

**Task IM-14.7: Accounting for Liabilities along IFRSs**

(Ausweis von Schulden nach IFRSs)

On 1.01.20X2 BOLAND Ltd. takes a bank loan of 250,000.00 EUR which is an annuity. The bank loan's amount gets transferred into BOLAND Ltd.'s bank account on 1.01.20X2. The terms of the loan state that BOLAND Ltd. has to pay an annuity of 20,000.00 EUR that comprises firstly 8,000.00 EUR of interest in 20X2 already. The rate of interest is constant and the pay-off amount will increase by the course of time. BOLAND Ltd. will pay-off the bank loan after 10 years completely. This will be on 31.12.20Y1.

On 1.01.20X3 BOLAND Ltd. buys a machine and agrees to pay the amount of 27,000.00 EUR by 3 annual installments of 9,000.00 EUR each.

Furthermore, on 1.01.20X4 BOLAND issues 10,000 bonds at a settlement value of 10.00 EUR each. The bonds' time to maturity is 20 years. The coupon rate (interest) amounts to 5 %. It will be due on 31.12.20Z3.

**Required: Prepare the liability accounts for BOLAND Ltd. for 20X4 and disclose the liability section as far as you know about it. Discount long-term liabilities at a discount rate of 10 %.**

**Solution (Lösung)**

To understand the payments a schedule is to be set up (it contains more information than required):

Year	Amount	0.032		Annuity	Remaining amount	0.1		I-t Liability
		Interest	Pay-off			per	Discountfactor 10%	
2002	250,000.00	8,000.00	12,000.00	20,000.00	238,000.00			
2003	238,000.00	7,616.00	12,384.00	20,000.00	225,616.00			
2004	225,616.00	7,219.71	12,780.29	20,000.00	212,835.71		1.00	
2005	212,835.71	6,810.74	13,189.26	20,000.00	199,646.45		1.00	13,189.26
2006	199,646.45	6,388.69	13,611.31	20,000.00	186,035.14	2.00	0.83	11,249.02
2007	186,035.14	5,953.12	14,046.88	20,000.00	171,988.27	3.00	0.75	10,553.63
2008	171,988.27	5,503.62	14,496.38	20,000.00	157,491.89	4.00	0.68	9,901.22
2009	157,491.89	5,039.74	14,960.26	20,000.00	142,531.63	5.00	0.62	9,289.14
2010	142,531.63	4,561.01	15,438.99	20,000.00	127,092.64	6.00	0.56	8,714.91
2011	127,092.64	4,066.96	127,092.64	20,000.00	0.00	7.00	0.51	65,218.62
			225,616.00					128,115.79

**Exhibit 1: Interest-and-pay-off-schedule**

With regard to the annuity, the payment plan is disclosed by exhibit 1. The long-term liabilities as at on 31.12.20X4 will be 225,616.00 EUR. The discounted amount is 128,115.79 EUR. The amount discounted is  $225,616 - 128,115.79 = 97,500.21$  EUR and is the amount to be disclosed in the R/E account. The amount of 13,189.26 EUR is due in 20X5 and is to be classified as short-term liability in the 20X4 statements.

The payments for the machine will just be short-term liabilities for the 20X5 payment.

The bonds will be due in 20Z3: The amount is to be discounted 19 times:  $100,000 \times (1 + 10\%)^{-19} = 16,350.80$  EUR.

Observe the accounts. The opening amounts are not consistent with bookkeeping rules as the entries for 20X2 onwards have not been made.

D		IBL - annuity	C	D		R/E	C
(1)	97,500.21		225,616.00		(1)	97,500.21	
c/d	128,115.79				(2)	83,649.20	
	<u>225,616.00</u>		<u>225,616.00</u>		...		
		b/d	128,115.79				

  

D		Short-term liabilities	C	D		IBL - bonds	C
			13,189.26	(2)	83,649.20		100,000.00
c/d	22,189.26		9,000.00	c/d	16,350.80		
	<u>22,189.26</u>		<u>22,189.26</u>		<u>100,000.00</u>		<u>100,000.00</u>
		b/d	22,189.26			b/d	16,350.80

**Exhibit 2:** Accounts

See the statement of financial position below:

BOLAND AG's STATEMENT of FINANCIAL POSITION as at 31.12.20X4				C, L	
A					
<i>Non-current assets</i>		[EUR]		<i>Owners' capital</i>	
P, P, E	...			Share capital	...
Intangibles	...			Reserves	...
Financial assets	...			R/E	...
<i>Current assets</i>				<i>Liabilities</i>	
Inventory	...			Interest bear liab	144,466.59
A/R	...			A/P	22,189.26
Prepaid expenses	...			Provisions	...
Cash/Bank	...			Tax liabilities	...
					<u>166,655.85</u>

**Exhibit 3:** Statement of financial position