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Financial Instruments

IND AS 32, 109, 107.

#1 Background (why this standard) (unit - I)

a) B/S.

Liabilities		Assets	
Esc		PPE	As-10
R&S		ITA.	As-26
Deb.		Invest	As-13.
loan		D.Tax	As-22
TP(B/P)		Inventories.	As 2
LTP	As-15	TR/BR.	
Provisions	As-29	C1B	
		L&Ad.	

(Boxed items on both sides: Esc, R&S, Deb., loan, TP(B/P) ?? and TR/BR., C1B, L&Ad. ??)

This standard covers all items covered in above box

b) situation. (loopholes before F.I.)

1) HD sold goods to Buddy for ₹ 100 on credit.
C.P. = 1 month, if payment made after 1 month.
Int. @ 12% p.a. is chargeable.

Date of sale
Buddy Dr 100
To Sales 100

After 6 month
Buddy Dr 6
To Int (P&L) 6

Bank Dr 106
To Buddy 106

HD sold goods to Buddy for 106, C.P. = 6m
₹1 p.m. discount if paid earlier.

Date of sale
Buddy Dr 106
To Sales 106

After 6 m.
Bank Dr 106
To Buddy 106

Income is preponed.
& C.Y. income is overstated
& finance charges is not recorded.

Compare :-
(1) N.C.P. = 6m
(2) what if goods purch. on cash.

₹ 6 is not sale but int. ← ₹ 100

↳ int. should be allotted after period gets over not before period gets started.

But it was not mentioned anywhere in A.S. 9 people really misusing it at their convenience.

↳ so sales should be recorded @ price at which it is sold. (at arms length price)

(2) HD Ltd issued 10% Deb. of ₹100 each redeemable at par after 5 years.

HD Ltd issued 8% Deb. of ₹100 each @ ₹90 redeemable at par. after 5 years.

which one will we prefer as D.M.

yr	Int.
1	10

yr	Int.	Dis.
1	8	₹10

2	10		2	8
3	10		3	8
4	10		4	8
5	10		5	8
	50			40

↓ will setoff with S.P.

Int Dr to P/L = 50

Int Dr to P/L = 40.

Now as Co. what we prefer we go with Second one. ↓

It means I will hit my p/L by ₹10 less i.e. i am setting my P/L (Int) with S.P. ↓

Co. is inflating profits & No A.S. was there. but this is possible only if S.P. was there so. ↓

HD Ltd. Issued 6% Deb. of ₹100 each at par. Redeemable after 5 years by Conversion of 1 Deb = 10 eq. sh.
(N.V. = 10 & M.P. = 12)

year	Int.
1	6
2	6
3	6
4	6
5	6
	30

+ 20 from E.Sh.

1 Esh @ ₹12
∴ 10 Esh × ₹2.
⇒ 20

Int Dr 30
To P/L 30

Co. can give him prem. on red^{n} also.
↓
Can be set off S.P.

(3) Airbus — Indigo purch. Aircrafts from Airbus of ₹ 1000 Cr. for ₹ 800 Cr. — Indigo

Indigo sold aircraft to citibank for ₹1000 Cr & booked profit of 200 Cr.

Indigo took Aircraft from Citibank on operating lease.

Citibank.

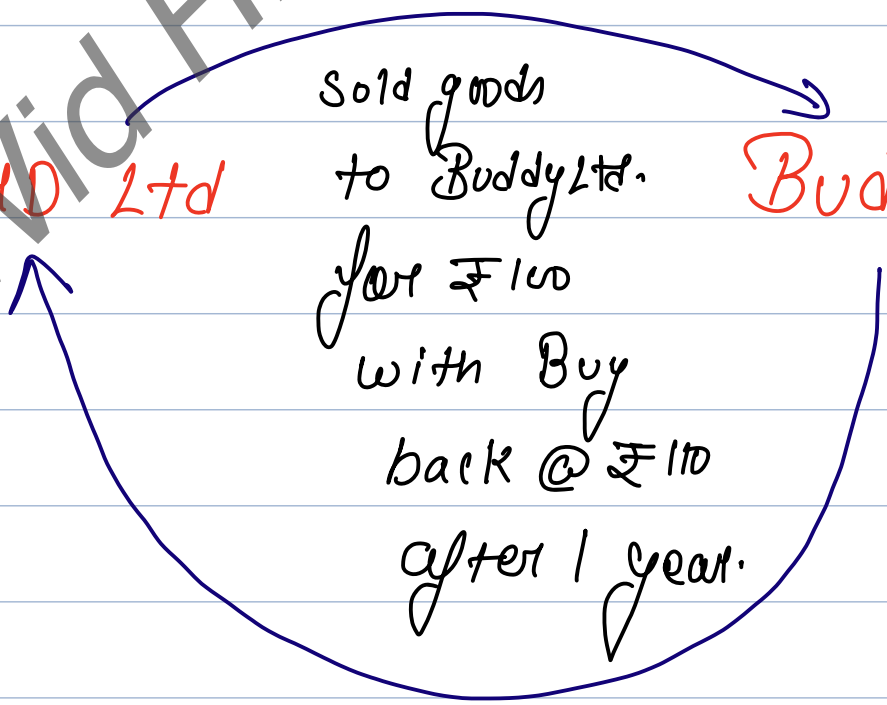
∴ No L.T. Liabi

↓

Hence favorable D.E. Ratio.

but it was normal transaction of F.L only.
& entire drama was set up to put FL to O.L. & book ₹200 crs profit.
it was traced & Amendment made in As-19 (Sale & leaseback trans.)
& As-19 was saying that this profit should be amortised over Lease term.
but only if it is F.L.

4)



HD purch. after 1 year @ 110

↓

loan arrangement.

This Standard tries to cover above loopholes of A.S. 8 AIC.

c) Financial Instruments.

- Ind AS 32
  - Scope
  - i) Definitions
  - ii) Classification
  - iii) off setting
- IND AS 109
  - measurement
  - Recognition
  - Derecognition
  - of
    - F.A.
    - F.L.
    - Equity.
- INDAS 107
  - Disclosures

IND AS 32

Part-1 Definitions.
(Unit-II)

MENTORING HARSHIT DWIVEDI
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

#1 Meaning of Financial Instruments.

Financial → Cash
- Any amount of cash
- Amount equal to Net assets of co.

Instruments → Contract (b/w 2 parties whether written / oral / verbal)
- Derivative
- Non Derivative

#2 Definition of F.I.

Any contract that creates financial asset for one entity & financial liability / equity for another entity.

#3 Exclusions of F.I.

Any assets / liability which is non contractual is not covered under this standard.

eg → a) PPE / I.T.A. / inventory etc.

b) Income tax liability

c) which has a separate IND A.S.

i) Leaves ii) Employee benefits

Note :- Entity can be individual / co. / society / trust / NGO / govt.

#4 Financial Assets.

a) Cash & bank

b) Equity instrument of another Company

eg→ Investment in equity shares of another co.

c) Contractual Right to receive cash

eg→ Dep, B/R, investment in Deb. of another co.
Investment in pref. shares of another co.
loan given etc.

d) Contractual Right to receive equity instruments of any other entity

eg→ Investment in Convertible Debenture.
Investment in convertible pref. shares.

e) Derivative contract which is potentially favorable

f) Contracts (derivative / nonderivative) that will be

Settled in entity's own variable no. of equity Shares.

Eg ⇒ i) loan given worth ₹ 10 lacs which will be settled in equity shares worth ₹ 10 lacs based on M.P. of shares as on date of settlement.

☞ if no. of shares are fixed then it shall be treated as equity.

QUESTION # 1

Classify whether following are FA are not:

1. Cash	Y
2. Bank balance	Y
3. Debtors	Y
4. Stock or inventory	N
5. PPE	N
6. Intangibles	N
7. Investment property	N
8. Advance to supplier	N
9. Advance to supplier refundable since the contract is cancelled	Y
10. Security deposit	Yes if Refundable, No if Not Refundable.
11. Bills receivable	Y
12. Capital Advances	N
13. Gold	N
14. Investment in EI	Y
15. Investment in Debentures	Y
16. Investment in preference share	Y
17. Insurance claim receivable	Y
18. Legal case	N
19. Guarantee received from third party on behalf of debtors	Y
20. TDS/ tax refundable	N
21. Commodity market contract to purchase ...	No if Gross Settlement SY if Net settled
22. Prepaid expense	N
23. Investment in Mutual fund units	Y
24. Investment in real estate	N

#5 Financial Liability.

a) Contractual obligation to deliver Cash

eg → Crs, TIP, BIP, Redeemable deb issued by entity, Redeemable pref. shares, loan taken etc.

b) Contractual obligation to deliver any other financial Asset

eg → any Contract which will be settled by issue equity instruments of another entity. (Parent / Subsidiary)

c) Contracts to issue variable no. of own equity shares

eg → Convertible pref. shares of ₹ 10Lac to be settled at 20% premium by issue of E.I. at m.p.

i.e. no. of E. shares = $\frac{1200000}{\text{MP of E sh}}$

d) Derivative Contracts that are potencially unfavourable.

QUESTION # 2

Classify whether following are ~~FA~~ FL are not:

1. Creditors	Y FL
2. Bills payable	Y FL
3. Provision for tax	N
4. Other provisions	N
5. Loan taken	Y FL
6. Outstanding interest	Y FL
7. Advance from customer	N
8. Debentures – redeemable	Y FL
9. Debentures – convertible	Equity
10. Debentures – convertible or redeemable at the option of the holder	F.L.
11. Debentures – convertible or redeemable at the option of the issuer	Equity
12. Interest on debentures	FL
13. Preference share – redeemable	FL
14. Preference share – convertible	Equity
15. Preference share – redeemable or convertible at the option of holder	FL
16. Preference share – redeemable or convertible at the option of issuer	Equity
17. Arrears of preference dividend – non cumulative	No
18. Arrears o preference dividend – cumulative	FL

#6 Equity instruments.

a) Those instruments which have Residual interest in net assets of the entity.

eg → Entitys own equity shares

b) Contract to issue fixed no. of Equity shares to settle fixed amount of Liability.

eg →

i) issue 500 equity shares to settle liability of ₹5000 = Equity

ii) issue 500 equity shares to settle liability equal

to M.P. of Equity sh. as on date of Settlement = F.L. (bcoz liability settled not fixed)

iii) Liab. of 5000 to be settled by issue of own equity shares where M.P. should be equal to ₹ 5000.
= F.L. (bcoz Eq.sh. issued is not fixed)

#7 Some important points relating to F.I.

a) if there is any statutory right to receive cash or statutory obligation to pay cash, then such instruments will not be classified as FA/FL.
eg→ Ad. Tax, I.T. refunds, I.T. payable.

b) If an entity issues preference shares or Debentures or takes a loan (i.e. borrowings by entity)

It needs to classify that borrowing as F.L. or E.I. depends on the basis

of following features

if Int/Div. payable on such borrowing is

- Mandatory → FL
- Discretionary → Equity

if such borrowing is

- Redeemable → F.L.
- Irredeemable (perpetual) → Equity

if such borrowings is Convertible.

