IFRS 9 Question Bank

Multiple Choice Questions

Question 1

Under IFRS 9, which of the following is required for a financial asset to be measured at amortised cost?

- A. The business model is to trade the asset
- B. The SPPI test fails
- C. The business model is to hold to collect contractual cash flows
- D. The asset is an equity instrument

Correct Answer: C

Question 2

Which category is the *default* classification for equity instruments under IFRS 9?

- A. Amortised Cost
- B. FVOCI
- C. FVTPL
- D. FVOCI with recycling

Correct Answer: C

Question 3

The SPPI test assesses whether contractual cash flows represent:

- A. Solely payments of principal and interest
- B. Solely payments of interest
- C. Solely payments of principal
- D. Solely payments of dividends

Correct Answer: A

Question 4

Which of the following financial assets must always use the simplified approach for impairment?

- A. Loan receivables
- B. Trade receivables
- C. Equity instruments
- D. Derivatives

Correct Answer: B

Question 5

In a fair value hedge, changes in the fair value of the hedging instrument are recorded in:

- A. OCI
- B. Retained earnings
- C. Profit or loss
- D. A separate reserve

Correct Answer: C

Question 6

Which of the following is *not* a requirement for hedge effectiveness under IFRS 9?

- A. Economic relationship
- B. Dominance of credit risk
- C. Appropriate hedge ratio
- D. Reliable measurement

Correct Answer: B

Question 7

Lifetime ECL must be recognised for which stage of impairment?

- A. Stage 1 only
- B. Stage 2 only
- C. Stage 3 only
- D. Stage 2 and Stage 3

Correct Answer: D

Question 8

Which of the following is an indicator of a credit-impaired asset?

- A. Increase in market interest rates
- B. Breach of contract
- C. Change in business model
- D. SPPI failure

Correct Answer: B

Question 9

Under IFRS 9, when an entity elects FVOCI for equity instruments:

- A. Gains and losses are recycled to profit or loss on disposal
- B. Gains and losses remain permanently in OCI
- C. Dividends are recognised in OCI
- D. Impairment losses must be recognised

Correct Answer: B

Question 10

Which of the following is required for derecognition of a financial asset?

- A. Transfer of risks and rewards
- B. SPPI test passes
- C. Hedge effectiveness
- D. Recognition of lifetime ECL

Correct Answer: A

Question 11

The ECL formula includes all of the following except:

- A. Probability of Default
- B. Loss Given Default
- C. Exposure at Default
- D. Fair value at reporting date

Correct Answer: D

Question 12

Which measurement category requires recycling of gains/losses from OCI to profit or loss upon disposal?

- A. FVOCI for equity instruments
- B. FVOCI for debt instruments
- C. FVTPL
- D. Amortised cost

Correct Answer: B

Question 13

A financial liability designated at FVTPL must present changes in own credit risk in:

- A. Profit or loss
- B. OCI
- C. Retained earnings
- D. A separate reserve

Correct Answer: B

Question 14

Which of the following is *not* a financial instrument under IFRS 9?

- A. Trade receivable
- B. Loan payable
- C. Inventory
- D. Derivative

Correct Answer: C

Question 15

Under the simplified approach, impairment for trade receivables is:

- A. 12-month ECL
- B. Lifetime ECL
- C. Based on fair value changes
- D. Not required

Correct Answer: B

Question 16

Which of the following is an example of a financial guarantee contract?

- A. A promise to deliver goods
- B. A promise to reimburse a lender if a borrower defaults
- C. A promise to hedge interest rate risk
- D. A promise to buy inventory

Correct Answer: B

Question 17

Which hedge type is used to hedge variability in cash flows?

- A. Fair value hedge
- B. Cash flow hedge
- C. Net investment hedge
- D. SPPI hedge

Correct Answer: B

Question 18

In Stage 3 impairment, interest revenue is calculated based on:

- A. Gross carrying amount
- B. Net carrying amount
- C. Fair value
- D. Exposure at default

Correct Answer: B

Question 19

Which of the following is a Level 1 fair value input?

- A. Quoted prices in active markets
- B. Discounted cash flow models
- C. Unobservable inputs
- D. Internal valuation techniques

Correct Answer: A

Question 20

Which of the following is recognised when contractual rights to cash flows expire?

