- A Public limited company has issued 2% Compulsory Convertible Preference Shares (CCPS) (Face Value Rs. 10)at a premium of Rs. 100. The CCPS are to be compulsorily converted in Equity shares at book value after a period of 10 years. Whether CCPS alongwith premium will be considered as liability till the date it is converted into equity shares. SM- No, since there fixed conversion ratio, CCPS will be treated as equity. Assuming dividend is discretionary &non-cumulative.
- What will be accounting treatment for zero coupon fully convertible debentures both in the books of issuer and holder of the instruments? SM- Issuer- If conversion ratio fixed, equity. If conversion ratio not fixed, financial liability. Holder - If conversion ratio fixed, FVOCI/ FVPL option. If conversion ratio not fixed, FVPL
- If holding has invested in optionally convertible instruments, then its covered by 32/109? SM- Yes
- what about borrowings? long term and short term borrowings? SM- Yes covered
- In case we have contract with supplier for purchase of a equipment and we have paid advance. Will it be considered as financial instrument? SM- not financial instrument as settled in good/service
- how about Security Deposit given for Electricity or for telephone exchange... likewise deposit? whether it is Financial or non financial? SM- financial instrument
- is there is any difference between financial instruments and financial assets SM- Yes pl see the presentation slides
- please elaborate favourable and unfavorable condition SM- discussed during the session
- if a company following AS has issued FCD ,terms of conversion is fixed on day 1 in terms of number of equity share for each CCD - can this be treated as equity SM- yes
- Promoter companies have liability to settle pvt equity under shareholder agreements. Is it liability in books of promoter company? SM- yes
- Interest free loans given by the holding company to a subsidiary company, repayable on demand. No specific repayment terms. In this case what would be the classification specifically in the books of the subsidiary? SM- Financial liability – no discounted required since repayable on demand
- amount of issuer's reserve. can u explain this point again. SM- Financial liability / equity classification not affected by the amt of reserve available in issuer’s books
- whether share warrants which have fixed conversion ratio but also have an obligation for returning the cash received back upon non fulfillment of certain conditions eg obtaining licenses etc, will be classified as equity? SM- no financial liability since refundable on contingent event unless non-genuine
- Ind AS 32 mandates that if fixed for fixed criteria is met, the instrument would be classified as equity instrument otherwise it would be classified as financial liability. In case, the entity has issued compulsorily convertible preference shares, which will never be repaid but would get converted into equity at the end of the tenure. However, the number of shares that would be issued at the time of conversion are not fixed. In such case, Ind AS 32 states that such instrument would be classified as financial liability. What is the rationale for such condition to treat compulsorily convertible preference shares as financial liability if fixed for fixed criteria is not met? The entity is not under obligation to repay such compulsorily convertible instrument. At the end of tenure, it would be converted into equity only. Hence, why it should be treated as financial liability? Would not it be more appropriate if the same is not treated as financial liability but is treated as component of other equity until conversion. Assume that

dividend/interest is discretionary. SM- discuss in the session. Ind AS 32 considers issuer using own equity as currency to settle obligation

- can we issue Non redeemable or irredeemable instrument ? SM- perpetual instruments do exist in practice – refer Tata Steel/ Tata Power financials
- On Compound instruments, how equity portion is treated while computing earning per share? SM- considered for diluted EPs
- will optionally convertible debentures also be considered as contingent settlement provisions and hence treated as Financial liability ? SM- no. it depends on the conversion ratio
- we have lost last 1 minute of speaker.. can you asked speaker to explain business model SM- responded to in the session. Pl refer the slides
- sir will you put some more efforts to understand FVTOCI - Treatments if possible SM- responded to in the session.
- how we value fair the debt loan which is Libor linked? it is to be FVTPL. SM- not necessary, it can be at amortised cost. EIR will be variable asper LIBOR changes
- How will you classify and account for a 12% Compulsory redeemable cumulative preference shares which has been issued by a issuer in terms of a purchase consideration of a business combination at a premium, the rate of dividend if we consider at a whole amount i.e, Face value plus premium is only 1%, will you account it as a Compound financial instrument? SM- financial liability since redemption obligation +mandatory dividend (if I understand you correctly). If dividend not mandatory, compound instrument. Part of the purchase consideration for busi comb per indas103
- What are financial liabilities held for trading? Give some examples- SM: eg. derivatives, liability of share brokers
- Hi, can you please through some light on IND applicability in securitisation transactions SM: dereognition criteria under indas109 will be tested. Generally derecognition criteria not met
- can please give examples for FVTPL and FVTOCI SM: there are some examples in indas109

- If a company issues redeemable shares which has fixed dividend and it is payable only when networth become positive whats the classification . SHould interest recognised if company is makin only losses SM: since it can be said that net worth can be said to be in control of issuer, dividend may not be recognised unless the threshold networth breached
- recently there were some amendments in 109 by MCA due to Covid -19 impact. Can we a summarized version of those changes SM: IBOR related exemptions for hedge accounting

The amendments apply to all hedging relationships that are directly affected by IBOR reform. A hedging relationship is directly affected only if the IBOR reform gives rise to uncertainties about:

- a contractually or non-contractually specified interest rate benchmark that has been designated as a hedged risk; and/or
- the timing or the amount of IBOR-based cash flows of the hedged item or the hedged instrument.