Case-1

Variable no. of eq. Shares of entity → F.L.

Case-2

Fixed no. of eq. sh. of entity.

- if it is Compulsorily Convertible. → Equity
- if it is Convertible at the option
  - Issuer → Then classification depends on intention
    - if intention is to pay cash → FL
    - if intention is to pay eq. Shares → Equity
    - if intention changes → apply principles of
  - Holder → CFI

Reclassification

c) if any borrowing by any entity which has mix of equity & FL then such instrument is known as Compound financial instrument.

d) CFI can be possible only from pov of issuer entity.
from the pov of investor in CFI i.e. holder of CFI, it will always be F.A.

e) Int / Dividend exp. on F.L. ⇒ P/L
Int / Dividend income on F.A. ⇒ P/L.
Int / Dividend exp. on equity ⇒ Retained earnings

QUESTION # 3 **ILL-3, ICAI STUDY MATERIAL**

A Ltd. issues a bond at principal amount of CU 1000 per bond. The terms of bond require annual payments in perpetuity at a stated interest rate of 8 per cent applied to the principal amount of CU 1000. Assuming 8 per cent to be the market rate of interest for the instrument when it was issued, the issuer assumes a contractual obligation to make a stream of future interest payments having a fair value (present value) of CU1,000 on initial recognition.
Evaluate the financial instrument in the hands of both the holder and the issuer.

Soln :- i) Perpetuity means till liquidation.
ii) For holder
a) Int. will be recd. in cash every year.

b) Principal amount of CU 1000 on liquidation.

Hence it is a Contract to be settled in cash. ∴ Such bonds shall be classified as F.A.

iii) for Inver

a) Int will be paid every year in cash.

b) obligation to pay CU 1000 principal on liquidation.

∴ inver will classify it as F.L.

QUESTION # 4 **ILL-5, ICAI STUDY MATERIAL**

A Ltd. (the 'Company') makes a borrowing for INR 10 lacs from RBC Bank, with bullet repayment of INR 10 lacs and an annual interest rate of 12% per annum.

Now, Company defaults at the end of 5th year and consequently, a rescheduling of the payment schedule is made beginning 6th year onwards. The Company is required to pay INR 13, 00,000 at the end of 6th year for one time settlement, in lieu of defaults in payments made earlier.

1. Does the above instrument meet definition of financial liability? Please explain.
2. Analyse the differential amount to be exchanged for one-time settlement.

Soln:- 1) As per terms of contract, Co. is liable to pay in cash for its principal & int.

∴ Co. will classify such contract as F.L.

2) Calⁿ of gain/loss on settlement

Amount payable by entity/company 10L +12% +12%

⇒ 1254400

amount payable as per new terms ⇒ 1300000

loss (P/L) 45600

QUESTION # 5 **ILL-6 , ICAI STUDY MATERIAL**

Silver Ltd. issued irredeemable preference shares with face value of ₹10 each and premium of ₹ 90. These shares carry dividend @ 8% per annum, however dividend is paid only when Silver Ltd declares dividend on equity shares.
Analyse the nature of this instrument

Soln :- Since preference shares are irredeemable & Non cumulative

∴ Co. does not have any obligation towards dividend or principle amount in cash.

∴ Co. should classify such pref. shares as Equity.

QUESTION # 6 **ILL-7 , ICAI STUDY MATERIAL**

A Ltd. invests in compulsorily convertible preference shares (CCPS) issued by its subsidiary – B Ltd. at ₹1,000 each (₹10 face value + ₹990 premium). Under the terms of the instrument, each CCPS is compulsorily convertible into one equity share of B Ltd at the end of 5 years. Such CCPS carry dividend @ 12% per annum, payable only when declared at the discretion of B Ltd.
Evaluate this under definition of financial instrument

Soln :- Since

a) Principle amount will be settled with fixed no of equity shares

b) There is no obligation to pay Dividend

∴ Such CCPS will be classified as Equity.

QUESTION # 8 **ILL-6 ,ICAI STUDY MATERIAL**

LMN Ltd. issues preference shares to PQR Ltd. These preference shares are redeemable at the end of 5 years from the date of issue.

The instrument also provides a settlement alternative to the issuer whereby it can transfer a particular commercial building to the holder, whose value is estimated to be significantly higher than the cash settlement amount.

Examine the nature of the financial instrument.

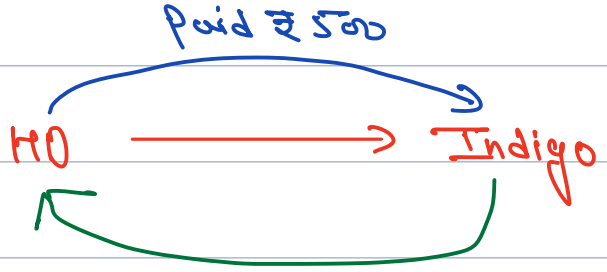
Soln :- In the given situation it is clearly evident that issuer will settle pref. shares in Cash & not in Building.

Since Value of Building is significantly higher than Cash Settlement ; ∴ Substance of transaction requires Cash Settlement

∴ issuer will classify such pref. shares as F.L.

#8 Unit-3

Classification of various Contracts as F.I.



Contract.

Derivative contract.

Holder of contract can buy air ticket

Price of the option contract will Δ w.r.t. price of ticket.

price ≥ 500

if ticket price ⇒ ₹700 (say)

price < 500

if ticket price ₹300 (say)

for ₹ 5000 after 20 days.

After 15 days.

Price of ticket.

₹ 7000

HD will exercise the option

HD will pay ₹ 5000 & get ticket in physical form

Cross Settlement

or

HD will go to Indigo & says I want to sale the ticket & Indigo will pay ₹ 2000 in cash to HD.

Net settlement.

₹ 3000

HD will not exercise the option.

i) Derivative Contract

→ Future Contract.

- options
- futures
- Forward.
- swap.

Special features.

Initial Investment is Nil / low

It will be Settled @ Predetermined price.

Its Value Changes w.r.t underlying

a) Shares
b) Currency
c) Commodity
d) Interest.

Gross settlement | Net settlement.

a)	Shares ✓	Cash. ✓	
b)	for Currency ($) ✓	Cash (INR) ✓	
c)	Commodity (gold/silver) ↳ not a f.i. ↓ ⇒ Alling mismatch	Cash ✓ (F.I.)	
d)	Int. (cash) ✓	Cash. ✓	

i) a) Options

HD says to Buddy

"I will buy land from Buddy @ ₹5 Lac. after 1 month"

HD pays to Buddy ₹5K today.

₹5K → Non refundable

HD says to Buddy

"I will sale land to Buddy @ ₹5L after 2 m.

HD pays Buddy ₹5K today

₹5K → Option premium

Such contract of option to buy is known as Call option

∵ HD paid premium

∴ HD is purchaser

Buddy received premium

∴ Buddy is known

Such contract of Options to sell is known as put option.

holder of contract. i.e. call option → option to buy.

as seller/writer of Contract i.e. call option → obligation/duty to sell

∵ HD paid premium ∴ HD is holder of cont. to sell i.e. put option → option to sale

∵ Buddy receives premium. ∴ Buddy is writer of cont to sale i.e. obligation to purchase

Note :- Always see from Holders POV to decide whether it is call option / put option

QUESTION # 9 ILL-7, ICAI STUDY MATERIAL

Entity – B Ltd writes an option contract for sale of shares of Target Ltd. at a fixed price of ₹100 per share to C Ltd. This option is exercisable anytime for a period of 90 days ('American option'). Evaluate this under definition of financial instrument.

Soln:- B writes an option of cont. for sale of shares of Target Ltd. @ ₹100 within 90 days.

B → C → Option to buy E.I.

Obligation to sell E.I. to C.
∴ B Ltd is seller/writer of call option

of target Ltd.
∴ Holder / Buyer/purchaser of call option

Scene 1 → Share price of target Ltd > ₹ 100

C Ltd
↓
C will get money
↓
favorable
↓
F.A.

B Ltd.
↓
B has to pay money
↓
Un Favorable
↓
F.L.

Scene 2 Share price of target Ltd < ₹ 100

C Ltd.
will not exercise the option
∴ option premium (if any) is expensed.

B Ltd.
then option premium received is tvf. to income.

But.

C has to pay B if the contract was without option

↓

Unfavorable.

(Rare chances)

↓

F.L.

B has to receive from C.

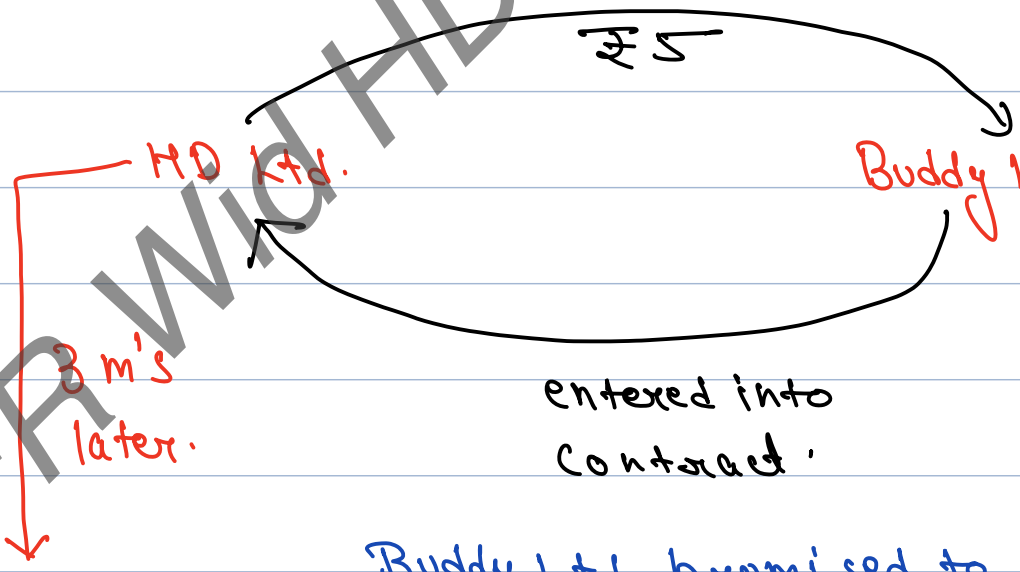
↓

Favorable.

