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IFRS® Standard 9 Financial Instruments

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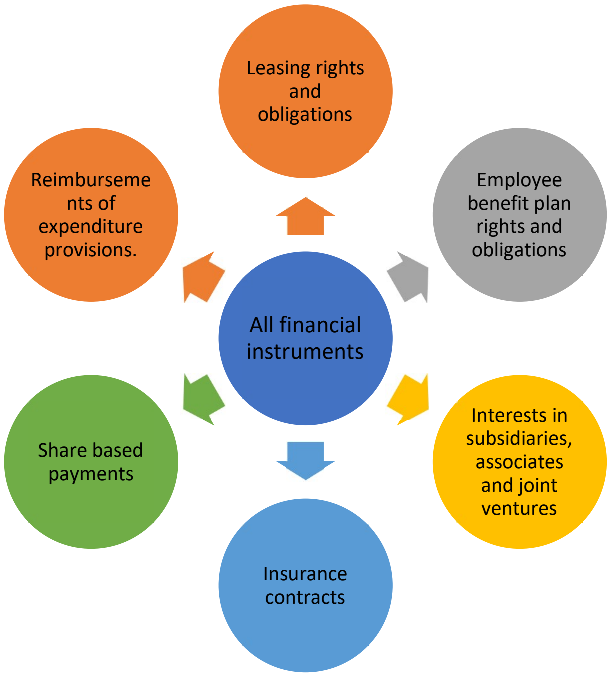
IFRS® Standard 9 Financial Instruments

OBJECTIVE AND SCOPE

IFRS Standard 9 Financial Instruments standard aims to set out the accounting principles for financial assets and liabilities, particularly on the recognition, valuation, and impairment issues. The standard shall be applied to all financial instruments with a few exceptions as stated in Figure 1.

Figure 1: Scope of IFRS 9



The IFRS 9 standard is applied to all financial instruments other than the financial instruments listed below (IFRS 9.2.1):

- interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS Standard 10 Consolidated Financial Statements, IAS Standard 27 *Separate Financial Statements* or IAS Standard 28 *Investments in Associates and Joint Ventures*
- rights and obligations under leases to which IFRS Standard 16 Leases applies
- employers' rights and obligations under employee benefit plans
- financial instruments issued by the entity that meet the definition of an equity instrument in IAS Standard 32 Financial Instruments: Presentation
- rights and obligations arising under a contract within the scope of IFRS Standard 17 Insurance Contracts
- any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of IFRS Standard 3 Business Combinations at a future acquisition date.
- loan commitments (some types of loan commitments are within the scope of IFRS 9)
- financial instruments, contracts and obligations under share-based payment transactions to which IFRS Standard 2 Share-based Payment applies
- rights to payments to reimburse the entity for expenditures it is required to make to settle a liability it recognises as a provision in accordance with IAS Standard 37 Provisions, Contingent Liabilities and Contingent Assets,
- rights and obligations within the scope of IFRS Standard 15 Revenue from Contracts with Customers which are financial instruments

KEY DEFINITIONS

Some important definitions related to financial instruments are listed below (IFRS 9. Appendix A):

Credit Loss: The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit-impaired financial assets).

12-month expected credit losses: The portion of lifetime expected credit losses that represent the expected credit losses resulting from default events on a financial instrument that are possible within the 12 months after the reporting date

Expected credit losses: The weighted average of credit losses with the respective risks of a default occurring as the weights

Derecognition: Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Effective interest method: The method that is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.

