## 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

Step 3: "Gross up" the separated put option (assuming the put price is 12 CU and the share can be put at any time)

DR Equity 12CU (share receivable or treasury share)

CR Liability 12CU (the obligation to deliver cash on demand)

The combined effect of the three entries would be as follows:

DR Cash 11CU

DR Share receivable/treasury 12CU

CR Liability for put price 12CU

CR Share outstanding 10CU

CR put "premium"??? 1CU

The end result is a debit (a reduction) to equity of 2CU—shares outstanding of 10CU less shares receivable of 12CU. (It would be possible to end up with a net credit to equity if the assumptions

**EXAMPLE TO ACCOMPANY AGENDA PAPER 15B** 

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.)