**Question 1**

**LLL Ltd.**

**Cash Flow Statement (Indirect Method)**

**Operating Activities**

Net Income 67000

Depreciation 25000

Impairment Loss 7000

Account Receivable (14000)

Inventory 10000

Prepaid expense 3000

Account Payable (5000)

Accrued liabilities 9000

Tax payable (3000)

Total cash inflow from Operating Activities 99000

**Investing Activities**

Plant Asset (70000)

Total cash inflow from Operating Activities (70000)

**Financing Activities**

Prefer shares 65000

Dividend Payable (46000)

Total cash inflow from Operating Activities 19000

Net increase or decrease in cash and cash equivalents 48000

Cash and cash equivalents, 1/1/2006 21000

Cash and cash equivalents, 31/12/2006 69000

**Question 2**

1. The bond acquired at a discount. Interest rate > stated rate payable

b)

N = 5

I% = 10

PMT = 4000

FV = 50000

PV = 46209.21

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Interest Income (10%) | Cash flow (8%) | Amortization | Amortization of Bond |
| 1/1/2005 |  |  |  | 46209.21 |
| 31/12/2005 | 4620.92 | 4000 | 620.92 | 46830.13 |
| 31/12/2006 | 4683.01 | 4000 | 683.01 | 47513.14 |
| 31/12/2007 | 4751.31 | 4000 | 751.31 | 48264.46 |
| 31/12/2008 | 4826.44 | 4000 | 826.44 | 49090.90 |
| 31/12/2009 | 4909.10 | 4000 | 909.10 | 50000.00 |

c) Journal Entries

Date

1/1/2005 Held to Maturity 46209.21

Cash 46209.21

31/12/2005 Cash 4000

Held to Maturity 620.92

Interest Income 4620.92

31/12/2006 Cash 4000

Held to Maturity 683.01

Interest Income 4683.01

31/12/2007 Cash 4000

Held to Maturity 751.31

Interest Income 4751.31

31/12/2008 Cash 4000

Held to Maturity 826.44

Interest Income 4826.44

31/12/2009 Cash 4000

Held to Maturity 909.10

Interest Income 4909.10

1/1/2005 Cash 50000

Held to Maturity 50000

**Question 3**

1. IFRS marked the Basic financial instruments, held to maturity investment, loans and receivables and Available for sale. Financial derivatives, such as options and forward contracts also marked on the financial statements. Financial instruments have a value itself (the value will increase or decrease overtime), so it is necessary to mark the gain or loss on the financial statements.
2. All financial derivatives, held for trading and available for sale should marked gain or loss in income statement.   
   An option example for the option did not exercise, it should be marked:  
    Financial loss 2000  
    Option 2000

There will be a loss on the option the option did not exercise, which means there’s a better deal on the market, the option loss the value in this case if the option can be exercise, the value of the option price will increase and we should marked it:

Option 2000  
 Financial gain 2000

1. Equity securities and other financial assets held for trading, all the gain or loss should goes to income statement, financial gain or loss.  
   30/31/2005 Held for trading 2000  
    Financial Gain 2000  
   Held to maturity investment are not derivatives and they have fixed and determinable payments and fixed maturity dates, therefore we can ignore the up and down value.