RECOGNITION AND DERECOGNITION

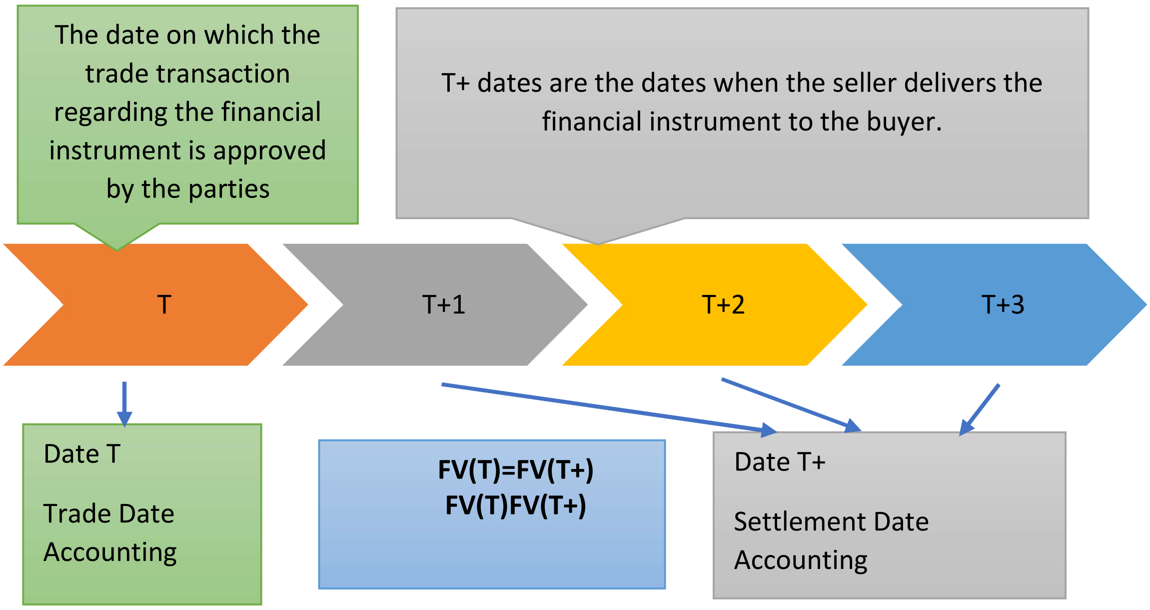
Recognition

Being a party to the contract in IFRS 9 is the basic rule for recognition. Accordingly, financial instruments should be recognized when the investing company becomes a party to the contractual provisions of the financial instrument. However, approval of the transaction (buy or sale) of the financial instrument and the delivery of the financial instrument might take place on different dates. Two different accounting methods can be used to recognize the financial instrument as shown in Figure 2:

- Trade date accounting
- Settlement date accounting

If the entity uses settlement date accounting and there has been a change in the fair values of the financial instrument, this change is accounted for according to the valuation rules of the financial instrument classification. Entities should choose between the trade date or settlement date accounting methods during initial recognition, and apply the method chosen consistently.

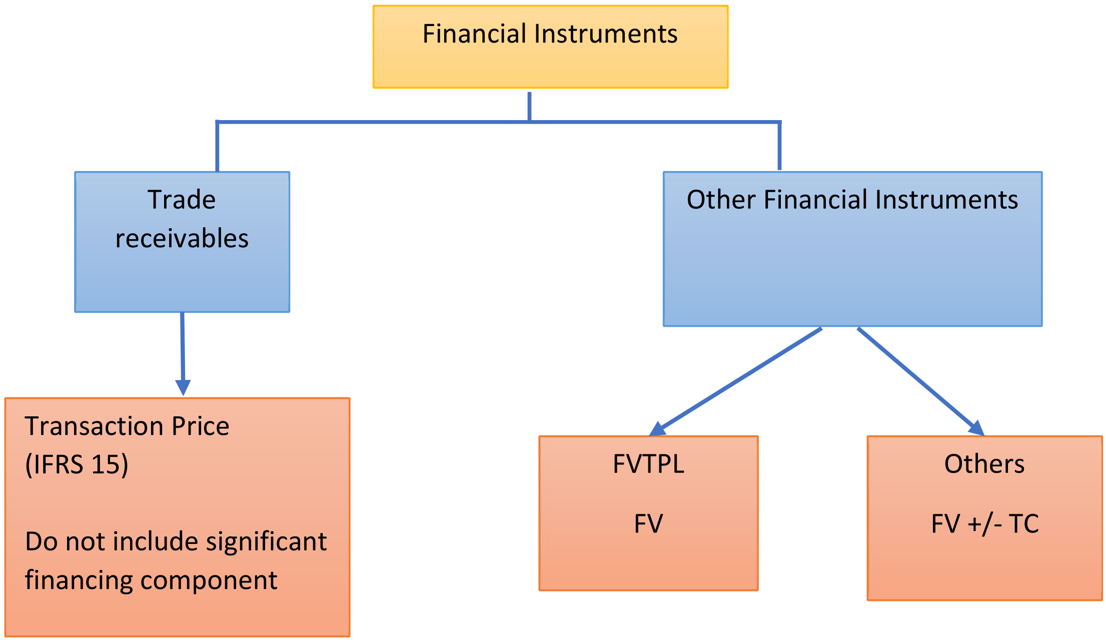
Figure 2: Trade Date vs Settlement Date Accounting



The value at which financial instruments will be recognized on trade or settlement date is also important. In addition, classification of financial instruments is done at the initial recognition stage. This classification also determines the recognition value of the financial instrument, as shown in Figure 3. Financial assets are classified as;

- Financial Assets measured at amortised cost (FAAC)
- Financial Assets at fair value through profit or loss (FAFVTPL)
- Financial Assets at fair value through other comprehensive income (FAFVTOCI)

Figure 3: Recognition of Financial Instruments



If the financial instrument is a trade receivable, its value is determined in accordance with IFRS 15. The initial recognition value of financial instruments other than trade receivables is determined according to IFRS 9. Accordingly, financial instruments classified as FAFVTPL should be recorded at fair value. The recognition value of financial instruments other than FAFVTPL should be determined as fair value plus/minus transaction cost.

