E-tivity 3.3: Treatment of financial instruments in the company's financial statements

Question 1. In January 2016 Wolf purchased 10 million $1 listed equity shares in Hall at a price of $5 per share. Transaction costs were $3m. Wolf's year end is 30 November. At 30 November 2016, the shares in Hall were trading at $6.50. On 31 October 2016 Wolf received a dividend from Hall of $0.20 per share.

Required: Show the financial statement extracts of Wolf at 30 November 2016 relating to the investment in Hall on the basis that:

(i) The shares were bought for trading

(ii) The shares were bought as a source of dividend income and were the subject of an irrevocable election at initial recognition to recognize them at fair value through other comprehensive income.

Question 2. On 1 January 20X1, EFG issued 10,000 5% convertible bonds at their par value of $50 each. The bonds will be redeemed on 1 January 20X6. Each bond is convertible at the option of the holder at any time during the five-year period. Interest on the bond will be paid annually in arrears. The prevailing market interest rate for similar debt without conversion options at the date of issue was 6%.

Required: At what value should the equity element of the hybrid financial instrument be recognized in the financial statements of EFG at the date of issue?