled to net income so impairment testing is not done.

Discount rate: use current market interest rate

Discount rate: use market interest rate when the bonds were first acquired

ILLUSTRATION 9.7 IFRS ASPE Summary of Impairment Models