For example, let's say we purchased a share. The fair value of the share is CU 100 and transaction cost is CU 1. If this share is classified as FAFVTPL, we record the share at CU 100. If this share is classified as FAFVOTCI, we record the share at CU 101.

However, another special issue regarding the recognition of financial instruments arises. There may be a change in the fair value of the financial instrument during the period between the trade date and the settlement date. This change should be accounted for in accordance with the classification of the relevant financial instrument.

For example, suppose we purchase a share with a fair value of CU 100 on the date of transaction and the fair value of that share at the settlement date is CU 105. If the business uses settlement date accounting, this stock must be recognized over CU 105, which is the fair value on the settlement date. However, there will be a valuation difference of CU 5 on the settlement date, since CU 100 was paid for this share on the trade date. If this stock is classified as FAFVTPL, the valuation difference will be reported in profit or loss, as we will discuss in more detail later. Therefore, the following record will be made on the settlement date.

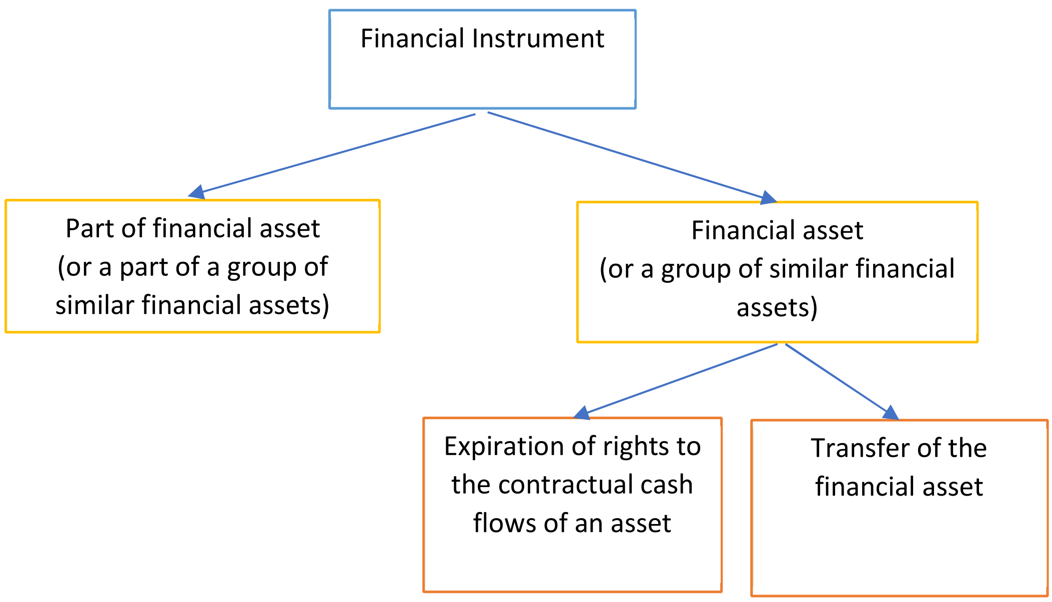
Dr. FAFVTPL	105	
Cr. Cash		100
Cr. Gain		5

We have stated that in order to recognize financial instruments, it is necessary to be a party to a financial instrument. And the class of the financial instrument should also be specified. This assessment is made on the recognition date.

Derecognition

Derecognition of financial instruments is relatively more difficult and complex. For derecognition, an entity should, first of all, determine whether the related element is part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety as shown in Figure 4.

Figure 4: Derecognition of Financial Assets



A financial asset is derecognized when;

- the contractual rights to the cash flows from the financial asset expire or,
- the entity transfers the financial asset.

It is relatively easy to determine that the contractual rights related to the cash flows of a financial instrument have expired. However, additional analysis is required to determine whether a financial asset has been transferred. At least one of the following conditions must be fulfilled for the transfer of the financial asset to be accepted (IFRS 9.3.2.4)

(a) the entity transfers the contractual rights to receive the cash flows of the financial asset, or

(b) it retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets some conditions.

If part of a financial asset is to be derecognized, it must meet one of the following conditions (IFRS 9. 3.2.2).

