**DIPCAT Case 1**
**Sophia's Dream Case Study – measurement**

Sophia's Dream is the leading manufacturer and retailer in *eco-fashion* - custom lines of sustainable and organic clothing. The lines are currently available online and through high-end department stores in various countries.

The Group have developed a technique in which their clothing is manufactured through 3-D printing, with the main ingredients being tomato vines, tulips and deconstructed (up-cycled) natural fiber clothing.

As the group is a multinational organization, and due to the volume of it's activity it established a bank – Sophia's Bank (hereinafter also referred to as Sophia or Bank) – recently to be more flexible with financial matters. Thus it has quite complex financial instruments.

The bank was established on 1st January 20X1. (ie. this year). The bank prepares financial statements based on IFRS and the bank adopted IFRS 9 already in its' first financial statements.

The bank was founded solely with cash, nothing else was introduced by the owners. The introduced amount was 1 000 000 CU[1].

**Tasks:**

1. Considering the following facts and transactions show what effect those have on the statement of comprehensive income and statement of financial position (balance sheet)!

2. Prepare the statement of comprehensive income and the statement of changes in equity for the business year ending on 31st December 20X1 and the balance sheet for the year than ended.

**Other information:**

1. For simplicity we provided you with a spreadsheet where you can record the effects. It may help to prepare the journal entries for the transactions, however that is not required for the solution.
2. For this case study…
    - ignore expected credit losses (ECL); assume it is nil[2];
    - ignore taxation;
    - assume that there are no hedge relationships and hedge accounting is not elected.

[1] Million currency unites.
[2] Which is NOT appropriate in any case in „real life".

**Transactions:**

1. Sophia buys a bond for 100 000 CU which pays no interest for 4 years and is redeemable at 146 400 CU at the end of its life. The bond was purchased at origination which was at 1st January 20X1. The entity intends to hold the asset until maturity.

2. On 1 January 20X1 Sophia purchased a 100 000 CU irredeemable loan note – with the view to hold it until it matures – which is stated to carry interest at 31.5% per annum for 4 years after which no payments are required.

3. On 30 June 20X1 Sophia originated a loan with the value of 200 000 CU. The loan is redeemable at par on 30 June 20X5. Interest is payable at the rate of 5% for the first 3 years and then at 12%.

4. On 1$^{st}$ January 20X1 Sophia purchased a deep discount bond that had a face (par) value of 300 000 CU. The payment made was 235 145 CU. The acquisition cost of the asset (purchase commission) was 1 500 CU that was paid together with the purchase price of the financial asset. The interest is payable at 4% annually on the last business day of the year. The bond will be repaid at par when the asset matures. The asset is held to collect the contractual cash flows.

5. On 31 March Sophia purchased 3% stake of a listed entity paying 50 000 CU. The transaction cost amounted to 500 CU which was also paid together with the purchase price immediately. The fair value of this asset was 52 000 CU on 30 June 20X1 and went down to 50 900 CU by the end of the year. Sophia did not make any type of designation when recognizing the asset.

6. On 15 April Sophia purchased 12% stake in a not listed entity. The secret intention of Sophia is to acquire at a later date bigger stake in this company and ultimately arrive to control. The paid consideration was 70 000 CU and the transaction cost was 700 CU. The fair value of the 12% holding was 64 000 CU on 30 June 20X1. Because of legal reasons Sophia disposed 10% of its' share in this entity for 6 500 CU. The annual general meeting of the investee declared dividend on 30 September 20X1 which will only be paid in early 20X2. Sophia is entitled to 3 000 CU dividend. At the end of the year the remaining holding has a fair value of 74 000 CU. Sophia's management has the intention to close out any change in the fair value from the net profit – as long as it is possible – and this choice was correctly documented.

7. On 1 January 20X1. Sophia extended an interest free loan to one of it's related (but not consolidated) entity. The amount transferred was 50 000 CU, no transaction cost incurred. The loan is due for repayment on 31 December 20X2. Sophia expects an annual rate of return of 8% on the similar business loans.

8. Sophia entered into contract on 30 October 20X1 to purchase 90 FC[3] on 30 January 20X2 since it looks very unstable and Sophia foresees that she might need to trade in this currency. The deal was fixed at the rate of 2,9 CU/FC. The following information is available about the spot and forward rates of FC.

| Date | Spot rate | 1-month forward rate | 3-months forward rate |
|---|---|---|---|
| 30/Oct | 2,5 | 2,8 | 2,9 |
| 31/Dec | 2,3 | 2,2 | 2 |
| 30/Jan (next year) | 2,4 | 2,3 | 2,1 |

[3] FC means foreign currency.