# SUPPLEMENTARY

## IND AS 109

## PAPER - 17

## Ind AS 109: Financial Instruments: Recognition, Measurement and De-recognition

### 1. Objective:

The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

### 2. Scope:

This Standard shall be applied by all entities to all types of financial instruments except those specified in the standard:

- Interests in subsidiaries, associates and joint ventures
- Leasing commitments
- Employee benefits
- Financial instruments resulting in business combination
- Insurance contracts

### 3. Recognition:

**a.** Initial Recognition: An entity shall recognise a financial asset or a financial liability in its balance sheet when, and only when, the entity becomes party to the contractual provisions of the instrument.

**b. Examples:**

(a) Unconditional receivables and payables are recognised as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.
(b) Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. For example, an entity that receives a firm order does not generally recognise an asset (and the entity that places the order does not recognise a liability) at the time of the commitment but, instead, delays recognition until the ordered goods or services have been shipped, delivered or rendered.
(c) A forward contract that is within the scope of this Standard is recognised as an asset or a liability on the commitment date, instead of on the date on which settlement takes place.
(d) Option contracts that are within the scope of this Standard are recognised as assets or liabilities when the holder or writer becomes a party to the contract.
(e) Planned future transactions, no matter how likely, are not assets and liabilities because the entity has not become a party to a contract.

### 4. Classification:

An entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

(a) the entity's business model for managing the financial assets and
(b) the contractual cash flow characteristics of the financial asset.

**5.** A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**6.** A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**7.** About principal and interest stated in para 5 and 6:
(a) principal is the fair value of the financial asset at initial recognition.
(b) interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

**8.** A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

**9.** An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:
(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
(c) financial guarantee contracts. After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of:
   (i) the amount of the loss allowance and
   (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognized in accordance with the principles of Ind AS115.
(d) commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall subsequently measure it at the higher of:
   (i) the amount of the loss allowance and
   (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS115.
(e) contingent consideration recognised by an acquirer in a business combination to which Ind AS103 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

**10. Reclassification:**

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets.

An entity shall not reclassify any financial liability.

**11. Initial measurement:**

Except for trade receivables, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**12. Subsequent measurement of financial assets:**

After initial recognition, an entity shall measure a financial asset at:
(a) amortised cost;
(b) fair value through other comprehensive income; or
(c) fair value through profit or loss.

**13. An entity shall derecognise a financial asset when, and only when:**

(a) the contractual rights to the cash flows from the financial asset expire, or
(b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition.

**14.** An entity shall remove a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires.

[For Ind AS 109 and 107 Hedge accounts, Impairment and Accounting for Embedded Derivatives were not discussed]