- The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets).
- The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).
- The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

CLASSIFICATION OF FINANCIAL INSTRUMENTS

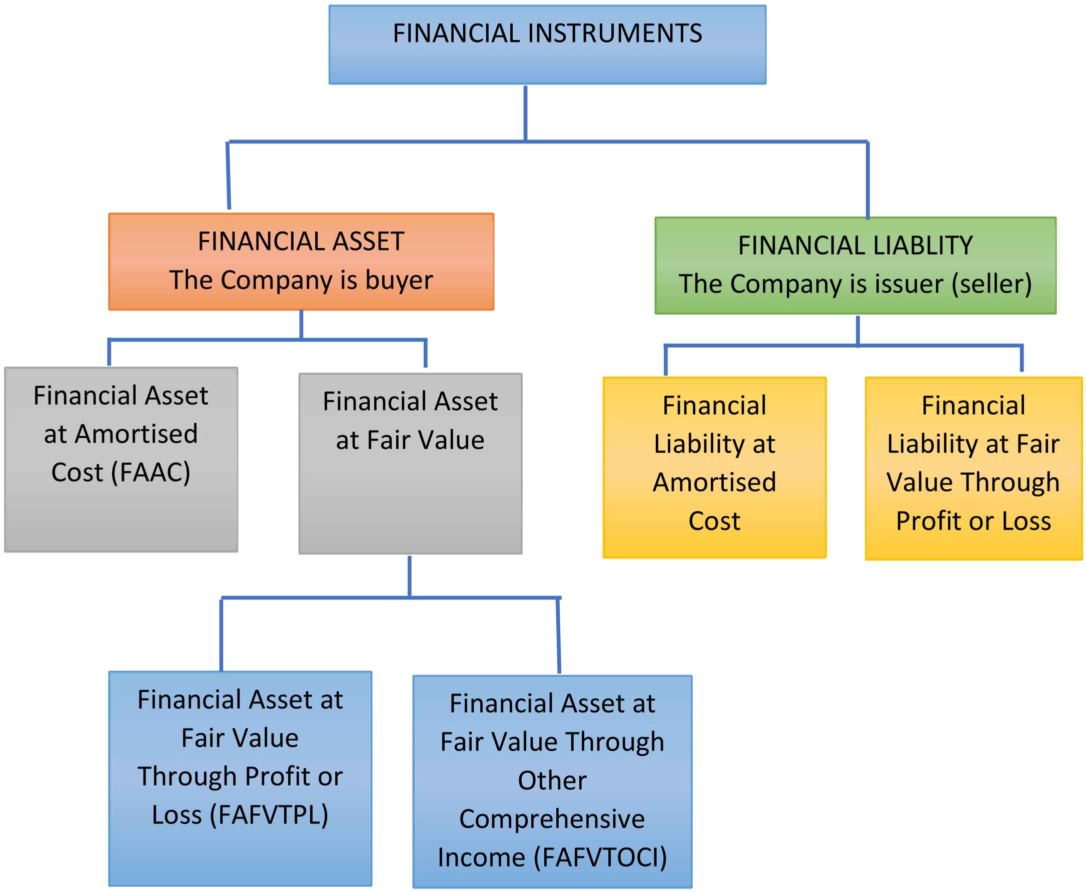
Financial instruments are classified as financial assets, financial liabilities and equity instruments. IFRS 9 includes rules for financial instruments classified as financial assets and financial liabilities only. The classification of financial assets and financial liabilities are presented in figure 5.

If the entity has issued a financial instrument, the instrument should be classified as a financial liability. If the entity has purchased a financial instrument, the instrument must be classified as a financial asset. An investor in a financial instrument may present the instrument at amortized cost or fair value. Financial instruments represented by fair value are subject to a sub classification. These are;

- Financial Asset at Fair Value Through Profit or Loss (FAFVTPL)
- Financial Asset at Fair Value Through Other Comprehensive Income (FAFVTOCI)

As a result, financial instruments can be represented in three different classes. However, this classification must be made according to certain rules. These rules have been established on how the business will obtain cash flow from financial instruments (business test) and the cash flow characteristics of the relevant financial instrument (cash flow characteristics test).

Figure 5: IFRS 9 Financial Instrument Classification



CLASSIFICATION OF FINANCIAL ASSETS

IFRS 9 requires financial instruments to be valued at amortized cost or fair value in subsequent measurements. The use of amortized cost or fair value in financial instruments is based on the classification of financial instruments. Classification of financial assets is made according to the results of tests called the business model test and cash flow characteristics test. This classification should be made at the initial recognition of the financial asset.

Business Model Test

The business model test is to determine how the business will generate cash flows from its financial assets. For the business model, the management should determine how the financial instruments will be managed. In making this decision, management should determine how financial instruments will be managed to achieve a specific business purpose. For this decision, instead of evaluating each financial instrument separately, a certain group of financial instruments should be taken as a basis. Assessments of the business model should be based on entity's all available relevant evidence on the date of assessment.

Management can basically use financial instruments in three different ways to achieve its business purpose:

- Hold them
- Hold or sell them
- Sell them

Management may wish to acquire contractual cash flows from financial instruments by holding financial instruments. Management may wish to hold financial instruments to generate contractual cash flows and sell them when the price is reasonable. Ultimately, management may want to buy and sell financial instruments to profit from price differentials. In business model testing, management decides how it wants to use the purchased financial instruments.

