

Task IM-14.11b: 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 which comes with a rate of interest of 3.2 % and an amount of pay-off of 500,000.00 EUR per annum. Consider the payment for interest pro rata with regard to the months.

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 %

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	500,000.00	548,000.00
20X3	2,500,000.00	80,000.00	500,000.00	580,000.00
20X4	2,000,000.00	64,000.00	500,000.00	564,000.00
20X5 *	1,500,000.00	24,000.00	500,000.00	
20X5	1,000,000.00	16,000.00	500,000.00	516,000.00
20X6	500,000.00	16,000.00	500,000.00	516,000.00

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 500,000.00 EUR

CR Cash/Bank 548,000.00 EUR

(3) Transfer of 500,000.00 EUR to the Short-term Liability account

DR Interest bearing Liabilities	500,000.00 EUR
CR Short-term Liabilities	500,000.00 EUR

(4) The amount for the long term liabilities is discounted on an annual basis. The discounted amount equals to $500,000 \times (1 + 2\%)^{-2} + 1,000,000 \times (1 + 2\%)^{-3} + 500,000 \times (1 + 2\%)^{-4} = 1,884,829.44$ EUR. The difference in valuation is transferred to the Retained Earnings account. $2,000,000 - 1,884,829.44 = 115,170.56$ EUR.

DR Interest bearing Liabilities	115,170.56 EUR
CR Retained Earnings	115,170.56 EUR

Observe the valuation details below:

Year	Opening amount	Pay-off	0.02	
			discount factor	disc. liability
20X2	3,000,000.00	500,000.00		
20X3	2,500,000.00	500,000.00	0	1 500,000.00
20X4	2,000,000.00	500,000.00	2	0.96116878 480,584.39
20X5 *	1,500,000.00	500,000.00	3	0.94232233 471,161.17
20X5	1,000,000.00	500,000.00	3	0.94232233 471,161.17
20X6	500,000.00	500,000.00	4	0.92384543 461,922.71
		<u>2,000,000.00</u>		<u>1,884,829.44</u>

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	80,000.00 EUR
DR Short-term Liabilities	500,000.00 EUR
CR Cash/Bank	580,000.00 EUR

(B) The amount to be transferred to short term liabilities equals to 500,000.00 EUR.

DR Interest bearing Liabilities	500,000.00 EUR
CR Short-term Liabilities	500,000.00 EUR

Observe the new discount calculation by the table provided below:

Year	Opening amount	Pay-off	0.02		
			discount factor		disc. liability
20X2	3,000,000.00	500,000.00			
20X3	2,500,000.00	500,000.00	0	1	500,000.00
20X4	2,000,000.00	500,000.00	0	1	500,000.00
20X5 *	1,500,000.00	500,000.00	2	0.96116878	480,584.39
20X5	1,000,000.00	500,000.00	2	0.96116878	480,584.39
20X6	500,000.00	500,000.00	3	0.94232233	471,161.17
		1,500,000.00			1,432,329.95

67,670.05

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

(C) The valuation as at 31.12.20X3 equals to $1,000,000 \times (1 + 2\%)^{-2} + 500,000 \times (1 + 2\%)^{-3} = 1,432,329.95$ EUR. The difference in valuation equals to $1,500,000 - 1,432,329.95 = 67,670.05$ EUR. It dropped by $115,170.56 - 67,670.05 = 47,500.51$ EUR.

DR Retained Earnings 47,500.51 EUR

CR Interest bearing Liabilities 47,500.51 EUR

Observe the accounts:

<table> <tr> <th>D</th><th>Cash/Bank</th><th></th><th>C</th></tr> <tr> <td>(1)</td><td>3,000,000.00</td><td>(2)</td><td>548,000.00</td></tr> <tr> <td></td><td></td><td>c/d</td><td>2,452,000.00</td></tr> <tr> <td></td><td>3,000,000.00</td><td></td><td>3,000,000.00</td></tr> <tr> <td>b/d</td><td>2,452,000.00</td><td>(A)</td><td>580,000.00</td></tr> <tr> <td></td><td></td><td>c/d</td><td>1,872,000.00</td></tr> <tr> <td></td><td>2,452,000.00</td><td></td><td>2,452,000.00</td></tr> <tr> <td>b/d</td><td>1,872,000.00</td><td></td><td></td></tr> </table>				D	Cash/Bank		C	(1)	3,000,000.00	(2)	548,000.00			c/d	2,452,000.00		3,000,000.00		3,000,000.00	b/d	2,452,000.00	(A)	580,000.00			c/d	1,872,000.00		2,452,000.00		2,452,000.00	b/d	1,872,000.00										
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Exhibit 4: Accounts as at 31.12.20X3