

ACCOUNTING FOR OPTIONS

Journal entries in the books of

Buyer / Holder

Seller / Writer

① Margin Payment:

Buyer - will exercise only if it gives profit.
loss - opⁿ lapse

Buyer X pay margin.

(deposit - CA)

Opⁿ margin money A/c

To Bank.

To Bank guarantee

To securities.

mandatory payment.

② Premium (expense)

always to be paid in

Index opⁿ premium
Stock Opⁿ premium } CA
To Cash/Bank.

(income)

Cash/Bank.

Cash/Bank

CL [To Index opⁿ premium
To Stock opⁿ premium.

③ Year end : Compare premium pd / recd with premium on B/s date. If VA = same net off P/L - net entry.
loss of buyer $\Rightarrow$ profit of seller (vice versa)

P&L

To Prov for loss on premium.

Record only loss,
pre. pd > B/s premium

P&L

To Prov for loss on premium.

profit - ignore - "providence"
prem recd < B/s premium.

④ Settlement : Stock opⁿ

(a) Call: (right to buy)

a) delivery: Eq share of —
To Cash.

b) diff. (Index opⁿ) Bank To P&L always profit

(b) Put (right to sell)

Bank To Eq share
To P&L (always profit)

opⁿ lapse

No entry

Cash/Bank

P&L

To Eq share —

To P&L

P&L

To Bank

Eq share

To Bank.

No entry.

Settlement

Index opⁿ: only by difference

Stock opⁿ: (delivery OR difference)

Flow

- ① margin money
- ② premium
- ③ Year end (prov 4 loss)
- ④ settlement
- ⑤ Premium + prov $\rightarrow$ P&L
- ⑥ margin money refund

B/s (holder)

CA / P&L

Opⁿ prem x
(-) prov 4 (x)
loss

B/s (writer)

CA

Opⁿ margin money

CL
Opⁿ prem xx
(+) prov 4 loss xx

Holder

Writer

⑤ Premium: transfer to P&L

(1) premium - P&L

P&L

To Indem opⁿ premium

To shock opⁿ premium
(expense)

(2) w/b the provision.

Loss & loss on premium

To P&L

Indem opⁿ

shock opⁿ

To P&L

income

Loss & loss

To P&L

⑥ Refund of margin money

No entry

Bank A/c

To opⁿ margin money