Contractual Cash Flows' Characteristics Test

In this test, the contractual cash flow characteristics of financial instruments are evaluated. In this test, it is evaluated whether the relevant financial instrument causes cash flows from principal repayment and/or interest payments on certain dates.

Table 1: Application of the Business Model and Contractual Cash Flow Tests

BUSINESS MODEL		**+**	**CONTRACTUAL CASH FLOWS**	**CLASSIFICATION**	**MANAGEMENT'S CHOICE**
Hold to Collect	Hold to Collect + Sell		Contractual principal and interest payments		
√			**√**	Amortised Cost	FAFVTPL
	√		**√**	FAFVTOCI	
x	**x**		**X**	FAFVTPL	Equity Investments-FAFVTOCI

We can explain how a financial instrument is classified according to the business model and its contractual cash flows characteristics. If the business model of an enterprise is to hold to collect contractual cash flows related to financial instruments and contractual cash flows consist of principal repayment and interest payments, they will be classified as financial instruments valued at amortized cost. If an entity's business model is to hold to collect contractual cash flows from financial instruments or sell them, and the contractual cash flows consist of repayments of principal and interest, they are classified as financial instruments measured at fair value through other comprehensive income. Financial instruments not falling under these classifications are classified as financial instruments measured at fair value through profit or loss.

Businesses also have the option to classify financial assets as FAFVTPL at the time of initial recognition, regardless of test results. The classification also has an exception with equity instruments, which cannot be classified as financial instruments measured at fair value through other comprehensive income. For these equity instruments, management may take the irrevocable decision to classify them as financial instruments measured at fair value through other comprehensive income.

Example

ABC Co. has two distinct portfolios of financial investments. A portfolio was created to collect contractual cash flows from financial instruments (FAAC). The other is created to earn from fair value changes of financial instruments (FAFVTPL).

Let's assume that this business has made the following investments:

a. The business has purchased shares from the Stock Exchange.

b. The entity purchased bonds from the stock market with the expectation that the fair value would increase. If the fair value does not increase to the desired level, the entity plans to hold this investment to earn interest income until maturity.
c. The entity purchased a newly issued bond to earn interest income.

How can an entity classify these investments? In order to make an assessment, we must first examine the business model of the enterprise and then the cash flow characteristics of the financial instrument.

a. Suppose that the entity adopts the hold to collect model for the initial investment. However, the cash flows of this investment do not consist of principal and interest payments on certain dates. Therefore, this investment cannot be classified as FAAC. The suitable option for this investment would be FAFVPL.
b. For this investment, the entity has adopted the hold to collect + sell model. However, the entity does not have a portfolio created for this purpose. Then the management can classify them as FVTPL.
c. The entity made this investment only for collecting contractual cash flows and the entity has a business model suitable for this investment. This should be classified as FAAC.

Reclassification of Financial Assets

Reclassification of financial assets is conditionally possible. Reclassification is only possible when the business model applicable to financial assets changes. If reclassification is made, the effects of the reclassification are accounted prospectively.

In reclassification, transitions from initial classification to revised classifications are made according to the principles set out in Table 2 below.

Table 2: Transitions from initial to revised classifications

Initial Classification	Revised Classification	Gains and Losses in reclassification	Notes
FAAC	FAFVTPL	Profit or Loss	
FAAC	FAFVTOCI	OCI	
FAFVTPL	FAAC	No gain or loss	Fair value becomes gross carrying amount. New effective rate is calculated using the new carrying amount.
FAFVTPL	FAFVTOCI	No gain or loss	
FAFVTOCI	FAAC	No gain or loss	Transition value is the fair value. However cumulative gain or loss is adjusted against the fair value.
FAFVTOCI	FAFVTPL	No gain or loss	Cumulative gains or losses in OCI reclassified to profit or loss

Example

ABC Inc. had a bond investment of CU 100,000 with a nominal interest of 5% and an effective interest of 5%. Therefore, the carrying amount of the bond is CU 100,000. ABC Inc. reclassified this bond, which has 2 years remaining maturity, as Fair Value Through Profit or Loss. The fair value of the bond on the date of reclassification is CU 103,000.

For reclassification, FAAC should be derecognised with its book value and FAFVTPL recorded with its fair value. The difference should be transferred to profit or loss.

Dr. FAFVTPL 103,000
Cr. FAAC 100,000
Cr. Fair Value Gain 3,000

Classification of Financial Liabilities

IFRS 9 classifies financial liabilities as follows:

1. Financial liabilities at fair value through profit or loss
2. Financial liabilities measured at amortized cost.

Although financial liabilities can be classified as at fair value through profit or loss, the basic classification for them is financial liabilities measured at amortized cost. On initial recognition, the entity may classify its non-recoverable financial liability as measured at fair value through profit or loss. Reclassification cannot be made for financial liabilities.

