

Task IM-14.11a: Exercise on Disclosure of Liabilities along IFRSs

(Schuldenausweis)

CURTIS Ltd. takes a bank loan from its house bank 3,000,000.00 EUR on 1.07.20X2. The loan is an annuity which comes with a rate of interest of 3.2 % and an annuity (interest + pay-off) of 500,000.00 EUR. The full annuity is due to the full extent even in the first year. (Payment: 500,000.00 EUR on 31.12.20X2)

CURTIS Ltd. is allowed to pay-off an extra amount in 20X5 which would be 500,000.00 EUR on 30.06.20X5. The business takes that option.

Required: Determine the value of the bank loan along IFRSs as at 31.12.20X3. Make bookkeeping entries for 20X2 and 20X3! Disclose long-term and short-term liabilities separately. Consider an interest rate on the capital market being 2.00 %

CURTIS Ltd. nimmt von seiner Hausbank ein Darlehen über 3.000.000,00 EUR am 1.07.20X2 auf. Das Darlehen ist ein Annuitätendarlehen (annuity), das einen Zinssatz von 3,2 % hat und eine jährliche Zahlung (Zins plus Tilung) von 500.000,00 EUR hat. Die Annuität ist auch im ersten Jahr fällig. (Zahlung i.H.v. 500.000,00 EUR am 31.12.20X2.)

CURTIS Ltd. hat die Möglichkeit eine Sondertilgung in 20X5 zu leisten. Diese würde 500.000,00 EUR am 30.06.20X5 betragen. Das Unternehmen nimmt die Option wahr.

Gefragt: Bestimmen Sie den Wert des Bankdarlehens nach IFRSs am 31.12.20X3. Buchen Sie die Geschäftsvorfälle für 20X2 und 20X3. Weisen Sie lang- und kurzfristige Schulden getrennt voneinander auf. Berücksichtigen Sie eine Kapitalmarktrate (capital market rate) von 2,00 %.

Solution:

In order to record the bank loan an interest and pay-off schedule is helpful.

0.032

Year	Opening amount	Interest	Pay-off	Annuity
20X2	3,000,000.00	48,000.00	452,000.00	500,000.00
20X3	2,548,000.00	81,536.00	418,464.00	500,000.00
20X4	2,129,536.00	68,145.15	431,854.85	500,000.00
20X5 *	1,697,681.15	27,162.90	500,000.00	
20X5	1,197,681.15	19,162.90	453,674.20	500,000.00
20X6	744,006.95	23,808.22	476,191.78	500,000.00
20X7	267,815.17	8,570.09	267,815.17	276,385.26

Exhibit 1: Interest and pay-off (20X5* for extra pay-off)

The bookkeeping entries are as below:

(1) Taking the bank loan:

DR Cash/Bank 3,000,000.00 EUR

CR Interest bearing Liabilities 3,000,000.00 EUR

(2) Payment of annuity which contains $3.2\% \times 3,000,000 \times (6/12) = 48,000.00$ EUR interest and $500,000 - 48,000 = 452,000.00$ EUR of pay-off.

DR Interest 20X2 48,000.00 EUR

DR Interest bearing Liabilities 452,000.00 EUR

CR Cash/Bank 500,000.00 EUR

(3) Transfer of 418,464.00 EUR to the Short-term Liability account

DR Interest bearing Liabilities 418,464.00 EUR

CR Short-term Liabilities 418,464.00 EUR

(4) The amount for the long term liabilities is discounted on an annual basis. The discounted amount equals to $431,854.85 \times (1 + 2\%)^{-2} + 980,837.10 \times (1 + 2\%)^{-3} + 477,060.99 \times (1 + 2\%)^{-4} + 239,783.06 (1 + 2\%)^{-5} = 1,997,259.62$ EUR. The difference in valuation is transferred to the Retained Earnings account. $2,129,536 - 1,997,259.62 = 132,276.38$ EUR.