↓

F.A.

i) B) Share warrants.



Buddy Ltd promised to issue its E.Sh. to HD Ltd after 3 m @ ₹25 (N.V. = ₹10)

At the time of Receipt of ₹5

Bank Dr 5
To S.W. 5

MP = 45 → HD will exercise.

MP = 18 → S.W. Dr 5 To P&L 5

Case-1 MP = 45.

HD Ltd will exercise the option by paying ₹25

S get the shares.

Bank Dr 25
S.W. Dr 5
To ESC 10
To SP 20

F.A.

a) S.W. Dr 5
To CIB 5

F.A.

b) Inv. in E.S. Dr 30
To Bank 25
To S.W. 5

Case 2 MP = 18.

HD Ltd will not exercise the option

F.A.

a) S.W. Dr 5
To CIB 5

b) P/L Dr 5
To S.W 5

QUESTION # 10	ILL-8, ICAI STUDY MATERIAL

A Ltd. issues warrants to all existing shareholders entitling them to purchase additional equity shares of A Ltd. (with face value of ₹100 per share) at an issue price of ₹150 per share. Evaluate whether this constitutes an equity instrument or a financial liability

Solⁿ :- Since share warrants issued by A Ltd will be settled in Equity instruments only.

∴ Such Sh. warrants should be classified as Equity.

All Derivatives contracts with any underlying are N.S. except Commodity market with Gross Settlement only.

i) c) Derivative contract to buy / sell N.F.A.

↓

Derivative contracts of commodity.

Net Settlement option is not available	Net Settlement option is available
↓	↓
Gross settlement	if intention is	if intention

take delivery of commodity.

↓

Not a f.I.

Net settlement.

↓

it is a f.I.

is of Gross settlement.

↓

for consumption or usage.

↓

not a f.I.

↓

not for own consumption / usage.

↓

But for selling or for settlement.

↓

if it clarifies as Non f.I. then it would lead to

a/cing mismatch.

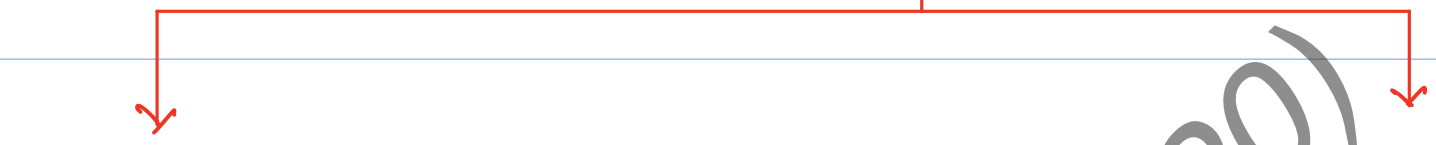
↓

No → Not a f.I.

Yes → f.I.

Note-1 AIC ing Mismatch.

Suppose → an entity entered into



1st Contract

in Commodity market to sell gold @ ₹3000 after 3m & had intention of Net. Settlement.

↓

F.I.

2nd Contract

after 1 month to buy gold @ ₹32000 after 2m. and take delivery to settle 1st contract

↓

This 2nd Contract should be classified as F.I.

∵ Gold taken as delivery is used as currency to settle 1st contract.

*****

if 2nd Contract is not treated as F.I. but treated as Non F.I.

it would mean F.I. is settled by Non F.I. hence

it is accing mismatch.

Note-2 Intention is Net Settlement

Entity has option to settle in cash if

a) Intention is to settle in cash.

b) Past history shows that he settles in cash.

c) purchase & sell immediately

d) commodity under contract is readily reliasable in cash.

#9 Classification of various Non Derivative contracts which are F.I. as F.2./ Equity.

Situation 1

Contract to settle own equity shares in cash

↳ ≠ Net assets.

Situation 2.

Any contract which is to be Settled in

Case A → By own E.I.

Case B → by cash

Case C → by own equity or cash → Refer # 7 (b)

Case D → By own equity & Cash.

Situation 1

when an entity acquires its own equity shares through itself/group co., then such E.I. which were classified as equity which when acquired shall be reclassified as F.L.

(a) Contract to settle own E.I by cash

→ Buy back.

→ own E.I. should be

↳ on B.B. done at M.P.

(b) Contract to Settle Group co. E.I by Cash.

→ Treasury shares

→ purchase of stake

reclassified as F.L.

N(I. should be reclassified as F.L.

a) Calcing for B.B.

an entity B.B. ₹10 equity shares after 1 year @ ₹100. Rate of Borrowings @ 10%. & M.P. = ₹70 as today.

C.A Inter (Old) — IND AS

Today ⇒ No entry

after 1 yr ⇒ S.B.B. Dr 10
To Bank 10

ES(Dr 10
SP/DP Dr 90 (BF)
To S.B.B. 100

O.E.

Today ⇒ Equity Dr 10 (NV)
O.E. Dr 60 (upto mkt price)
PIL Dr 21
To FL 91
(100 × 0.9091)

After 1 year.
FC 9
To PIL 9

FL Dr 100

in inter we never Classified equity into F.L. but

obviously Equity is settled in cash. & for cash we are giving Eq to ① M.P. ② Netasset.

So @ M.P. means liability

↓

So classify E. into Liability then make payment of Liability.

↓

hope it sounds logical.

HDview

To bank 100

b) Calling for purchase of stake.

In CBS ⇒ NCI = (30%) 300

P writes a put option to purchase 20% from NCI after 2 years @ ₹ 1000 & D.F. 12%.

P has obligation to purchase.

Ind As 110

NCI Dr (20%) 200
O.E Dr 800 (Bal)
To Bank 1000

NCI Dr 200
O.E Dr 800
To FL 1000

FL 1000
To Bank 1000

(everything is happening on 1 single day.)

⇓

assumption of 110.

In 110 ⇒ Δ in stake.
+
accing refer 109 only.

if u remember

Ind As 109.

PV of ₹1000 @ 12% for 2 years
⇒ 1000 × DF (12% for 2 years)
= 1000 × 0.7972
= 797

J.E. → today.
NCI Dr 200
O.E Dr 597
To FL 797

after 1 year
FC Dr 96
To FL 96
(797 × 12%)

after 2nd year

FC Dr 107

AS 21 & Ind AS 110

process of cons. acing.

there was no Δ in stake

if there is Δ in stake after every 2m. Δ in CBS for Valn of goodwill.

To FL 10%.
(797 + 96 × 12%)

FL Dr 1000
To Bank 1000

in AS & IND AS.
2 BoA. 3 BoA.

P S P S Grp.

QUESTION # 11 **{MTP – SERIES I – NOV – 2018}**

On 1 January 20X1, Entity X writes a put option over 1,00,000 of its own equity shares for which it receives a premium of ₹5,00,000.

Under the terms of the option, Entity X may be obliged to take delivery of 1,00,000 of its own shares in one year's time and to pay the option exercise price of ₹22,000,000. The option can only be settled through physical delivery of the shares (gross physical settlement).

Examine the nature of the financial instrument and how it will be accounted assuming that the present value of the option exercise price is ₹22, 00,000. 20 Lac.

Soln :- i) x Ltd. writes a put option.

∴ x Ltd has obligation to buy its own E.I.

ii) x Ltd has to buy 100000 E.I. & pays ₹ 22 Lac.

iii) ∴ entity x has to classify 1 Lac of its own e.I. as F.L @ P.V. of 22 lac i.e. ₹ 20 Lac.

iv) Journal.

E&C	Dr	10 L
O.E.	Dr	10 L.
	To FL	20 L

FC	Dr	2 L
	To FL	2 L.

FL	Dr	22 L
	To Bank	22 L.

Situation - 2.

a) Contracts to be settled by own E.I.

generally such contracts are classified as Equity Bearing few exceptions such as discussed below

Example.

Contracts	To be classified as.
i) 1 Deb of ₹100 to be settled by issue of 5 E.sh.	Equity. a) no. of E.sh. issued are fixed b) amount of liability settled is also fixed.
2) A Deb. of ₹100 to be settled by issue of equity shares worth = ₹100 no. of E.I. = ₹100	F.L. ∵ no. of E.sh. issued are Variable.
3) 1 Deb. of ₹100 is to be settled by issue of 2 eq.sh.	Compound F.I. FL: pv. of 80

₹ 100 each.

Equity = 100 - FL.

4) 1 Deb. of ₹100 is to be settled by issue of 5 eq. sh. plus balance in cash.

F.L.
∵ amount settled by issue of E sh. is variable as bal. is paid by cash (although no. of E.I. is) fixed.

5) 1 Deb of ₹100 is to be settled by issue of 5 equity sh plus Extra shares for Bonus.

Equity
(∵ extra shares for Bonus issue)

6) 1 Deb. of ₹100 is to be settled by issue of 5 E.sh plus extra shares for shares split.

Equity.
(∵ extra shares for shares split)

7) 1 Deb of ₹100 to be settled by issue of

Equity.
∵ Variable no. of

↳ 5 E.sh. after 1 year
↳ 10 E.sh. after 2 year
↳ 15 E.sh after 3 year

Shares are based on time which are not in the hands of either of parties.

8) 1 Deb. of ₹ 100 each to be settled as many E.sh. so as to maintain fixed % of stake. F.L.

9) 1 Deb. of ₹ 100 each to be settled by 5 E.sh if profit goes ↑ by 10%.
4 E.sh if profit goes ↑ by 20%

F.L. (∵ no. of E.shares issued are variable)

Any Contract to be Settled by issue of own eq. shares. Such Contracts shall be classified as

- Equity
- F.L.

if F2F test is satisfied where

i.e.

When no. of E.I to be issued & amount of liability settled should be predetermined & fixed.

a) no of E.I to be issued but amount of liability is not fixed

or

b) no. of equity shares to be issued are Variable.

↓

Exception

↓ **

means if E.I issued are variable still it is Equity.

i) Extra shares for Bonus.
ii) " " " Share split.
iii) " " " Time.
iv) " " " Δ in exch. Rate. (Note-4)

** language as per standard

E.I granted will not be considered Variable.

⇒ if they are not contingent

or

⇒ if they are not based on uncertain future event

Those events which are not in control of either of parties.

Note 1 :- options.

if a Co. receives option premium for issue of own equity shares, then such option premium shall be treated as SP/FL as the case may be.

eg → HD pays ₹2 to buy 1 E.sh of N.V. ₹10 for ₹50 after 2 months.

holder of Call option / Call option writer

amount to be received = fixed.

no. of issued E.sh = fixed.