SUBSEQUENT MEASUREMENT

Financial instruments are measured at amortized cost or fair value at their subsequent measurements. Subsequent measurements of financial instruments are made according to the value element determined in their classification. In subsequent measurements, two different income elements emerge related to financial instruments. The first is income elements such as interest and dividends arising from financial instruments. These income elements should be reported in profit and loss regardless of classification. The second is the change in the value of the financial instrument. If the financial instrument is valued at amortized cost, there will be no difference in value for the financial instrument. However, if the financial instrument is valued at fair value, there will be a difference between the recorded value of the financial instrument and the fair value on the valuation date.

Table 3: Subsequent Measurement and Reporting of Income, Expense, Gains and Losses

Classification of Financial Assets	Valuation	Valuation Difference Reporting	Interest Dividend
Financial asset measured at amortised cost (FAAC)	Amortised Cost	N/A	Profit or Loss
Financial asset measured at fair value through profit or loss (FAFVTPL)	Fair Value	Profit or Loss	Profit or Loss
Financial asset measured at fair value through other comprehensive income (FAFVTOCI)	Fair Value	Other Comprehensive Income	Profit or Loss

As you can see from Table 3, if the financial asset is measured with amortised cost, no adjustment is made according to the fair values of the related asset on the reporting day. However, the value of financial assets classified as FAFVTPL and FAFVTOCI is matched to the fair value on the reporting date.

Value changes of assets classified as FAFVTPL are reported in profit and loss, while changes in the value of assets classified as FAFVTOCI are reported in other comprehensive income and transferred directly to equity. Income arising from the assets themselves, interest, dividend, etc., are reported in profit and loss regardless of classification.

Example

ABC Co. purchased 1,000 shares of XYZ co. for CU 100,000. XYZ Co. paid dividends of CU 5,000 to ABC Co. during the period. On the reporting date the fair value of a XYZ share is CU 120. Assume that ABC Co. classified XYX shares as;

a. Financial asset measured at fair value through profit or loss (FAFVTPL)
b. Financial asset measured at fair value through other comprehensive income (FAFVTOCI)

In both cases, the entity values its financial instrument at fair value. Also, in both cases, the entity will report dividend income. First of all, let's account for these transactions and then see their effect on the financial statements.

A) FAFVTPL			**B) FAFVTOCI**		
Dr. FAFVTPL	100,000		Dr. FAFVOCI	100,000	
Cr. Cash		100,000	Cr. Cash		100,000
Dr. Cash	5,000		Dr. Cash	5,000	
Cr. Dividend Income		5,000	Cr. Dividend Income		5,000
Dr. FAFVTPL	20,000		Dr. FAFVOCI	20,000	
Cr. Fair Value Gain (P/L)		20,000	Cr. Fair Value Fund (OCI)		20,000

After these records, the accounts and amounts to be reported for both classifications in the financial statements of the entity will be as follows.

A) FAFVTPL		**B) FAFVTOCI**	
Statement of Financial Position		**Statement of Financial Position**	
Assets		**Assets**	
Financial Assets	120,000	Financial Assets	120,000
Liabilities		**Liabilities**	
-		-	
Equity		**Equity**	
-		Fair Value Fund	20,000
Income Statement		**Income Statement**	
Dividend Income	5,000	Dividend Income	5,000
Fair Value Gain	20,000		

Financial statements show that the value of financial assets in both classifications is CU 120,000 and dividend income is CU 5,000, but the reporting of fair value differences differs according to financial asset classification.

IMPAIRMENT OF FINANCIAL ASSETS

Financial instruments may be impaired due to various risks they are exposed to. Impairment of financial assets is an important issue in IFRS 9. In IFRS 9, the impairment of financial assets is measured according to a method called the expected credit loss model. This model relies heavily on judgements and estimations.

First of all, let's understand the concept of credit loss. Credit losses are the difference between the present value of contractual cash flows and present value of expected future cash flows. For example, an entity has a contractual receivable of CU 100 one year later, but the entity expects to collect only CU 80. Let’s assume that the effective interest rate is 10%.

