Co-funded by the
Erasmus+ Programme
of the European Union

PASSFR.EU
A Digital Learning Platform for Generation Z:
Passport to IFRS®

A Digital Learning Platform for Generation Z: Passport to IFRS®

IFRS® Standard 7 Financial Instruments: Disclosures

Funded by the Erasmus+ Program of the European Union. However, European Commission and Turkish National Agency cannot be held responsible for any use which may be made of the information contained therein.

CASE STUDY – IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

Introduction

Today, financial instruments are of great importance for businesses. As a result of the increasing importance of financial instruments, IASB changed the existing standards regarding financial instruments and also published new standards. IFRS 7 regulates the disclosures that businesses should make regarding the risks of financial instruments and users should be aware of.

Aim of this case is to discuss how businesses should make disclosures about their financial instruments under different classifications and how they can provide the most benefit to users of financial statements.

The Case Information

Tornado Company was established in the early 2000s and is a business that buys and sells electronic goods. The entity has started to use International Financial Reporting Standards (IFRS) as of 2021. The debt and equity instruments held by Tornado Enterprise at the end of 2021 and the amounts reported in the statement of financial position of these assets are as follows.

Financial Assets	**Book Value**
Governmet Bonds	CU 1,500,000
Tresury Bills	CU 700,000
Share Investments (No Significant Influence and Control)	CU 580,000

Since Tornado Company has not used IFRS before, it is required to classify and measure the above financial assets in accordance with IFRS. Until the end of 2021, all financial assets were measured at cost.

The manager of Tornado Company's accounting department knew that the financial assets owned by the business needed to be classified and measured in accordance with IFRS and the necessary financial statement footnotes had to be prepared. For this reason, he has appointed an employee he knows to have worked in companies that previously reported in accordance with IFRS.

The accounting manager of the enterprise also gave the following information to the employee she assigned to report financial assets in accordance with IFRS:

- Government bonds and treasury bills will be classified as financial assets at fair value through profit or loss.
- At 31 December 2021 the fair value (FV) of government bonds is CU 1,800,000 and the FV of treasury bills is CU 750,000.
- Shares will be classified as financial assets at fair value through other comprehensive income. The shares' fair value at 31 December 2021 is CU 650,000.

Receiving the above information from the manager, the employee classified the financial assets owned by the enterprise as follows.

Financial Assets	Book Value
Fair Value Through Profit & Loss	CU 2,550,000
Fair Value Through Other Comprehensive Income	CU 650,000

The employee responsible for this job knew how to present financial asset investments in the statement of financial position within the framework of this information. However, he was also aware that this information would not be sufficient when it came to preparing financial statement notes for financial assets.

Discussion Question

What information other than the information provided by the accounting manager does the business employee need to prepare the necessary notes on financial assets?

SOLUTION OF CASE STUDY - IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

It is not sufficient for an entity reporting in accordance with IFRS to make an appropriate classification of financial asset investments and present financial assets with their fair values.

The Tornado Company is required to present the following disclosures in its financial statements for its financial assets measured at fair value through profit or loss:

- Since comparative financial statements are required to be prepared, the fair values of these financial assets as of 1 December 2021 should be presented.
- Maximum credit risk exposure for government bonds and treasury bills held at 31 December 2021.
- The amount that occurs at fair value and is attributable to the change in credit risk.

The Tornado Entity is required to present the following disclosures in its financial statements for its financial assets measured at fair value through other comprehensive income:

- Fair values of financial assets as of 1 December 2021, as comparative financial statements are required to be prepared.
- Which equity instrument investments are measured at fair value through other comprehensive income.
- The reason for using this alternative presentation option.
- The fair value of these investments at the reporting date.
- Dividends recognized related to these investments during the period.
- Transfers of total gains and losses in equity (with reasons for transfers).
- If there are financial assets disposed of during the period:
    - Reasons for their disposal.
    - The fair values of the investments at the recognition date.
    - Gain or loss as a result of disposal.

In addition, disclosures should be made about the accounting policies for the measurement of these financial assets. These explanations:

- Criteria for such classification on initial recognition of financial assets measured at fair value through profit or loss.
- How net gain and loss are determined for each financial asset class.

In addition, disclosures about income, expenses, gains and losses are required. These explanations:

- Interest income on financial assets measured in FV.
- Income or expenses related to transaction fees.
- Fair value changes for financial assets measured at fair value through profit or loss.
- Investments in equity instruments measured at fair value through profit or loss.