On 1 March 2016, Carsoon invested in a debt instrument with a fair value of $6 million and has assessed that the financial asset is aligned with the fair value through other comprehensive income business model. The instrument has an interest rate of 4% over a period of six years. The effective interest rate is also 4%. On 1 March 2016, the debt instrument is not impaired in any way. During the year to 28 February 2017, there was a change in interest rates and the fair value of the instrument seemed to be affected. The instrument was quoted in an active market at $5.3 million but the price based upon an in-house model showed that the fair value of the instrument was $5.5 million. This valuation was based upon the average change in value of a range of instruments across a number of jurisdictions.

The directors of Carsoon felt that the instrument should be valued at $5.5 million and that this should be shown as a Level 1 measurement under IFRS 13 Fair Value Measurement. There has not been a significant increase in credit risk since 1 March 2016, and expected credit losses should be measured at an amount equal to 12-month expected credit losses of $400,000. Carsoon sold the debt instrument on 1 March 2017 for $5.3 million.

The directors of Carsoon wish to know how to account for the debt instrument until its sale on 1 March 2017. (8 marks)