SUPPLEMENTARY

IND AS 32

PAPER - 17

Ind AS 32: Financial Instruments: Presentation

1. Objective:

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

2. Scope:

This Standard shall be applied by all entities to all types of financial instruments except:

- Share based payments
- Insurance contracts
- employers' rights and obligations under employee benefit plans, to which Ind AS 19 Employee Benefits applies.
- Interests in subsidiaries, associates and joint ventures

3. 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.

4. Definition: A financial asset is any asset that is:

(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
   i. to receive cash or another financial asset from another entity; or
   ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) 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.

4 A. Examples of financial assets:

a. Cash: Cash is by definition a financial asset. It includes cash held in foreign currency.
b. An equity instrument of another entity: Suppose X purchases 200 shares in Y, the investment will meet the definition of financial asset.
c. A contractual right to receive cash or another financial asset from another entity: A simple example of such an asset is trade receivable as it represents contractual right to receive cash.
d. A contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity: Example of such an asset is

a contract held by an entity to buy 100 kg oranges for ₹100/kg while the current selling price of oranges is ₹120/kg.

5. A financial liability is any liability that is:

(a) contractual obligation :
   (i) to deliver cash or another financial asset to another entity; or
   (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) 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.

5A. Example of financial liability:

B Ltd. takes a ₹10 lakhs loan from C Ltd. B Ltd. will repay the loan in 1 year in shares of B Ltd. The number of shares is variable as it will be determined by dividing ₹10 lakhs by the share price at the end of 1 year.

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

7. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

8. A puttable instrument is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

9. This standard provides rules for classification of a financial instrument into:
- Financial asset
- Financial liability
- Equity instrument

10. Examples of classification:

a. Borrowing from banks: It is classified as financial liability as it is an obligation to deliver cash.
b. Bank deposits: It is classified as financial asset as it gives right to receive cash.
c. Investment in shares of a company: It is classified as financial asset as it is equity instrument of another entity.
d. Forward contract in the money: It is classified as financial asset as it is a favorable contract.
e. Redeemable preference share: It is classified as financial liability as it is an obligation to deliver cash on redemption.