Ind AS Concept Summary
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Ind AS 32 "Financial Instruments: Presentation"

Scope: - it shall be applied by all entities to all types of financial instruments ***except:***

Investment in Entity in accordance with Ind AS 27,28,110 = Cost Model (Not applicable) **But If Fair value then Its applicable**	*employers' rights and obligations under employee benefit plans, to which Ind AS 19, Employee Benefits, applies.*	*insurance contracts as defined in Ind AS 104, Insurance Contracts,* ***Share based payments as per Ind AS 102***
Note:- Any Derivatives which is associated with above then this standard will applicable.		

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is:

a) *Cash*
b) *an equity instrument of another entity;*
c) *a contractual right to receive cash or another financial asset from another entity; or*
d) *a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or*
e) *a contract that will or may be settled in the entity's own equity instruments and is:*
   I. ***a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or***
   II. ***a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments***

A financial Liability is any liability that is:

a) *a contractual obligation to deliver cash or another financial asset to another entity; or*
b) *a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or*
c) *a contract that will or may be settled in the entity's own equity instruments and is:*
   I. ***a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or***
   II. ***a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are

The instrument includes no contractual obligation:

To deliver cash or another financial asset to another entity; ***or*** *to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.*

Means Fixed to Fixed Test is Mandatory

If ***the instrument will or may be settled in the issuer's own equity instruments, it is:***

i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

ii) ***a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.***

Puttable instruments

A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put.

Normally it is treated as Financial Liability. But if instruments has the below given features then it is classified as EQUITY Instrument.

- It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation.
- The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:
  i. has no priority over other claims to the assets of the entity on liquidation, **or**
  ii. does not need to be converted into another instrument **and**,
  iii. all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
- the instrument **does not include** any contractual obligation to deliver cash or another financial asset to another entity, **or** to exchange financial assets **or** financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss.

Compound financial instruments

If the Financial Instruments contain both equity and liability components. Then such instruments is treated as Compound financial instruments. Then Such components shall be classified separately as financial liabilities or equity instruments. (Also Known as Split Based Accounting)

How to separate Compound instruments into liability and Equity?

- Ind AS 109 deals with the measurement of financial assets and financial liabilities
- Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components,
- Liability component Means the Present value of the probable Cash outflow from the instruments at the IRR.
- The Total Value of the component is the Cash in flow Received.
- Then For Equity Component (Total Principal value Minus the Value of Liability component)

Important:-

- ***if the instruments is Mandatory convertible to Equity instruments then Do not consider the Redemption Amount which calculating Liability component***
- ***If the instruments is optionally convertible or just convertible then the amount of cash outflow shall be consider while calculating financial Liability.***
- ***Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds (means for further calculation after adjusting transaction cost Revised IRR shall be calculated)***

Treasury shares

If an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

Interest, dividends, losses and gains

Relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity. Transaction costs of an equity transaction shall be accounted for as a deduction from equity.