MP after 2 m = 65

MP after 2m = ₹40

Today. Cash Dr 2
To SP 2

Cash Dr 2
To SP 2

After 2m HD will exercise option
Cash 50
To ESC 10
To SP. 40

HD will not exercise option
SP 2
To P/L 2

eg → HD pays ₹2 to get 1 E.Sh. (N.V.) (₹10) @ 2% Discount on M.P. after 2m.
∴ amount of liability is not fixed.
∴ F.L.

Today.
CIB Dr 2
To FL (2)
↓
expected discounted to be given.

After expected discount
= 2% of 150 (M.P.)
= 3.
↓
P/L 1
To FL 1
(∵ benefit to given)
= FL

if options exercised
CIB Dr 147
FL Dr 3

To Esc 10
To SP 140

if options not exercised.
FL Dr 2
To PIL 2

Note-2 Share warrants.
↳ always equity

Note-3 Share Swap arrangement.
Share Swap arrangement Contracts of BIC will not be treated as f.I. as it will be covered under IND AS 103.

Note-4 Foreign currency Convertible bonds
if FCCB is convertible into E.Sh. only and no. of E.Shares to be issued will vary based on Δ in f.v. of bonds due Δ in exchange Rates
Or
no. of equity shares to be issued will be fixed But Δ in f.v. of bonds due to Δ

in Exchange Rates will be settled in cash.

Then

Such FCCB should be treated as F.L. → IFRS

Such FCCB should be treated as Equity → IND AS

Suppose

FCCB = 1000 $ on 1-4-24 @ ₹80

= ₹80000

FCCB is to be settled by issue of 1000 E.sh.

Now on

31-3-25 1 $ = 83

∴ $1000 = 83000

hence extra 30000 liability is to be Settled by E.sh./ cash.

In both cases FCCB is to be treated as Equity.

B) Any Contract to be Settled by Cash

↓

is generally treated as F.L.

Exception :-

Contract to pay cash in ratio of net assets on liquidation or puttable f.I.

Close ended M.F. (Redeemable after Specified period is over)

Open ended M.F. (Redeemable On demand)

Conditions for classifying puttable f.I. as Equity

i) Holder shall have share in Net assets of Co.

eg → UHA → pay first → FL

UHB → pay last → Equity.

eg for (i) (ii) & (vi)

ii) Residual interest Subordinate to all other claims

iii) all such instruments should have identical rights.

eg → UHA → has V.R.S Share in N.A.

UHB → does not have V.R. but has share in Net assets.

→ F.L. (because of No identical Rights.)

eg:- UHA pay → N.A. of MF scheme. → N.A. of M.F. Comp. → F.L. (for point iii & vi))

UHB pay → N.A. of MF scheme

eg:- UHA pay N.A. which is highest in last 3 years → F.L.

UHB Pay latest N.A

iv) No obligation to pay any other sum other than share in N.A. of Co. on repurchase/redemption.

v) Cashflow to holder = profit/loss due to Δ in FV of N.A.

vi) No multiple P.F.I. which restricts return of one over the other.

c) Contracts settled by E.sh / cash.
↳ Refer #7 (b)

d) Contracts settled by both equity & cash.
↳ Compound F.I.
means an instrument which has both debt & equity component.

#10 Treatment of G/L in F.I.

a) Int/Div. on F.A / F.L. should be recognised in PIL.

b) Equity related Cost should be recognised in O.E. & not in PIL.
↳ Share issue exps.
↳ Underwritting Commission
↳ Dividend payout.

#11 Exclusions of IND AS 32.

1. Contract of business combination
2. Investment in subsidiary, associate and joint venture
3. Leases
4. Share based payments
5. Warranty and other provision
6. Insurance contracts

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IND AS-32 Summary

Financial Instruments

- Cash
- Contracts

Non-Derivative

Any contract which can be settled in cash.

- Receive cash or E.I. → F.A.
- Pay.
  - Cash → F.L. (exception P.F.I.)
  - Eq. shares → Equity. (a) no. of E.sh issued = fix (b) amt of liab. settled = fix (exception)
  - Cash/E.I. → Refer #7 (b)
  - Cash & E.I. → C.F.I.

Derivative.

F.A. ← Fav. ←
F.L. ← unfav. ←

- E.sh / Int swaps / currency
  - options / SW (Note 1 & 2)
  - share swap arrangements. (IND AS 103)
- Commodity
  - N.S. → F.I.
  - G.S. → Not F.I. (exception Alling mismatch)

↳ Bonus ↳ share split
↳ Time ↳ FccB (Note4)

In. Der. Cont. of Settling own eq. sh. then we will get again Non Der. Cont. payment part only.

IND AS 109

IND AS – 109
MEASUREMENT AND RECOGNITION UNDERSTANDING AND CRITERIA

Overview. (Flow)

- Ist — method of alcing (Measurement principles)
- IInd — Treatment of TIC
- IIIrd — Selection of method of alcing
- IVth — F.A.
- Vth — F.L.
- VIth — Derivative.
- VIIth — First time adaption

☞ Ist → Method of Alcing

Ist decide measurement principle of F.I.

Cost

PV as on I.R.	xxx
unwind Interest	xxx
P.V. as on yr. end	xxx
Int recd./pay	(xxx)
Impairement of FI	(xxx)
C.A. of F.I. as on yr. end.	xxx

FV

amt paid or recd. ← Cost on I.R. xxx

± Δ in F.V	xx
F V on yr end.	xxx

Cost → A → amt receivable.

Cost → L → amt payable.

But in Basics of FR we study.

A → Benefits derived as on today.

L → Benefits paid / given as on

but when we little kids we kept on shouting for asset record at cost.

today.

$ diff. ⇒ treatment.

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Secondly methods of accounting if measurement principle is.

- Cost
  - method of acting is
    - A.C.M.
- FV
  - method of acting is
    - FVTPL
    - FVOCI
      - FVOCI (R)
      - FVOCI (NR)

☞ II nd → Transaction Cost

a) meaning

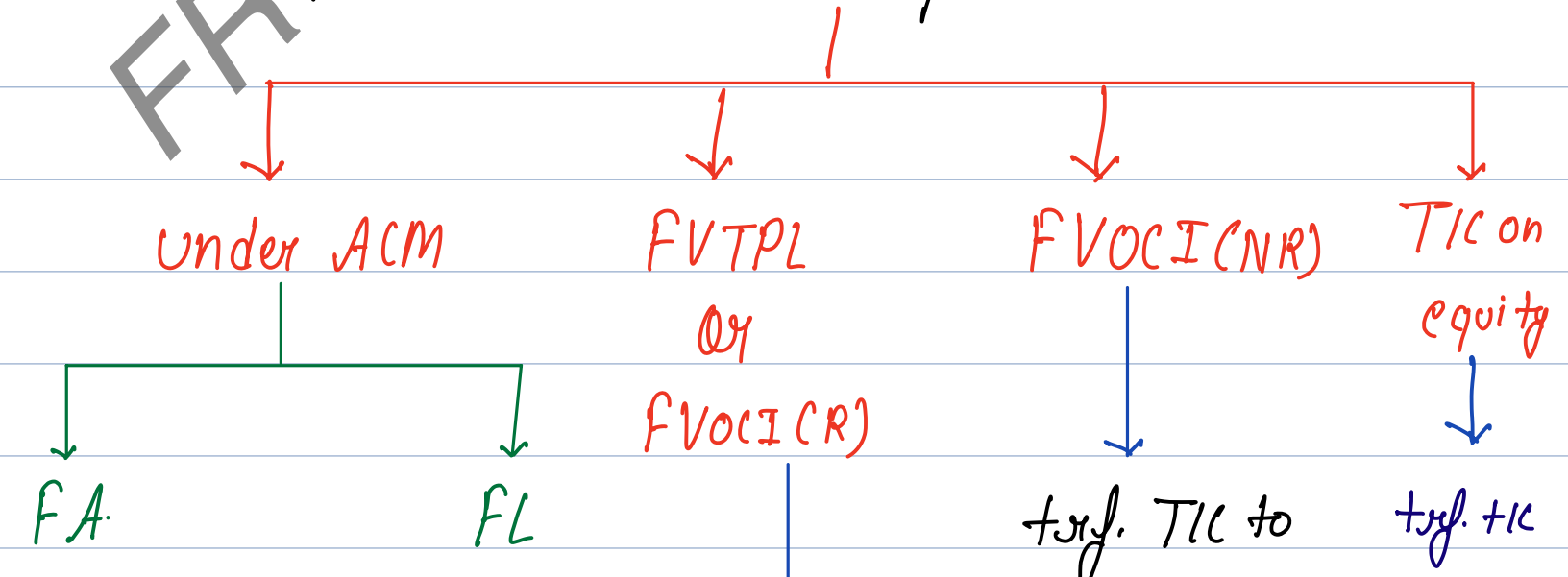
TIC is the incremental cost that are directly attributable to the acquision of F.A or issue of F.L.

b) eg :-

it includes	it does not include.
fees / commission	Discount on issue
legal fees	premium on redⁿ
Transfer fees	finance cost
Transfer tax	Admin cost
Origination fees	up front fees.
Commitment fees	loan servicing fees
	loan Syndicate fees.

c) Treatment of TIC.

TIC related to FA / FL.



↓ Add to Ist cash flow

↓ less from Ist cash flow.

↓ transfer T/C to P/L on I.R.

OCI on I.R.

to Other Equity on I.R.

Note :- if

a) Interest is paid annually.

b) There is no

↳ Dis / premium on issue

↳ Dis / premium on Redⁿ

c) There is no T/C.

Then

Coupon rate = E.I.R.

else we need to compute E.I.R.

HD Note.

III rd → Selection of method of accing

1) Method of accing is a matter of accing policy.

2) a) To Select an accing policy

first → understand important terms
Second → understand measurement principles.
third → understand which method of accing is available for F.I.
fourth → understand concept of FVC.
fifth → Decide a Business Model (B.M.) & Select an acing policy.

b) → Summary of methods of acing policy
c) → Decision

a) first → understand important terms.

i) Contractual Cash flows (CCFS)
payments solely related to principal or interest or both.

* CC FS TEST / SPPI TEST
if any F.I. gives rise on specified dates to
↳ Contractual cfs that are Solely payment of principal & Interest.

Then we say CCFC & SPPI Test is Satisfied

↓

Contractual cashflows characteristic.

Eg → HDLtd issued to Buddy Ltd.
10% deb. ₹ 1L for 3 years
rep. at par after 3 yrs.

