Financial Accounting Theories / H.Ojala 27.1.2021

Assignment 4 Measurement Applications / Solution

Apply the amortized cost of a held-to-maturity investment (IFRS 9) in your IFRS financial statements in the following situation.

Bond Issuer Ltd issues a four-year bond with a nominal value of 100.000€ and coupon interest of 5%.

It means that is the bond pays annually an interest of 5.000€ at the end of each year. At the end of the fourth year the issuer purchases the bond at the nominal value.

You work as the CFO of the Buyer Ltd that purchases the bond for 90.000€

Required. Provide the balance sheet value of the bond at the end of the third year after the purchase. Provide also the calculations.

Answer

See Melville "International Financial Reporting - A Practical Guide", 7th edition, page 180 for a similar example

Years	Cash flow		interest	Db Bank	Closing Bond
0				-90 000	90 000
1	5 000	1	7 219	5 000	92 219
2	5 000	2	7 396	5 000	94 615
3	5 000	3	7 589	5 000	**97 204**
4	105 000	4	7 796	105 000	0
	120 000		30 000	120 000	

Nominal	5.0 %		
	0	-90 000	30 000
	1	5 000	
	2	5 000	
	3	5 000	
	4	105 000	
		8.0206 %	

This is the premium that is allocated over the years.

=IRR(B14:B20;0.05)

You pay **90 000** for the bond

The nominal value of the bond is **100 000**

Note that you can also arrive at third year end balance sheet value by discounting the remaining cash flow, i.e.$105000/(1+0.080206)^1=$ **97 203.7**

Similarly, the end of second year balance sheet value can be calculated (also) as follows: $.105000/(1+0.080206)^2+5000/(1+0.080206)^1=$ 94 615.0

The same idea applies to the first year end balance sheet value.