ACCA F7

Financial Reporting (International)

Wednesday 3 December 2014

11 On 1 October 2013, Bertrand issued $10 million convertible loan notes which carry a nominal interest (coupon) rate of 5% per annum. The loan notes are redeemable on 30 September 2016 at par for cash or can be exchanged for equity shares. A similar loan note, without the conversion option, would have required Bertrand to pay an interest rate of 8%.

The present value of $1 receivable at the end of each year, based on discount rates of 5% and 8%, can be taken as:

	5%	8%
End of year 1	**0·95**	**0·93**
2	**0·91**	**0·86**
3	**0·86**	**0·79**

How would the convertible loan appear in Bertrand's statement of financial position on initial recognition (1 October 2013)?

	Equity	Non-current liabili
	$'000	$'000
A	810	9,190
B	nil	10,000
C	10,000	nil
D	40	9,960

(2 marks)