HDLtd:-

yr.	Cashflow	
0	+100000	
1	(10000)	Contract cfs.
2	(10000)	
3	(10000) + (100000)	

ii) cfs from Trading

It refers to cfs from frequently buying & selling.

iii) Business Model (B.M.)

meaning :- Intention of an entity of how to generate cfs from group

of F.A.

By Contractual cfs.

By Trading.

Hold

Trade

Types :-

BM I

is to

Hold

BM II

is to

Hold & Trade

BM III

is to

Trade.

Second → understand measurement principles.
third → understand which method of acing is available for F.I.
fourth → understand concept of TIC.

↓

already covered in above Ist & IInd part.

Fifth → Decide a B.M. & Select a acing policy

First check SPPI test is satisfied ??

Yes then check B.M

BM. is to hold

if entity's intention to hold F.A. till date of maturity

i.e.

intention is to Collect contractual Cfs. only (SPPI Test is Passed)

then

BM is to hold

then

measurement principle should be Cost

And.

method of acing = ACM

BM is to hold or Trade.

if entity's intention is to hold the F.A. for some time till the desired M.P. is not achcived

i.e.

intention is to Collect contractual Cfs for sometime then sell it to take benefit of M.P.

then

BM is to hold/Trade.

then

No

BM is to trade

if entity's intention is to hold F.A. only for trade purpose only.

i.e.

intention is to Collect cashflow from sale of F.A. Only to take benefit of M.P.

then

BM is to trade

then

measurement principle should be Fair value.

And.

method of acing = FVTPL

eg →

→ loan given

→ Security Deposit

→ investment in Deb, if BM is to hold

Measurement principle Should be Cost ∧ F.V.

And method of acting = FVOCI(R)

eg → invt in Deb if BM is to hold/Trade.

or FVOCI (NR)

eg → invt in E.sh. if not opted for FVTPL → FVOCI (NR)

Derivative s. FA → only FVTPL

☞ Examples. (Summary)

loan given / Security deposit

B.M = Hold.

MoA = ACM

↓

Subject to SPPI TEST is passed else FVTPL

Invt in Deb

↓

SPPI TEST → No → Apply FVM

SPPI TEST → Yes → Is B.M. to hold.

Is B.M. to hold. → No → FVOCI(R) / FVTPL.

Is B.M. to hold. → Yes → Apply ACM.

Invt in E.sh.

↓

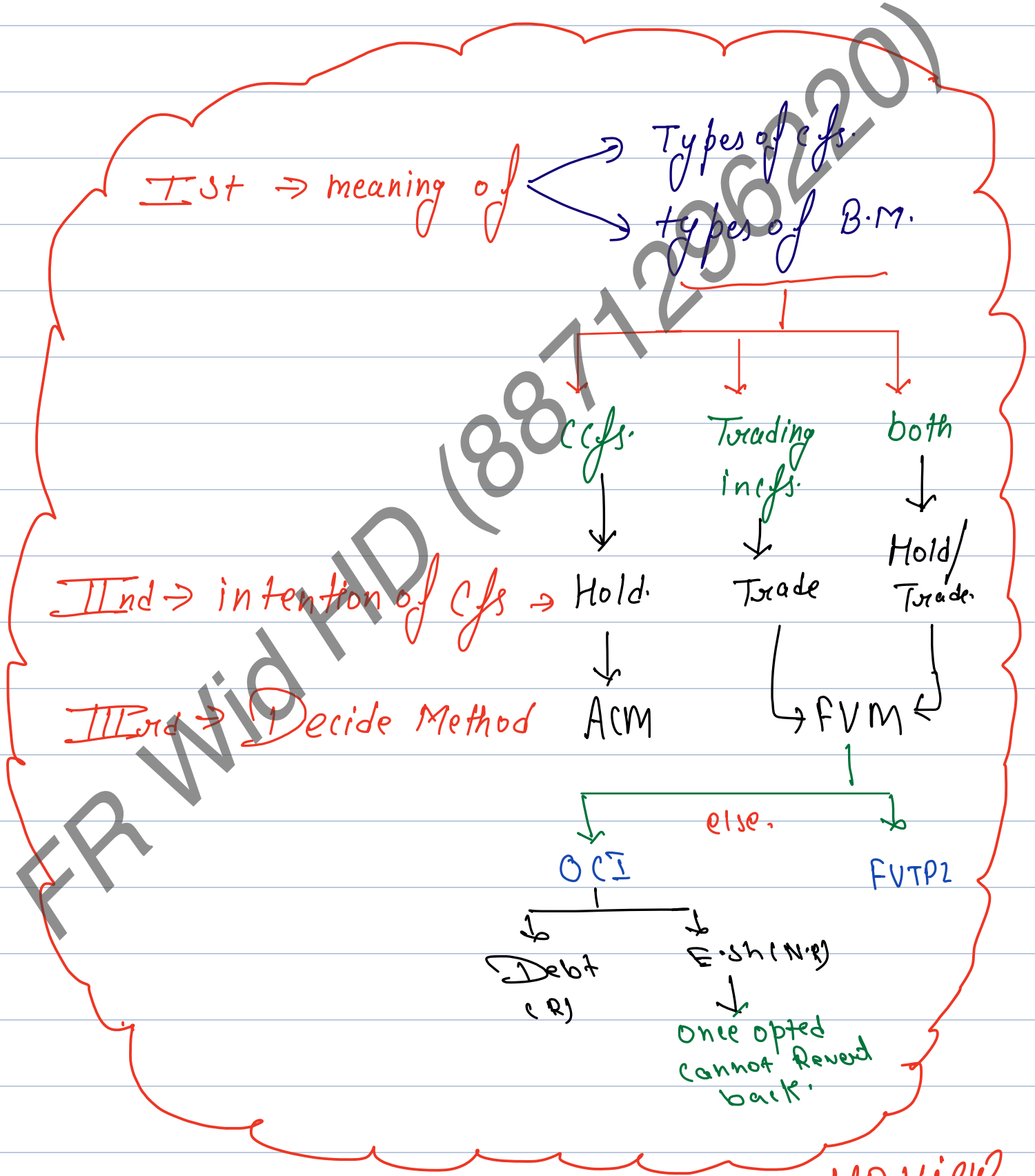
Apply FVOCI(NR) else FVTPL

↓

Note → if entity's Choice is FVOCI (NR) then it Cannot Revert back to FVTPL.

Note :- entity has choice in case of FVTPL to use

FVOCI (NR) but once entity's started using FVOCI (NR) it cannot revert back to FVTPL.



HD View

b) → Summary of methods of accing policy

Particulars	ACM	FVOCI(R)	FVOCI(NR)	FVTPL
Initial Recognition i.e. Day 1	FV + T.C.	FV + TC	FV + TC.	FV TC = P/L
Int / Div.	EIR in P/L	EIR in P/L	EIR / Div. in P/L.	P/L.
FV changes	N.A.	OCI(R)	OCI(NR)	P/L.
profit on Sale	P/L	P/L & bal. OCI(R) is trf to P/L	P/L & bal OCI(NR) is trf to R.E.	P/L

c) → Decision

i) For F.A.

	TIR, loan, Sec. Deposit, Invt. in deb. if held till	Inv in Deb & bonds if hold / Trade	Invt in E.Sh.

MoA	Maturity ACM	FVOCI(R)	FVOCI(NR) Or FVTPL if FVOCI(NR) not opted.

ii) F.L. → ACM

iii) For financial guarantee → FVTPL.

iv) For Derivatives → FVTPL

QUESTION # 25

X ltd issues 1000, 9% Debentures of ₹100 each at a discount of 5% redeemable after 5 years at par. Show accounting

Soln :- ∵ looking @ cfs we can conclude that Redⁿ at par but issued on Discount.

∴ Coupon rate ≠ E.I.R (I.R.R.)

From Issuers POV (XLtd)

Step 1 Cashflows.

yr 0	yr 1	yr 2	yr 3	yr 4	yr 5
+95000	−9000	−9000	−9000	−9000	−9000

↓ — 1,00,000

(1,00,000 × 5%)
× 9%

↓

Coupon rate

Step 2 Calculation of Effective Interest rate (EIR)

↳ means Rate of interest where

PV of cash inflows = PV of cash outflows

PV of CIFs = PV of COFs.

inf. M = I.R.R. but in IND AS = EIR

$$95,000 = 9,000 \times PVAf(5\text{ yrs}, r\%) + 1L \times Df(5\text{ yrs}, r\%)$$

using Trial & error method

Let $r = 10\%$

$$\Rightarrow 9,000 \times PVAf(5\text{ yrs}, 10\%) + 1L \times Df(5\text{ yrs}, 10\%)$$

$$\Rightarrow 9,000 \times 3.790\,8 + 1L \times 0.620\,9$$

$$\Rightarrow 34117 + 62090$$

$$\Rightarrow 96207$$

Let $r = 11\%$

$$= 9,000 \times PVAf(5\text{ yrs}, 11\%) + 1L \times Df(5\text{ yrs} \times 11\%)$$

$= 9000 \times 3.6959 + 10000 \times 0.5935$

$= 92613$

Applying interpolition.

$$L.R + \frac{H.V. - \text{Desired } V.}{H.V. - L.V.} \times \text{Diff \%}$$

$$\Rightarrow 10\% + \frac{96207 - 95000}{96207 - 92613} \times (11-10)\%$$

$$\Rightarrow 10\% + \frac{1207}{3594}$$

$$EIR \Rightarrow 10.3358\%$$

Step 3. Amortisation Table.

year	op. balance.	Int@EIR.	installment	Cl bal
1	95000	9819	(9000)	95819
2	95819	9904	(9000)	96723
3	96723	9997	(9000)	97720
4	97720	10100	(9000)	98820
5	98820	10180	(9000)	100000
		50000	45000	bal will be paid

Step 4 (A) Journal

yr 0 Bank Dr ₹5000
To F.L. ₹5000

	yr 1	yr 2	yr 3	yr 4	yr 5
F.C. (PV)	₹819	₹904	₹997	₹1100	₹1180
To FL.	₹819	₹904	₹997	₹1100	₹1180
FL Dr	₹xxx	₹xxx	₹xxx	₹xxx	₹xxx
To Bank	₹xxx	₹xxx	₹xxx	₹xxx	₹xxx
FL Dr	—	—	—	—	₹1xxx
To Bank	—	—	—	—	₹1xxx

(B) Ledger F.L.

yr 1	To Bank	₹xxx	yr 0	By Bank	₹5000
11	To Bal. c/d	₹5819	yr 1	By FC	₹819
	To Bank	₹xxx	yr 2	By Bal. b/d	₹5819
	To Bal. c/d	₹6723		By FC	₹904
	To bank	₹xxx	yr 3	By Bal. b/d	₹6723
	To Bal. c/d	₹7720		By F.C.	₹997
	To bank	₹xxx	yr 4	By Bal. b/d	₹7720

To Bal. C/d	98820		By F.C.		10100
To bank	9000	yr 5	By Bal. B/d		98820
To bank	10000		By FC		10180

c) F/S (Extracts)

i) SPL

	yr 1	yr 2	yr 3	yr 4	yr 5
P/L					
FC.	9819	9904	9997	10100	10180

ii) BS.

	yr 1	yr 2	yr 3	yr 4	yr 5
Non C.L.					
FL					
LTB.	95819	96723	97720	—	—
C.L.					
FL					
STB	—	—	—	98820	—

QUESTION # 26

X ltd issues 1000, 9% Debentures of ₹100 each at a discount of 5% redeemable after 5 years at 10% premium. Transaction cost of ₹2 per debenture on acquisition.
Show accounting

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Soln :- Transaction Cost = 1000 deb × ₹2 = ₹2000

Issuer POV (X Ltd) → F.L.

