- If a ppe is identified to be disposed off, does it make it financial assets:
- Answer: There is a separate standard dealing with Non-current Assets held for sale IND AS 105. The PPE identified to be disposed off can never be treated as Financial Asset. Once the PPE is disposed off and the entity is able to treat it as sale as per the Revenue standard IND AS 115, the receivable created by booking the sale entry will then become financial asset.

- money back guarantees are financial liability?
  Answer:
- The term Money back Guarantee is used as a marketing strategy by retailers to promote a new product in the market. This type of scheme creates a sense of security in the minds of customers and in turn it leads to increase in revenue and profitability for the retailers.It relates to the sale of the product wherein the company promises or guarantees the customer to return the goods within specific period if not satisfied with the product and the company will refund the amount without any conditions. However, if instead of refund by cash the scheme allows the customer to exchange for some other product or it promises repairs or servicing the same then it is not covered under IND AS 109 but under IND AS 37.

  The money back will be financial liability only if the condition is to refund the money in cash and not exchange.

- can you discuss the logic of including fixed and variable criterion in deciding equity or liability?
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- Answer:As per the definition of equity, it is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.Therefore, at the time of issuance of the instrument the entity will apply the definition of equity and financial liability to determine wherever the contract will be setteled in the entity's own equity then whether the holder from day one is a party to the residual interest in the entity and shares the risk and reward which comes with the ownership of equity or whether the holder is indifferent to the risk and reward due to price fluctuation . If the entity is using the own equity to settle the liability as a mode of settlement such that the price per share as on the date of settlement will be taken for deciding the number of shares to be allotted in exchange of the amount of the liability, that is the variable number of shares are issued so that the value matches with the total value of the instrument the holder holds, then in such case holder can easily sale those shares immediately in the open market and get the exact amount of the instrument. In such case he is not party to the risk and reward due to ownership of shares.In such scenario even though the entity issues own equity to settle the liability still the classification will be financial liability and not equity.
- However, in the above example if the holder was to be issued fixed number of own equity for a fixed price per share and such terms are fixed at the time of issue of the instrument then the holder becomes party to the risk and reward which comes with the ownership of the equity shares and will have to bear the ups and downs in the share prices during the period he holds the instrument and also when the instrument gets converted into own equity as the price per share and the number of share is fixed on day one when the

instrument was issued. That is why the logic of Fixed for Fixed and variable criteria is very relevant in classification between equity and financial liability.

- can you discuss the logic of testing fixed for fixed criterion.
- Answer:Same as explained in my above reply.
- How will you treat a perpetual debt instrument with a call option after 5 years with the bond holders and the payment of interest is at the discretion of the issuer?
- Answer:
- Generally when the company issues perpetual bond then the intention is that the company never wants to repay the principal and in most of the cases the interest also.
- However, in the case you have asked, such instrument will be treated as compound financial instrument.
- Could you please elaborate the classification basis of this example. Not clear how the interest rate being at market rate impacts the classification.
- Answer:
- I suppose you are referring to case study 3 in my presentation.
- As the instrument is non redeemable , it will never be repaid and is akin to equity instrument. However, the other element of contract being interest obligation of issuer to pay for life time in perpetuity. Now if the interest is at market rate then the whole instrument will be classified as financial liability . However, if the interest is below market rate say for example the market rate is 8% but the entity has issued it @ 2% then it will have an element of equity and therefore such instrument will be classified as compound financial instrument and the entity by using split accounting will find out the FV of the liability component and the balance will be the equity component which will be taken to socie on day one by treating it as contribution by the shareholder.