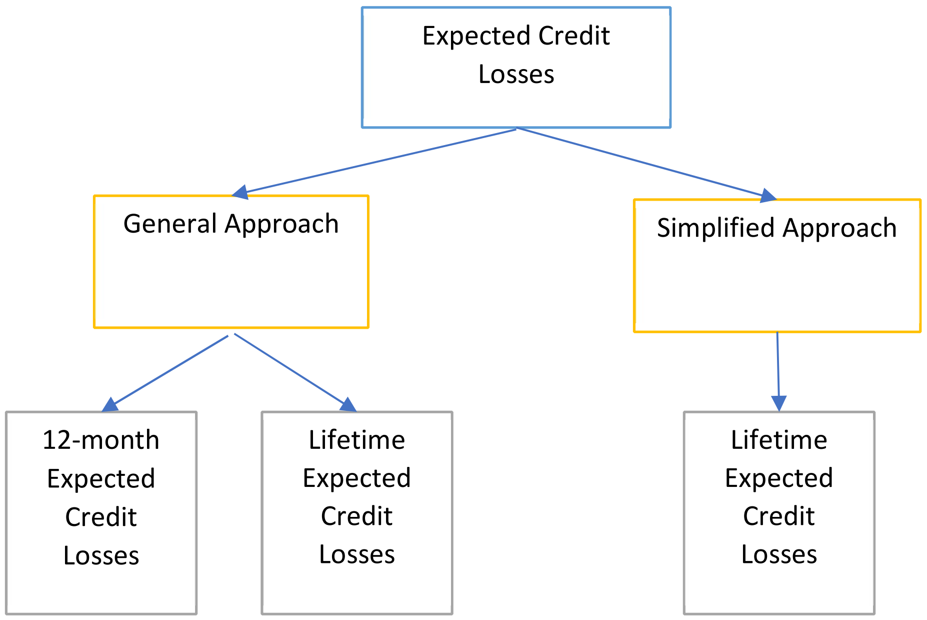
	Cash Flow	**Present Value**
Contractual	100	90.90
Expected	80	72.72
Difference		18.18

Then the entity must recognize an impairment of CU 18.18 for that financial asset.

An entity shall recognize expected credit losses allowance on FAAC, FAFVTOCI, trade receivables, lease receivables, and contract assets. As shown in Figure 6, there are two approaches for the impairment of financial assets:

- Simplified Approach
- General Approach

Figure 6: Models for Credit Loss Estimations



Simplified Approach

The simplified approach is implemented for trade receivables, contact assets, and lease receivables. In the simplified approach, the credit losses lifetime for the related financial assets should be calculated according to the expected credit losses model.

General Approach

Two dates are important for recording impairment loss allowances. These are the recognition date and the reporting date. When you purchase a financial asset with credit risk, there will be a credit risk associated with that financial asset from the time of purchase to the collection time. This risk may increase or decrease over time.

Now let's say you lend a loan to a friend who owns a cafe. Suppose you see that your friend is apparently in a very good financial condition and every time you stop by; you see that her cafe is also doing well. In this case, you should have evaluated the credit risk as very low at the time of lending.

After a while, you heard that your friend could not pay some of her debts on time. In this case, your credit risk assessment for your friend will not be as positive as when you lent the money. However, you think your friend's problems could be temporary, even if they are significant.

Let's say that after a certain period of time, you start to hear that your friend borrows money from other people, you read harsh criticism about the cafe's food on social media, and you observe that the number of customers decreases. In this case, your anxiety about getting back the debt principal payment will increase, which means that the credit risk of your friend is increased. You may not be able to get back all or part of the debt your friend owed you. In this case, you should make your future plans without taking the amounts that you think will not be able to receive from your friend into account. The general approach can be considered as an adapted version of the above situation for businesses according to business world conditions.

Impairment is recognised in two stages (IFRS 9. 5.5):

- On the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.
- On each reporting date an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

HEDGE ACCOUNTING

Although hedging is not mandatory in IFRS 9, it is used by businesses that are exposed to changing risks for various reasons. Entities apply hedge accounting under three headings:

- Fair value hedge
- Cash flow hedge
- Net investment in foreign operations hedge

Hedging accounting is optional. However, not every entity willing to implement hedge accounting can do it. Hedge accounting only applies to hedging relationships that meet the qualifying criteria.

Entities can invest in various financial instruments to manage the risks they are exposed to. For example, airline companies can be a party to various derivative instruments in order to hedge the increase in fuel prices. If fuel prices increase, airline companies will be able to meet some of this increase with the income they earn from derivative instruments. The airline company has to qualify the hedging relationship in order to use hedge accounting. This qualification can be established by providing all of the following conditions (IFRS 9. 6.4.1):

(a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items.
(b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge.
(c) the hedging relationship meets all of the hedge effectiveness requirements

EXAMPLE

Arya Co. purchased bonds on January 1, 2017 for CU 104,212.36. The bond has a nominal value of CU 100,000 and a nominal interest rate of 7%. The interest payments are annually made on December 31. The bond provides 6% interest (effective interest rate) for the investors.

a) Assume that Arya Co. classified this financial instrument as a Financial Asset Measured at Amortized Cost.
b) Assume that Arya Co. classified this financial instrument as Financial Asset Measured at Fair value through profit or loss (FAFVTPL). The fair values at the end of 2017 and 2018 are CU 103,500 and CU 102,800.
c) Assume that Arya Co. classified this financial instrument as Financial Asset Measured at Fair value through other comprehensive income (FAFVOCI). The fair values at the end of 2017 and 2018 are CU 103,500 and CU 102,800.