Step 1 Cashflows.

yr 0	+95000
yr 1	−9000
yr 2	−9000
yr 3	−9000
yr 4	−9000
yr 5	−9000 − 110000

Step 2 EIR.

95000 = 9000 × PVAF (5yrs, x%) + 110000 × DF (5th, x%)

x = 10%.

= 9000 × 3.7908 + 110000 × 0.6209

= 102416.2

holder / Investor POV (F.A.)

Step 1 Cashflows.

yr 0	−97000
yr 1	+9000
yr 2	+9000
yr 3	+9000
yr 4	+9000
yr 5	+9000 +110000

Step 2 EIR.

97000 = 9000 × PVAF (5yr, x%) + 110000 × DF (5th yr x%)

Let x = 10%

= 9000 × 3.7908 + 110000 × 0.6209

= 102416.2

x = 12%. = 9000 × 3.6048 + 110000 × 0.5679

$r = 12\%$ $= 95000 \times 3.6048 + 110000 \times 0.5679$

$= 94857$

Using interpolation

$= 10\% + \frac{102416 - 97000}{102416 - 94857} \times 2\%$

$= 11.96\%$

Step3 Amortisation Table

year	op. bal.	Int @11.96%	Rep.	Cl. bal.
1	95000	11362	9000	97362
2	97362	11644	9000	100006
3	100006	11961	9000	102967
4	102967	12315	9000	106282
5	106282	12719	9000	110000
		60000	45000	

↓

Dis + Int + Param. on Red.

Step4 Journal → H.W.

$= 94857$

Using interpolation

$= 10\% + \frac{102416 - 97000}{102416 - 94857} \times 2\%$

$= 11.43\%$

Step3 Amortisation table.

year	op. bal.	Int @11.43%	Rep.	Cl. bal.
1	97000	11087	9000	99087
2	99087	11326	9000	101413
3	101413	11592	9000	104005
4	104005	11886	9000	106893
5	106893	12217	9000	110000
		58000	45000	

Step4 Journal

yr0 F.A Dr 97000
To Bank 97000

	yr1	yr2	yr3	...
FA	11087			
To int.	"			

Bank Govt

To FA Govt

Yr-5 Bank 11000

To FA 11000

QUESTION # 27

Investment purchased for ₹100 on 1.3.2018. Its FV as on 31.3.2018 is ₹106. On 30.4.2018 these investments are sold for ₹110
Show Accounting.

Soln :- FV methods.

Date	Particulars	FVTPL	FVOCI(R)	FVOCI(NR)
1-3-18	Purchased	FA Dr 100 To Bank 100	FA Dr 100 To Bank 100	FA Dr 100 To Bank 100
31-3-18	F.V. changes.	FA 6 To PL 6	FA Dr 6 To OCI 6	FA 6 To OCI 6
30-4-18	Sold.	Bank Dr 110 To FA 106 To PL 4	Bank Dr 110 To FA 106 To PL 4	Bank Dr 110 To FA 106 To PL 4
		—	OCI Dr 6 To PL 6	trf. Bal of OCI to R.E.

IVth → Financial Assets.

Overview

- Recognition
  - @ ACM
    - introduction #1
    - E.I.R. #1
  - @ FV
    - #5 FVOCI
    - #6 FVTPL
    - Special issues. #7
      - TV = FV → F.A. acquired @ M.V. (F.V.) (MROI:) #2
      - TV ≠ FV → F.A. acq. other than FV/MROI #3
      - Special issues. #4
        - ↳ modifications
        - ↳ Restructuring
        - ↳ Floating R.O.I.
        - ↳ Perpetuity
        - ↳ Demand deposit
        - ↳ T.R.
        - ↳ impairement of F.A.
- impairement #8
  - i) meaning
  - ii) ways of impairement.
- Derecognition #9
  - i) meanings
  - ii) ways of Derecognition
- Δ in acing policy
  - ways of Reclassification #10

#1 Introduction

under this method, entity should initially recognise FA @ F.V. (after adjusting with T/C) and not @ T.V.

Fair Value (F.V.) = P.V. of future cfs at Effective int. Rate (E.I.R.)

i.e.

FV = PV of future cfs @ EIR

Transaction Value (T.V.) = Cash paid to acquire F.A. or initial cash outflow

E.I.R. ⇒ I.R.R. means that Rate of interest where

P.V. of cash inflow = PV of cash outflow (Cash paid to acquire F.A.)

IND AS calls this IRR as E.I.R.

#2 F.A. acquired @ F.V. / @ MROI / (FV = TV)

∵ FA acquired at FV

∴ EIR = MROI

→ Steps to solve.

Step 1 Determine cashflows for entire period.

Step 2 Calculate EIR.

either EIR = Coupon Rate else calculate EIR using TSE method.

Step 3 Amortisation Table.

Step 4 Acing

yr 0 1st day F.A. xxx → @ FV

To Bank xxx

yr 1 @ each yr. end. i) int. FA xxx

To int. (income) xxx

(O.I. in SOPL)

(also known as unwinding of int.)

ii) installment.

Bank xxx

To F.A. xxx

QUESTION # 28 **ILL- 2, ICAI STUDY MATERIAL**

ABC Bank gave loans to a customer – Target Ltd. that carry fixed interest rate @ 10% per annum for a 5 year term and 12% per annum for a 3 year term. Additionally, the bank charges processing fees @1% of the principal amount borrowed. Target Ltd borrowed loans as follows:

- INR 10 lacs for a term of 5 years
- INR 8 lacs for a term of 3 years.

Compute the fair value upon initial recognition of the loan in books of Target Ltd. and how will loan processing fee be accounted ?

Soln :-

1) This Q. relates to IND AS 32 & IND AS 109.

2) Bank loan is a F.I. as per Ind AS 32 since it creates F.A. for one party i.e. Bank and F.L. for another party i.e. Target Ltd as Target Ltd will settle this contract for cash.

3) loan to customer will satisfy
   a) SPPI TEST
   b) BM to hold
   ∴ loan should be acted under ACM.

4) For bank processing charges in income.

5) acing

Loan (FA)	Dr	10 L	
Loan (FA)	Dr	8 L	
To Bank			18 L

Cash	Dr	18000	
To PL fees			18000

QUESTION # 29

10% Debentures of ₹100,000 issued at 10% premium and redeemable at 20% premium. Legal and other charges relating to acquisition of such investments is ₹2,000.
Administrative Cost incurred is ₹1,500. Debenture is redeemable after 3 years. Assume SPPI test is met and BM is to hold.
Show Accounting.

Soln :- WN-1 legal & other cost are TC but admin. cost is not a TC.

Investors POV

Step 1 Cash flows.

yr 0	yr 1	yr 2	yr 3
−112000	+10000	+10000	+10000 + 120000

Step 2 EIR

$112000 = 10000 \times PVAF(3yrs, x\%) + 120000 \times (DF(3yrs, x\%))$

$x = 11\%$

$= 10000 \times 2.4437 + 120000 \times 0.7312$

$= 112181$

$x = 12\%$

$= 10000 \times 2.4018 + 120000 \times 0.7118$

$= 109434$

using interpolition

$= 11\% + \frac{112181 - 112000}{112181 - 109434} \times 1\%$

= 11.07%.

Step3 A.T.

year	op. bal.	Int @11.07%	inst.	Cl. bal.
1	112000	12398	10000	114398
2	114398	12664	10000	117062
3	117062	12938	10000	120000
		38000		

Step4 acing.

yr0 i) FA Dr 112000
To Bank 112000

ii) Admin cost (P/L) Dr 1500
To Bank 1500

	yr1	yr2	yr3
F.A. Dr.	12398	12664	12938
To int (P/L)	12398	12664	12938
Bank Dr	10000	10000	10000
To F.A.	10000	10000	10000
Bank Dr	—	—	120000
To F.A.			120000

#3 F.A is not acquired at MROI or F.A is not acquired at F.V.

MENTORING
HARSHIT DWIVEDI
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

Suppose.

F.A as at EIR / T.P. = 1000

F.A as at MROI / FA@FV = 800 → loan@18%

1000 → loan@15%

200.

I.R. of F.A. should be at FV

F.A. Dr 800
To Bank 800

Diff of ₹200

if F.V. is as per level I input.

P/L Dr 200
To cash 200

else.

₹200 should

else ₹2n

be treated as an asset if a) FEB b) Control

Should be amortised over life of F.A.

** Unamortised F.A. amount shall be disclosed in B/S as N.C.A.

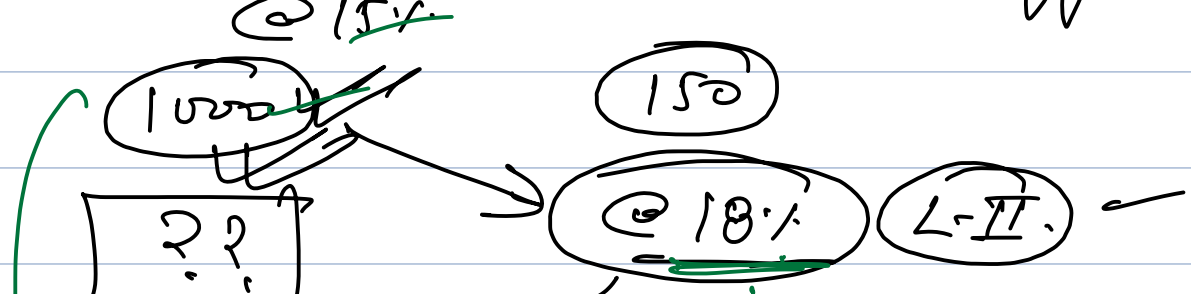
Note :- if f.v. of f.A ≠ F.A. at T.P. bcoz of R.O.I. % then F.V. computed on the bais of M.R.O.I. as per level II input.