- A. Derecognition
- B. Impairment
- C. Hedge effectiveness
- D. Reclassification

Correct Answer: A

IFRS 9 — Scenario-Based Written Exam

2-Hour Exam Paper

Total Marks: 100

QUESTION 1 — CLASSIFICATION & MEASUREMENT (30 marks)

Scenario

Ubuntu Capital (Pty) Ltd is a South African investment company holding a range of financial assets. The following transactions occurred during the year:

1. **Corporate Bond A**
    - 5-year maturity
    - Fixed interest at market rate
    - Held to collect contractual cash flows
    - Management has no intention to sell
    - SPPI test passes
2. **Corporate Bond B**
    - 3-year maturity
    - Interest rate linked to the performance of the JSE Top 40 Index
    - Management intends to sell if market conditions change
    - SPPI test fails
3. **Equity Investment in Kudu Ltd**
    - Long-term strategic investment
    - Management elects FVOCI at initial recognition
    - No intention to trade
4. **Trade Receivables**
    - R2 500 000 outstanding
    - Ageing analysis and loss rates provided:
        - Current: R1 500 000 (1%)
        - 30 days: R600 000 (4%)
        - 60 days: R300 000 (10%)
        - 90+ days: R100 000 (40%)

Required:

a) For each financial asset (1–3), determine the correct **classification category** under IFRS 9. Provide justification. (12 marks)

b) For the equity investment, explain the **consequences** of electing FVOCI (including treatment of dividends and disposal). (6 marks)

c) Calculate the **lifetime ECL** for the trade receivables using the simplified approach. Show all workings. (8 marks)

d) Prepare the **journal entry** to recognise the impairment loss. (4 marks)

QUESTION 2 — IMPAIRMENT: THREE-STAGE MODEL (25 marks)

Scenario

LionBank Ltd provides a 4-year loan of **R1 000 000** to a customer at market interest rates. At initial recognition, the loan is classified at **amortised cost**.

At year-end, the following information is available:

- **Stage assessment:** Credit risk has increased significantly since initial recognition, but the loan is **not credit-impaired**.
- **PD (lifetime):** 12%
- **LGD:** 45%
- **EAD:** R1 000 000
- **Effective interest rate:** 10%
- **Interest received during the year:** R100 000

Required

a) Identify the **impairment stage** and justify your answer. (5 marks)

b) Calculate the **lifetime ECL**. (5 marks)

c) Prepare the **journal entry** to recognise the loss allowance. (5 marks)

d) Explain how **interest revenue** must be recognised for this loan under Stage 2. (5 marks)

e) Describe **two indicators** that would move the loan to Stage 3. (5 marks)

QUESTION 3 — DERECOGNITION OF FINANCIAL ASSETS (20 marks)

Scenario

Imbali Traders sells a portfolio of trade receivables with a carrying amount of **R800 000** to a finance company for **R760 000**. The finance company obtains full rights to cash flows and assumes all credit risk. Imbali Traders provides administrative services but does not retain any risks or rewards.

In a second transaction, Imbali sells another portfolio of receivables (carrying amount **R500 000**) for **R480 000**, but retains **all credit risk** and guarantees repayment to the finance company.

Required

a) For each transaction, determine whether derecognition is appropriate. Provide justification using IFRS 9 principles. (10 marks)

b) For the transaction that qualifies for derecognition, prepare the **journal entry**. (5 marks)

c) Explain why the second transaction **fails** the derecognition test. (5 marks)

QUESTION 4 — HEDGE ACCOUNTING (25 marks)

Scenario

Savanna Exports Ltd is exposed to foreign currency risk on a highly probable USD sale expected in six months. To hedge this risk, the company enters into a forward contract.

Additional information:

- The hedge is designated as a **cash flow hedge**.
- At year-end:
  - Fair value of the forward contract **increases by R50 000**
  - The hedged item has not yet affected profit or loss
  - Hedge effectiveness is high and meets IFRS 9 requirements

Required

a) Explain the **objective** of a cash flow hedge. (5 marks)

b) Describe how the **effective portion** and **ineffective portion** of the hedge must be accounted for. (5 marks)

c) Prepare the **journal entry** for the year-end fair value change. (5 marks)

d) Explain what happens to the **amount in OCI** when the forecast sale occurs. (5 marks)

e) Provide **two examples** of cash flow hedge relationships other than foreign currency hedges. (5 marks)

IFRS 9 — Scenario-Based Written Exam: Full Memo & Model Answers

Total Marks: 100

QUESTION 1 — CLASSIFICATION & MEASUREMENT (30 marks)

a) Classification of financial assets (12 marks)

1. Corporate Bond A

Classification: Amortised Cost Reasoning:

- Business model = *hold to collect*
- SPPI test = *passes* (fixed interest at market rate)
- No intention to sell → Meets both IFRS 9 criteria for amortised cost.

2. Corporate Bond B

Classification: FVTPL Reasoning:

- SPPI test = *fails* (interest linked to equity index → not solely principal + interest)
- Even if business model allowed FVOCI, SPPI failure forces **mandatory FVTPL**.

