

Significance of financial instruments for financial position and performance with a practical issue

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Introduction

Majority of entities did not aware about implementation of IFRS related with the financial instrument. Most of the times it may be familiar to you, But hopefully those will provide you with a few "thinking" points when we work with clients. In this article basically included a common issue related with the measurement and disclosure of financial instrument in the financial statement, As well as with the analysis in accordance with the LKASs and provides relevant accounting treatments rely on the accounting policies.

The Exclusive line (pvt) Ltd is manufacturing & delivering the facial tissues and toilet papers. The company normally imports materials (totally not finished tissues) and after they are cutting, packing, covering, and quality checking, branding those items with convenience for use different users & delivered those items for local market as well as to foreign market. There are different types of tissue papers for different users such as, facial tissues (wet tissues, perfumed tissues), toilet papers, and table tissues.

The identified issue is the violation of accounting concept of relevance & reliability. Such as the financial instrument in the financial position did not appear at current market price, it still appeared at initial cost. Simply the case is in detail that the company had three investments in ordinary shares in three different quoted companies. It was initially done two

years before. But the investments still recorded at initial cost. In their financial statement it has been shown as bellow.

Investment	2011	2012	2013
ABC Co,	1,000	1,000	1,000
XYZ Co,	1,200	1,200	1,200
PQR Co,	500	500	500

Is the decision they have been taken conceptually correct? When we follow this method it is conceptually & practically incorrect. In summary financial instruments should initially be measured at fair value, usually including transaction costs.

Discussion of the issue

The LKAS 39 describes the meaning of financial instruments, how can it recognize, measure & disclose in the financial statements. According to the IFRS9 investment (Equity instruments) should identify to disclose as the financial asset at fair value through other comprehensive income. If there is an active market for financial assets, fair value will be the quoted market price. If there is no active market, fair value should be estimated using valuation techniques that use market estimates where possible, and take into account any recent transactions that have taken place between willing parties and the fair value of similar financial instruments. Where no reliable estimate for an unquoted equity share exists, the equity shares should be measured at cost. If a reliable value subsequently becomes available then it should be re-measured to fair value and classified as held for trading or available for sale. As well as the difference between the cost & market price of the

investment should record as other comprehensive gain or loss in statement of comprehensive income. But, they did not identify changes of fair value reliably. As a result of that the investment value to disclose may not appear relevant & reliable information to users and also value of the financial instrument may be overstated & understated.

Conclusions& recommendations

According to the IFRS 9, the equity instruments that entity intend to keep should initially identified at the fair value including transaction cost and re-measure to fair value each year. As well as changes in fair value should identify as the other comprehensive income in statement in comprehensive income.