Eg → HDFC Personal loan = 18% = MROI %

HDFC " " = 15% = Coupon rate.

Means. loan @ 18% = F.A @ FV

loan @ 15% = F.A. @ T.P. → Diff = Non



833 → F.V.

167% extra loan.

D.R.F. – over loan term.

Asset
167

PL
(I)

why 18% is L-II.
↓
bcoz HDFC is giving loan @ 18%.
it might possible other banks → SBI → 16%.
→ ICICI → 19%

MRO I

→ L I → everyone.
→ L II → only entity sp..
→ L III → only you

L-I → MIBOR ⇒ RBI

LIBOR.

for the country

Price.

L.I — Diff → P/L.

LII/III. — Diff → Asset / amortised.

Diff → Exp.

this MROI = EIR.

a) So :: Calculation of EIR.

Transaction with public at large

↓

∴ FV = T.P. (T.V.)

eg ⇒ invt. in Deb.

Invt in pref. sh.

Transaction which are person specific or entity specific.

↓

Here. FV ≠ T.P. (T.V.)

eg ⇒ loan to employee

* if a) int. is paid annually

b) There is no
→ Dis / prem on issue
→ Dis / prem on Redh.

c) There is no Transaction Cost.

loan to Subsidiary.
Sec. Deposit to lessor
Sec. Deposit to franchisor

In this case.

EIR = MROI ≠ Coup. Rate.

Then Coupon rate = EIR.

else we need to compute EIR using Trial/error method.

i.e. that RoI. where T.V. = PV of future c/fs.

Hence we can say there are 3 situations possible.

- FV = TP
  - EIR = Coupon rate.
  - EIR ≠ Coupon rate.
- FV ≠ T.P.
  - EIR = MKt RoI

b) FV ≠ TV & EIR = MROI.

Suppose.

F.A as at EIR / T.P. = 1000

F.A as at MROI / FA@FV = 800

200

I.R. of F.A. should be at F.V.

F.A. Dr 800

To Bank 800

Difference of ₹ 200 (Note-1)

If FV is as per Level-I input.

P/L Dr

To I/B.

Else.

₹ 200 should be treated as an Asset if there is

a) FEB &

b) Control

Else

₹ 200 Should be amortised to P/L over life of FA

↓

Unamortised amt shall be disclosed in BIS as Other Non C.A.

Note-1 :- if diff is entity specific/ person specific, it shall not be treated as per level I.

c) Steps to solve.

Step1 Determine actual cashflows.

It is calculated @ Coupon rate

Step2 Asume EIR as MROI

Step3 calculation of F.V.

P.V. of actual cfs @ EIR.

Step4 Difference

F.A. @ T.V. + T.C.	xxx
F.A. @ FV (as per step3)	xxx
	xxx

FV = Level I → P12

FV = Level II

employer / employee	lessor / lessee	Franchisor / Franchisee	P to S.	S to P
employer Cost	lease Rent	franchise Cost	P→ invt in S S→ Equity	P→ Div. income S→ Div. exps.

Step5 Amortisation table

here op. bal = FV
& Int is at EIR i.e. MROI.

Step6 Accounting.

yrs FA Dr xxx (@ F.V.)
Diff Dr xxx (as per step4)
To Bank. xxx

QUESTION # 30 **ILL-21, ICAI STUDY MATERIAL**

Containers Ltd provides container for use by customers for multiple purposes. Containers are returnable at the end of the service contract period (3 years) between Containers Ltd and its customers. In addition to the monthly charge, there is a security deposit that each customer makes with Containers Ltd for INR 10,000 per container and such deposit is refundable when the service contract terminates. Deposits do not carry any interest. Analyse the fair value upon initial recognition in books of customers leasing containers. Market rate of interest for 3 year loan is 7% per annum.
Show Accounting.

Soln:- Step1 Actual cashflows.

year	op.bal.	Int.	Install.	cl.bal.
1	10000	–	–	10000
2	10000	–	–	10000
3	10000	–	10000	–

Step2 EIR

MROI = 7%.

Step3. FV

PV of actual cfs. @ EIR.

= 10000 × D.f. (7%, 3 years)

= 10000 × 0.8163

= 8163

Step 4 Difference.

T.V.	10000
FV	8163
Diff.	1837

Step 5 Amortisation Table.

year	op. bal.	Int @ 7%	Inst.	cl. bal.
1	8163	571	—	8734
2	8734	611		9345
3	9345	655	10000	—

Step 6 Acing

Yr 0 Security Deposit (FA) Dr 8163

Container cost (lease rent) Dr 1837

To Bank 10000

	Yr 1	Yr 2	Yr 3
Sec. Dep. Dr	571	611	655
To Int (P/L)	571	611	655

P/L	Dr	(1837/3)	612	612	613.
	To Cont. Cost		612	612	613.

HD gift.

F A.

To bank	8163				
To Ind.	871	By C/d	8734		
		↳ Non C.A.			
b/d	8734			b/d	1225.
Int.	611	By C/d.	9345		
		↳ C.A.			
b/d	9345				
Int	655	By Bank	1000	b/d	613

Container Cost

Bank	1837	P/L	612 → O.E		
		C/d	1225		
		↳ other Non C.A.			
P/L	612				
C/d	613				
		↳ other Non C.A.			
P/L	613				

logically
in P/L Cr int. income will come.
& P/L Dr Cont. Cost will come.

but in A.S. No income nor exps.

& life was beautiful
10000 taken today in B/S.
& 10000 I have refunded.

IND AS → we come to know about
S.D. is not carrying int. & wr.
E I R. i.e. effective cost of
Container is more than we are
assuming & we are loosing opp. cost
(int) !! Oh. Yes.

HD Cloud.

QUESTION # 31

A company has a interest free security deposit of ₹1,00,000 to franchisor for a period of 3 years. Market Rate of Interest (MROI) is 12%.

Show accounting

Soln :- Step 1 actual cfs.

year	op. bal.	Int.	Install	cl. bal.
1	100000	–	—	100000
2	100000	–	–	100000
3	100000	–	100000	—

Step 2 EIR ⇒ MROI = 12%.

Step 3 FV

PV of actual cfs @ EIR

= 100000 × D.f (12%, 3 years)

= 100000 × 0.718

= 71180

Step 4 Difference.

Transaction value	100000
Fair Value (step 3)	71180
Franchise cost	28820

↓

Amortised under SLM in 3 years.

Step5 A.T.

Year	Op. bal.	Int@12%	Inst.	Cl. bal.
1	71180	8542	-	79722
2	79722	9567	-	89289
3	89289	10711	-	100000

Step6 Alcing.

Jrn. Sec. Dep. Dr 71180
Franch. Cost Dr 28820
To Bank 100000

		Yr1	Yr2	Yr3
S.D.	Dr	8542	9567	10711
To Int (P/L)		8542	9567	10711
P/L	Dr	9607	9607	9606
To F. Cost		9607	9607	9606
Bank	Dr	—	—	100000
To S.D.				100000

D) if Q. states.

In equated annual installments.

In equal annual installments along with int.

Installments are including interest.

Install = Principal / no. of install + interest

QUESTION # 32

A company has given loan of ₹10,00,000 to its employees at a concessional rate of ₹6% per annum. Loan is repayable in 4 equated annual instalments. MROI is 10% per annum. Show Accounting.

Soln :- Step 1 Actual cfs.

a) loan = P.V. of All installments.

1000000 = Install × PVAf (6% for 4 years)

1000000 = Install. × 3.4651

∴ Installments = 1000000 / 3.4651

= 288592

b) Loan @ 6%.

year	op. bal.	Int.	Install	Cl. bal.
1	1000000	60000	288592	771408

2	771408	46284	288592	529100
3	529100	31746	288592	272254
4	272254	16338	288592	—

Step2 EIR = 10%.

Step3 FV

= 288592 × PVAf (10%, 4 yrs)

= 288592 × 3.1699

= 914808

Step4 Diff.

T.V. 1000000

FV 914808

EB(OI) 85192

Step5 Amortisation table.

Year	op. bal.	Int. @10%	Int.	cl. bal.
1	914808	91480	288592	717688
2	717688	71769	288592	500865
3	500865	50087	288592	262360
4	262310	26232	288592	—

Step6 Alloc.

yr0 loan to empl. (F.A.) Dr 914808
RBE. 85192
To Bank 1000000

	yr1	yr2	yr3	yr4
loan to Emp. (FA)	91480	71769	50087	26232
To Int. (PL)	91480	71769	50087	26232
PL Dr	21298	21298	21298	21298
To EBE	21298	21298	21298	21298
Bank Dr	288592	288592	288592	288592
To loan to er. (FA)	288592	288592	288592	288592

QUESTION # 33 {Adopted MTP – SERIES I – MAY – 2018 & 19}

As part of staff welfare measures, Y Co Ltd. has contracted to lend to its employees sums of money at 5% per annum rate of interest. The amounts lent are to be repaid along with the interest in five equal instalments. The market rate of interest is 10% per annum for comparable loans. Y lent ₹ 16,00,000 to its employees on 1st Jan 20X1.

Following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for the year ended 31 December 20X1, for the transaction and also compute the value of loan initially to be recognised and amortised cost for all subsequent years.

For the purpose of calculation, following discount factors at interest rate of 10% per annum may be adopted - At the end of year –

YEAR	1	2	3	4	5
PV FACTOR	.909	.827	.751	.683	.620

Show Accounting

Sol^{n} :- Step 1 Actual cfs.

$\frac{16L}{5\,yrs} = 32000 + int.$

year	op. bal.	Int. @ 5%	Install	cl. bal.
1	1600000	80000	400000	1280000

2	128000	64000	384000	96000
3	96000	48000	368000	64000
4	64000	32000	352000	32000
5	32000	16000	336000	—

Step2 EIR = MROI = 10%

Step3 FV

year	install.	PV@10%	PV
1	400000	0.909	
2	384000	0.827	
3	368000	0.751	
4	352000	0.683	
5	336000	0.620	
			1406272

Step4 Difference.

T.P.	1600000
FV	1406272
EBE	193728

Step 5 Amortisation Table.

year	op.bal.	Int@10%	Installm.	cl.bal.
1	1406272	140627	400000	1146899
2	1146899	114690	384000	877589

3	877589	87759	368000	597348
4	597348	59735	352000	308083
5	308083	30917	336000	

Step 6 Alcing.

