

Study Unit 1 (B)

Introduction to the Preparation of Financial Statements

Study Unit 1 (1.5)

Financial Instruments

Study Unit 1: Introduction to the preparation of financial statements

INTRO TO FINANCIAL INSTRUMENTS

WHAT IS A FINANCIAL INSTRUMENT?

*Financial Asset = FEB
(future economic benefit)*



*Financial Liability = FOF
(future outflow)*

Examples

- Financial Assets
 - Investment in listed company shares
 - Trade and other receivables (debtors)
 - Loan receivable / debentures / bonds purchased
- Financial Liabilities
 - Trade and other payables (creditors)
 - Long term debt / loan payable / debentures / bonds as ISSUER

Accounting for financial assets?

- Initial measurement – day 1
- Always at FAIR VALUE
- Then important to identify if you are the HOLDER / PURCHASER or the ISSUER
- Subsequently?
 - Fair value; OR
 - Amortised cost

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JOURNALS FOR FINANCIAL ASSETS

Journals illustration

- Lets say you purchase 1000 shares in Tabaldi Ltd (a company listed on the stock exchange) for R15 per share and pay in cash. Assume that the brokerage fees were 10%, and that your intention is to sell the shares in the short term to make profits (speculative intention).
- How would we account for this purchase of the investment and the brokerage fee in a journal?

Initial recognition journal

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Investment in shares: 1000 shares X R15 = R15 000

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Expense transaction costs: R15 000 X 10% = R1 500

Information relating to year end

- At your reporting date (year end), the share price has increased to R25 per share.
- THEORY – the change in fair value will either be debited (increase) or credited (decrease) to the Financial Asset, where does the other side of the journal go?
 - If the financial asset is subsequently measured at fair value through profit or loss (as is the case for FAC1601 syllabus) – then PROFIT OR LOSS

Year end journals

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Closing off of transaction costs (investment expenses)

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Gain on fair value remeasurement of investment:

: R25 X 1 000 shares = R25 000 - R15 000 = R10 000

Year end journals

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**Closing off of fair value gains from
investment remeasurement (Closing transfer)**