

2 Delta is an entity which prepares financial statements to 30 September each year. Each year the financial statements are authorised for issue on 30 November. During the year ended 30 September 2013 the following transactions occurred:

- (a) On 1 April 2013, Delta subscribed for 40 million \$1 loan notes in Epsilon. The loan notes were issued at 90 cents and under the terms of issue were redeemable at \$1.20 on 31 March 2018. Interest is payable on 31 March in arrears at 4% of par value. This represents an effective annual rate of return for Delta of 9.9%. Delta's intention is to hold the loan notes until redemption. Until 31 October 2013 Epsilon was a successful company with a good reputation for settling all its liabilities on their due dates. However, due to an event which occurred on 31 October 2013, three of Epsilon's major customers became insolvent and this caused liquidity problems for Epsilon. During November 2013 Epsilon entered into negotiations with all its creditors, including Delta. Delta agreed to forego the interest payments due on 31 March 2014 and 2015, with the payments from 31 March 2016 onwards resuming as normal. (8 marks)

Required:

Explain and show how this event would be reported in the financial statements of Delta for the year ended 30 September 2013. You do not need to quantify amounts which are only shown in the notes to the financial statements.