Yr 0
F.A. Dr 1406272
RBE Dr 193728
To bank. 1600000

Yr 1
Bank Dr 400000
To F.A. 400000

Yr 1
F.A. Dr 140617
To Int. (PIL) 140617.

Yr 1
PIL Dr 38746 (193728 ÷ 5)
To RBE 38746

QUESTION # 34

XYZ ltd grants loans to its employees at 4% amounting to ₹ 10,00,000 at the beginning of 2015-16. The principal amount is repaid over a period of 5 years whereas the accumulated interest computed on reducing balance at simple interest is collected in 2 equal annual instalments after collection of the principal amount. Assume the benchmark interest rate is 8%.
Show the accounting entries on 1-4-2015 and 31-3-2016.

Soln:- Step 1 Actual cashf lows.

year.	op. bal.	Int. @ 4%	Ind.	Cl. bal.
1	1000000	40000	200000	840000 (P=8L. I=40K)
2	840000	32000	200000	672000

		(8L x 4%)			(P = 600000, I = 72000)
3	672000	24000		200000	496000
		(6L x 4%)			(P = 4L, I = 96000)
4	496000	16000		200000	312000
		(4L x 4%)			(P = 2L, I = 112K)
5	312000	8000		200000	120000
		(2L x 4%)			(P = 0, I = 120K)
6	120000			60000	60000
7	60000	—		60000	—

Step 2 EIR. = MR of I = 8%

Step 3 FV

= 2L x PVAF (8%, 5 yrs) + 60000 x DF (8%, 6th yr) + 60000 x DF (8%, 7th yr)

= 200000 x 3.9927 + 60000 x 0.6302 + 60000 x 0.5835

= 871356

Step 4. Diff.

T.P.	1000000
FV	871356
EB Cost.	128644

Steps A.T.

year	op. bal.	Int. @ 8%	install.	cl. bal.
1	871356	69708	200000	741064

Step6 Alcing.

1-4-15 loan (FA) Dr 871356
EBE Dr 128644
To Bank 1000000

31-3-16 loan Dr 69708
To Int. (PL) 69708

31-3-16 Bank Dr 200000
To FA. 200000

31-3-16 PL Dr 18378
To EBE 18378
(128644 ÷ 7)

Q.15 is H.W. from Volume - 3 May 23.

QUESTION # 35 8 Dec 21 **ILL-25, ICAI STUDY MATERIAL {ADOPTED - NOV – 2019}**

A Ltd has made a security deposit whose details are described below. Make necessary journal entries for accounting of the deposit. Assume market interest rate for a deposit for similar period to be 12% per annum.

PARTICULARS	DETAILS
Date of Security Deposit (Starting Date)	1-Apr-20X1
Date of Security Deposit (Finishing Date)	31-Mar-20X6
Description	Lease

Total Lease Period (Years)	5
Discount rate	12.00%
Security deposit	10,00,000

Sol :- Step1 Actual c/fs.

yr0	yr1	yr2	yr3	yr4	yr5
-10L	-	-	-	-	+10L

Step2 EIR = 12%

Step3 Cal^{n} of FV

= 10L × DF (12%, 5th year)

= 10L × 0.5674

= 567400

Step4 Diff.

T.P.	1000000
FV	567400
Lease Rent.	432600

Step5 A.T.

Year	op. bal.	Int@12%	Install.	cl. bal.
31-3-02	567400	68088	—	635488
31-3-03	635488	76259	—	711747
31-3-04	711747	85410	—	797157
31-3-05	797157	95659	—	892816
31-3-06	892816	107184	10L.	—

Steps acing

1-4-01 S.D. (F.A.) Dr 567400

Lease Rent Dr 432600

To Bank 1012.

H.W. Q.7 of Volume 3. Dec 21

QUESTION # 36 **ICAI STUDY MATERIAL** **{ MAY – 2018}**

A limited issued redeemable preference shares to a holding company –Z limited. The terms of the instrument have been summarised below. Account for this in the books of Z limited.

Nature	Non-cumulative preference share
Repayment	Redeemable after 5 years
Date of allotment	1.04.2001
Date of repayment	31.3.2006
Value of preference share issued	10,00,000
Dividend rate	0.0001% (ignore)
Market rate of interest	12% per annum

Soln :- Step 1 to Step 3 & Step 5 are exactly same as in Q.35

Step 4 Actual cfs.

yr 0	yr 1	yr 2	yr 3	yr 4	yr 5
-1012	-	-	-	-	+1012

Step 2 EIR = 12%

Step 3 Cal^{n} of FV

= 1012 x DF (12%, 5th year)

= 1012 x 0.5674

= 567400

Step 4 Difference.

Pref. sh. @ actual R.	10 D0000
Pref. sh. @ Fairvalue	567400
Invt. in equity	432600

Step 5 A.T.

year	op. bal.	Int@12%	Instl.	cl. bal.
31-3-02	567400	68088	—	635488
31-3-03	635488	76259	—	711747
31-3-04	711747	85410	—	797157
31-3-05	797157	95659	—	892816
31-3-06	892816	107184	10L.	—

Step 6 Acctg.

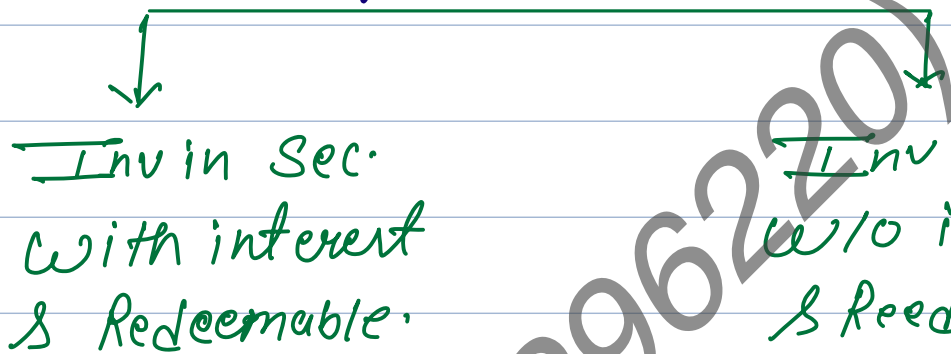
1-4-01	Inv. in P.S. (F.A.) Dr	567400	
	Inv. in Equity (F.A) Dr	432600	
	To Bank.		1000000

Note-2 a) Any money given by P to S which is Non refundable is known as Inv in equity

b) There are no equity shares

exchanged

c) As per IND AS 109 it is just bifurcation of



d) Equity basically means Reserves of S

e) it will not impact CBS
∵ it is a Contra entry.

QUESTION # 37 {NOV - 18 }

NAV Limited granted a loan of ₹ 120 lakhs to OLD Limited for 5 years @10% p.a. which is Treasury bond yield of equivalent maturity. But the incremental borrowing rate of OLD Limited is 12%. In this case, the loan is granted to OLD Limited at below market rate of interest. Ind AS 109 requires that a financial asset or financial liability is to be measured at fair value at the initial recognition. Should the transaction price be treated as fair value? If not, find out the fair value. What is the accounting treatment of the difference between the transaction price and the fair value on initial recognition in the book of NAV Ltd? (Assume 12% is based on level 1 input)

Present value factors at 12%:

YEAR	1	2	3	4	5
PV FACTOR	.892	.797	.712	.636	.567

Show Accounting

Soln :- Step 1 Actual cfs.

yr 0	yr 1	yr 2	yr 3	yr 4	yr 5
−120L	+12L	+12L	+12L	+12L	+12L

(120L x 10%)

+120L.

Step2 EIR = MROI = 12%.

Step3 FV

= 12L x PVAf (12%, 5yrs) + 120L x Df (12%, 5th yr)

= 12L x 3.604 + 120L x 0.567

= 4324800 + 6804000

= 1112880

Step4 Difference b/w T.P & FV

T.P.		12000000
FV		1112880
P/L		887120

Step5 A.T. (N.A.)

Step6 Acing

Yr0	loan (F.A.)	Dr	1112880	
	P/L	Dr	887120	
	To Bank			120 L.

#4 Special Issues (F.A.)

Special Issue 1 :-

Modification :-

i) Change in Cashflows by receiver of loan

ii) So basically receiver of loan is either

Or

defaulter and he decides to change cashflows of loan by paying it later.

he has extra money to pay s before time. decides to pay it

iii) Such a change impacts p.v. of F.A.

iv) Hence on Date of modification (D.O.M)

- C.A. of F.A. as on D.O.M. (from A.T.) xxx
- Revised C.A. of F.A. as on Dom. (xxx)

= P.V. of Revised Remaining Cfs. using Original E.I.R. / New EIR (if given)

xxx

Q.R.S. → Diff is trf. to PL A/C

in case of special Relationship. → Diff. is trf. to Special a/c

in case of prepayment of loan

Bank Dr xx (amt prep.)
P/L/S.P. Dr xx (Bfs)
To F.A. xx
(Amt of FAL)

V) Steps to Solve. → actual

Step 1 → Calculate Desired cfs at coupon rate.
Step 2 → EIR.
Step 3 → FV
PV of desired cfs @ EIR.
Step 4 → Difference.
Step 5 → A.A upto D.O.M.
Step 6 → Revised Cash flows.
Step 7 → PV of Revised cfs @ Original EIR/ New EIR (if given)
Step 8 → amt of Δ in F.A. due to modifi. = profit/loss on modification.
Step 9 → Revised A.T. for Remaining cfs.
Step 10 → AICing.

QUESTION # 38

15% cumulative preference shares acquired of ₹10,000 redeemable after 5 years.
1st and 2nd years' dividend is received and 3rd year's dividend is in arrear. Investor expects dividend of 3rd, 4th and 5th year to be realised on redemption.

Soln :- Step 1 :- actual cashflows.

year	op. bal.	Int @ 15%	Inst.	cl. bal.
1	10000	1500	1500	10000
2	10000	1500	1500	10000
3	10000	1500	1500	10000
4	10000	1500	1500	10000
5	10000	1500	11500	—

Step 2 E I R.
= 15%.

Since a) we assume coupon rate = MROI.
b) there is no Disc., Prem./T.C.

Step 3. FV = TV Since Coup. Rate = MROI.
Step 4. Diff. = N.A.
Step 5 A.T. upto DOM.

year	op. bal.	Int @ 15%	Inst.	cl. bal
1	10000	1500	1500	10000
2	10000	1500	1500	10000
3	10000			