[redacted]

On 31 December 2018, XYZ Ltd purchased 10 000 government bonds at $12.40 per bond. On acquisition, XYZ Ltd classified this investment as 'measured at fair value through other comprehensive income'. This means that pursuant to AASB 9, gains or losses will be recognised directly in equity until the item is derecognised (sold), at which point the accumulated gain or loss will be transferred to profit or loss. At 31 December 2019, the fair

[redacted]

value of the financial assets had increased to $18.60. At 31 December 2020, the fair value of the financial assets had increased to $21.70. All of the instruments were sold on 31 December 2020. The applicable tax rate is 30 per cent.

REQUIRED

Prepare an extract of the statement of profit or loss and other comprehensive income, and statement of changes in equity, for the reporting period ending 31 December 2020 in which the reclassification adjustment for the government bonds is detailed.

SOLUTION

Calculation of gains on government bonds

	Before tax ($)	*Income tax ($)*	*Net of tax ($)*
Gains recognised in other comprehensive income:			
Year ended 31 December 2019	62 000	(18 600)	43 400
Year ended 31 December 2020	31 000	(9 300)	21 700
Total gain	93 000	(27 900)	65 100

The amounts will be disclosed in the statement of profit or loss and other comprehensive income, and the statement of changes in equity, for the reporting period ending 31 December 2020 as follows (and only numbers relating to the government bonds are presented):

XYZ Ltd *Statement of profit or loss and other comprehensive income for the year ended 31 December 2020*	*2020 ($)*	*2019 ($)*
Profit or loss:		
Gain on sale of financial assets (government bonds)	93 000	–
Income tax expense	(27 900)	–
Net gain recognised in profit or loss	65 100	–
Other comprehensive income:		
Gain on government bonds, net of tax	21 700	43 400
Reclassification adjustment, net of tax	(65 100)	–
Net gain (loss) recognised in other comprehensive income	(43 400)	43 400
Total comprehensive income for the year	21 700	43 400

XYZ Ltd Statement of changes in equity for the year ending 31 December 2020	*Share capital ($)*	*Financial assets measured at fair value through OCI ($)*	*Retained earnings ($)*	*Total ($)*
Balance at 31 December 2018	500 000	–	–	500 000
Changes in equity for 2019				
Total comprehensive income for the year	–	43 400	–	43 400
Balance at 31 December 2019	500 000	43 400	–	543 400
Changes in equity for 2020				
Total comprehensive income for the year	–	21 700	65 100	86 800
Reclassification adjustment for gain included in profit or loss	–	(65 100)	–	(65 100)
	500 000	–	65 100	565 100

continued

Alternatively, components of other comprehensive income may be shown in the statement of profit or loss and other comprehensive income gross of tax with a separate line item for tax effects:

XYZ Ltd *Statement of profit or loss and other comprehensive income for the year ended 31 December 2020*	*2020* *($)*	*2019* *($)*
Profit or loss:		
Gain on sale of instruments	93 000	–
Income tax expense	(27 900)	–
Net gain recognised in profit or loss	65 100	–
Other comprehensive income:		
Gain on financial assets measured at fair value through OCI	31 000	62 000
Reclassification adjustment	(93 000)	–
Income tax relating to other comprehensive income	18 600	(18 600)
Net gain (loss) recognised in other comprehensive income	(43 400)	43 400
Total comprehensive income for the year	21 700	43 400