SOLUTION

Here we have two different income types: interest income and income/loss from fair value measurement. Interest income should be reported in profit or loss apart from classification. If the nominal interest rate and return rate are different, the loan will be sold at premium or discount. The book value of the loan should be its nominal value on the maturity date. So, we have to prepare a bond amortization table.

Initial recognition value.

Int. Revenue =Beg. Book Value x Discount (Return) Rate

Int. Receivable =Nominal Value x Nominal Rate

Date	Beg Book Value	Interest Revenue	Interest Receivable	End. Book Value	Fair value
31.12.2017	104,212.36	6,252.74	7,000.00	103,465.10	103,500.00
31.12.2018	103,465.10	6,207.91	7,000.00	102,673.01	102,800.00
31.12.2019	102,673.01	6,160.38	7,000.00	101,833.39	
31.12.2020	101,833.39	6,110.00	7,000.00	100,943.39	
31.12.2021	100,943.39	6,056.61	7,000.00	100,000,00	

Ending Book Value should be nominal value on the maturity date. So, Interest revenue and Interest Receivable difference should be added to or subtracted from the beginning book value in order to bring this amount to nominal value on the maturity date.

a) Financial Asset (FA) Measured at Amortized Cost. In this classification fair values are not taken into consideration. We only have to account for the interest revenue which is reported in profit or loss.

1.1.2017

Dr. FAAC	104,212.36	
Cr. Cash		104,212.36

31.12.2017

Dr. Cash	7,000	
Cr. Interest Revenue		6,252.74
Cr. FAAC		747.26

The company received an interest of CU7,000, but the real interest revenue (6,252.74) is less than this amount. The difference between these two amounts will decrease the book value of the investment. Due to these transactions, book value of the investment will equal to its nominal value on the maturity date.

Interest revenue reported in profit or loss statement.

31.12.2018

Dr. Cash	7,000	
Cr. Interest Revenue		6,207.91
Cr. FAAC		792.09

b) Financial Asset (FA) Measured at Fair Value Through Profit or Loss (FAFVTPL)

In this classification we have to bring the ending book value to its fair value. But first we have to recognize the interest income.

1.1.2017

Dr. FAFVTPL	104,212.36	
Cr. Cash		104,212.36

31.12.2017

Dr. Cash	7,000	
Cr. Interest Revenue		6,252.74
Cr. FAFVTPL		747.26

After this entry financial asset has a book value of CU103,456.10. However, this asset must have reported at its fair value of CU103,500.

Date	Beg Book Value	Interest Revenue	Interest Receivable	End. Book Value	Fair value
31.12.2017	104,212.36	6,252.74	7,000.00	103,465.10	103,500.00
31.12.2018	103,465.10	6,207.91	7,000.00	102,673.01	102,800.00

Dr. FAFVTPL 34.90
Cr. Fair Value Adjustment Gain 34.90

Fair Value Adjustment Gains or Losses are reported in Profit or Loss if financial investment is classified as Financial **Asset Measured at Fair Value Through Profit or Loss (FAFVTPL)**

31.12.2018

Dr. Cash 7,000
Cr. Interest Revenue 6,207.91
Cr. FAFVTPL 792.09

Let's find the book value of the asset after this entry.

Ending Book Value	102,673.01
FVTPL (Fair Value Adjustment)	34.90
Total Ending Financial Asset Value	**102,707.91**
Fair Value	102,800.00
Difference	**92.09**

The financial asset will have a total value of CU102,707.91, however, it should be 102,800 (fair value). The difference is CU92.09.

Dr. FVTPL 92.09
Cr. Fair Value Adjustment Gain 92.09

c) Financial Asset (FA) Measured at Fair Value Through Other Comprehensive Income (FVOCI)

In this classification there is not any change in the entries that we made in (b) requirement except the account (class) name, and fair value difference will not be reported in profit or loss. Fair value difference will be reported in an equity account other than profit or loss.

1.1.2017

Dr. FAFVOCI 104,212.36
Cr. Cash 104,212.36

31.12.2017

Dr. Cash	7,000	
Cr. Interest Revenue		6,252.74
Cr. FAFVOCI		747.26

Dr. FAFVOCI	34.90	
Cr. Unrealized Gain/Loss - Equity		34.90

31.12.2018

Dr. Cash	7,000	
Cr. Interest Revenue		6,207.91
Cr. FAFVOCI		792.09

Dr. FAFVOCI	92.09	
Cr. Unrealized Gain/Loss - Equity		92.09