

Separating a puttable share and grossing up the separated put

Facts: Entity issues a puttable share for 11 CU (For this example, a freestanding put comparable to the embedded put is assumed to have a value of 1 CU and a nonputtable share of the same class is assumed to have a value of 10 CU)

Step 1: Recognize the cash received and the puttable share

DR Cash 11CU

CR Puttable share 11CU

Step 2: Separate the puttable share into a put option and a share

DR Puttable share 11CU

CR Liability (put option) 1CU

CR Equity (share) 10CU

were different. For example, the share might not be puttable immediately, and the put date could be far enough in the future so that the present value of the price was less than 10CU.)