DR Interest bearing Liabilities 132,276.38 EUR

CR Retained Earnings 132,276.38 EUR

Observe the valuation details below:

Year	Opening amount	Pay-off	discount	
			factor	disc. liability
20X2	3,000,000.00	452,000.00		
20X3	2,548,000.00	418,464.00	0	1
20X4	2,129,536.00	431,854.85	2	0.96116878
20X5 *	1,697,681.15	500,000.00	3	0.94232233
20X5	1,197,681.15	453,674.20	3	0.94232233
20X6	744,006.95	476,191.78	4	0.92384543
20X7	267,815.17	267,815.17	5	0.90573081
		2,129,536.00		

133,286.05

Exhibit 2: Interest and pay-off (20X5* for extra pay-off)

(A) For the next accounting period 20X3, CURTIS Ltd. pays interest and pay-off.

DR Interest 20X3	81,536.00 EUR
DR Short-term Liabilities	418,464.00 EUR
CR Cash/Bank	500,000.00 EUR

(B) The amount to be transferred to short term liabilities equals to 431,854.85 EUR.

DR Interest bearing Liabilities	431,854.85 EUR
CR Short-term Liabilities	431,854.85 EUR

Observe the new discount calculation by the table provided below:

Year	Opening amount	Pay-off	discount	
			factor	disc. liability
20X2	3,000,000.00	452,000.00		
20X3	2,548,000.00	418,464.00	0	1
20X4	2,129,536.00	431,854.85	0	1
20X5 *	1,697,681.15	500,000.00	2	0.96116878
20X5	1,197,681.15	453,674.20	2	0.96116878
20X6	744,006.95	476,191.78	3	0.94232233
20X7	267,815.17	267,815.17	4	0.92384543
		<u>1,697,681.15</u>		<u>1,612,787.84</u>

84,893.31

Exhibit 3: Interest and pay-off (20X5* for extra pay-off)

(C) The valuation as at 31.12.20X3 equals to $980,837.10 \times (1 + 2\%)^{-2} + 477,060.99 \times (1 + 2\%)^{-3} + 239,783.06 \times (1 + 2\%)^{-4} = 1,613,817.71 \text{ EUR}$. The difference in valuation equals to $1,697,681.15 - 1,613,817.71 = 83,863.44 \text{ EUR}$. It dropped by $132,276.38 - 83,863.44 = 48,412.94 \text{ EUR}$.

DR Retained Earnings	48,412.94 EUR
CR Interest bearing Liabilities	48,412.94 EUR

Observe the accounts:

D		Cash/Bank	C	
(1)	3,000,000.00	(2)	500,000.00	
		c/d	2,500,000.00	
	<u>3,000,000.00</u>		<u>3,000,000.00</u>	
b/d	2,500,000.00	(A)	500,000.00	
		c/d	2,000,000.00	
	<u>2,500,000.00</u>		<u>2,500,000.00</u>	
b/d	2,000,000.00			

D		Interest bearing liabilities	C	
(2)	452,000.00	(1)	3,000,000.00	
(3)	418,464.00			
(4)	133,286.05			
c/d	<u>1,996,249.94</u>			
	<u>2,999,999.99</u>		<u>3,000,000.00</u>	
(B)	431,854.85	b/d	1,996,249.94	
c/d	<u>1,612,787.84</u>	(C)	48,392.74	
	<u>2,044,642.69</u>		<u>2,044,642.68</u>	
		b/d	1,612,787.84	

D		Interest 20X2	C	
(2)	48,000.00	P&L		

D		Short-term liabilities	C	
c/d	<u>418,464.00</u>	(3)	<u>418,464.00</u>	
(A)	418,464.00	b/d	418,464.00	
c/d	<u>431,854.85</u>	(B)	<u>431,854.85</u>	
	<u>850,318.85</u>		<u>850,318.85</u>	
		b/d	431,854.85	

D		Retained earnings R/E	C	
(C)	48,412.94	(4)	132,276.38	
c/d	<u>83,863.44</u>		<u>132,276.38</u>	
	<u>132,276.38</u>	b/d	83,863.44	

D		Interest 20X3	C	
(A)	81,536.00	P&L		

Exhibit 4: Accounts as at 31.12.20X3