3. Equity Investment in Kudu Ltd

Classification: FVOCI (irrevocable election) Reasoning:

- Equity instruments cannot be amortised cost
- Entity elects FVOCI at initial recognition
- Long-term strategic holding → FVOCI (no recycling).

b) Consequences of electing FVOCI for equity instruments (6 marks)

- FV changes → **OCI**
- **No recycling** to profit or loss on disposal
- Dividends → **profit or loss**, *unless clearly a return of investment*
- On disposal:
  - OCI balance transferred within equity (retained earnings)
  - Not recycled to P/L
- No impairment losses recognised (IFRS 9 removed IAS 39 impairment for equity).

c) Lifetime ECL calculation (8 marks)

Provision matrix

Ageing	Amount (R)	Loss rate	ECL (R)
Current	1 500 000	1%	15 000
30 days	600 000	4%	24 000
60 days	300 000	10%	30 000
90+ days	100 000	40%	40 000

Total ECL:

→$15\,000 + 24\,000 + 30\,000 + 40\,000 = \mathbf{109\,000}$

d) Journal entry (4 marks)

Dr **Credit losses (P/L)** R109 000
Cr **Provision for credit losses (SoFP)** R109 000

QUESTION 2 — IMPAIRMENT: THREE-STAGE MODEL (25 marks)

a) Identify impairment stage (5 marks)

- Credit risk has **increased significantly**
- Loan is **not credit-impaired** → **Stage 2** (Underperforming assets)

Stage 2 requires **lifetime ECL** and interest on **gross carrying amount**.

b) Lifetime ECL calculation (5 marks)

$$\begin{aligned} \text{ECL} &= PD \times LGD \times EAD \\ &= 12\% \times 45\% \times 1\,000\,000 \\ &= 0.12 \times 0.45 \times 1\,000\,000 \\ &= \mathbf{54\,000} \end{aligned}$$

c) Journal entry (5 marks)

Dr **Impairment loss – Loan (P/L)** R54 000
Cr **Loan: Loss allowance** R54 000

d) Interest revenue treatment in Stage 2 (5 marks)

- Interest is calculated on the **gross carrying amount** (R1 000 000)
- Effective interest rate (10%) still applies
- Impairment does **not** reduce the interest base until Stage 3
- Interest recognised in P/L = R100 000 (as given)

e) Indicators of Stage 3 (credit-impaired) (5 marks)

Any two of the following:

- Significant financial difficulty of borrower
- Breach of contract (e.g., missed payments)
- Concessions granted due to borrower distress
- Probable bankruptcy or financial reorganisation
- Observable data indicating measurable decrease in creditworthiness

QUESTION 3 — DERECOGNITION OF FINANCIAL ASSETS (20 marks)

a) Derecognition assessment (10 marks)

Transaction 1

- Receivables sold for R760 000
- All risks and rewards transferred
- Finance company assumes credit risk
- Imbali only provides admin services → **Derecognition appropriate**

Transaction 2

- Imbali retains **all credit risk**
- Guarantees repayment
- Risks and rewards **not transferred** → **Derecognition NOT appropriate** → Continue recognising asset and record liability if needed.

b) Journal entry for transaction that qualifies (5 marks)

Dr **Bank** R760 000
Dr **Loss on sale of receivables (P/L)** R40 000
  Cr **Trade receivables** R800 000

c) Why second transaction fails derecognition (5 marks)

- IFRS 9 requires transfer of **substantially all risks and rewards**
- Imbali retains credit risk → main risk of receivables
- Guarantee means Imbali still exposed to default losses
- Therefore, control is not transferred → Asset must remain on SoFP.

QUESTION 4 — HEDGE ACCOUNTING (25 marks)

a) Objective of a cash flow hedge (5 marks)

To hedge exposure to **variability in future cash flows** arising from a recognised item or highly probable forecast transaction.
Goal: reduce volatility in profit or loss.

b) Accounting for effective vs ineffective portions (5 marks)

- **Effective portion** → recognised in **OCI**
- **Ineffective portion** → recognised in **profit or loss**
- Effectiveness must be reliably measurable and meet IFRS 9 criteria.

c) Journal entry for fair value change (5 marks)

Fair value increase = R50 000 Assume hedge is fully effective.

Dr **Derivative asset** R50 000
Cr **OCI — Cash flow hedge reserve** R50 000

d) Treatment when forecast sale occurs (5 marks)

- Amount in OCI is **reclassified** to profit or loss
- It adjusts the revenue or expense related to the hedged item
- If sale occurs, OCI amount becomes part of **sales revenue**
- Ensures matching of hedge impact with underlying transaction.

e) Examples of cash flow hedge relationships (5 marks)

Any two:

- Hedging variable interest payments on floating-rate debt
- Hedging forecast purchases of inventory
- Hedging highly probable future commodity purchases
- Hedging future electricity or fuel costs