The reliefs apply to hedges of interest rate risk, including hedges of issued or held debt instruments and of forecast debt issuances. The amendments apply to both contractually and non-contractually specified interest rate benchmarks, and so they include hedges of both floating- and fixed-rate debt instruments.

However, the scope is broader than only hedges of interest rate risk. It includes some foreign currency hedges– in particular, hedges with cross-currency interest rate swaps where one or both of the legs of the swap references an IBOR. However, a hedge of foreign currency risk with an instrument such as a currency forward, where neither the cash flows of the hedging instrument nor the hedged risk reference an IBOR, is outside the scope of the reliefs.

The reliefs also include hedging relationships in which interest rate risk is not the only hedged risk. For example, hedging relationships where an entity designates a cross-currency interest rate swap to hedge exposure to foreign currency and IBOR interest rate risk are in the scope of the reliefs.

- If a broker has a short position in a Futures contract on a stock exchange say NSE, how will you present the same in the financial statements, what will happen to a stock borrowed in stock lending and borrowing scheme which is short sold in market? SM: financial liability. Offsetting will depend on the MSA and ISDA terms
- How to treat a Preference dividend from issuers perspective. ie., treating the preference shares at Amortised cost dividend shall be recognised in P&L? Suppose Preference shares are cumulative. SM: in P&L as finance cost
- Is the redeemable preference shares with fixed preference dividend but payable only on company making profits and wiping of accumulated losses. Should dividend cost be accounted as interest. Especially when as per the projections company may not make profits when the redeemable share due for redemption.SM- projections do not matter. since it can be said that profit are outside control of issuer, dividend to be recognised as finance cost
- is it mandatory to trf from oci reserves realised gain/loss on equity instrument to retained earnings on Yrly basis? or it is voluntary? SM: Voluntary
- please elaobrate business model and FVTOCI SM: dealt with in the session
- what will be accounting treatment of discount on ZCB (fix conversion rate)? SM: fin liabilities
- amount paid to govt authorities under protest under litigation _ can this be classified as FI ? SM: no contractual right- not fi
- If the director has given loan to the company with no maturity term (also intention of director has no intention to take loan back) and no interest bearing, can it be considered as deemed equity? SM: if loan document says non refundable/repayable at liquidation only then equity

- what should be the rate of discounting cash flows in case of amortisation, does it can be same for different type of assets/liab Viz. security deposit/loans advances/borrowing? SM- interest applicable for company's borrowing with same tenure/ currency
- The company have taken perpetual security deposit on account of Franchise Contract. How we will account this deposit at amortised cost since there is no fixed tenure and termination is depends on contingent events? SM: can be treated a repayable on demand unless there is some lock in period.
- An interest free deposit given which will be forfeited after 3 years if contractual terms are not met with but the term of 3 years will start after allocation of contract. Till the contract starts, how to consider calculation for interest free deposit? SM: contingent event outside the control of issuer so financial liability. Fin asset for holder until contract allocated
- Interest free loans given by the holding company to a subsidiary company, repayable on demand. No specific repayment terms. In this case what would be the classification? SM financial liability/ asset. No discounting since repayable on demand
- In case of a NBFC how should the NBFC disclosure the Standard, NPA and restructured loan in terms of fair value as amortized cost and others SM: refer division III of schedule III
- How do you classify non marketable equity security SM: generally FVOCI
- what will the impact if there is Cap and Floor while converting FCPS. The risk is limited here SM: yes but still not fixed for fixed
- can we issue irrideemable Pref shares as per Cos Act 2013 SM: can be convertible/ redeemable. There can be perpetual bonds though
- How EPS calcualtion will be impacted in case of compound instruments where the conversion ratio is not fixed? SM- considered for diluted eps
- Security deposits needs to be classified as Loans and advances if its in nature of Financial assets as per Sch III, however, there are companies liked Infosys classify it as under other financial asset, which approach is preferred? SM- no classification of Loans & adv under ind as. Treated as financial assets
- When financial institution invoke the properties when borrower dont repay the loan, how to classify these invoked assets ? SM: Question from FI perspective I assume. Depends on the nature of repossessed assets. If non-financial (car/ properties) treated as inventory. If financial in nature (equity shares), treated as financial assets
- Although de-recognition would not be covered in this topic if possible can you pls explain the accounting treatment for conversion of non convertible preference shares i.e. finacial liability to optionally convertible preference shares (fixed on fixed ratio) in the books of issuer considering the change in Equity feature is a substantial change or not substantial change both options.SM: Since this is an extinguishment of liability by issuing equity (assuming OCPS is entirely equity), its covered by App D to Ind AS 109. Equity is e recorded at FV of equity (OCPS) unless its not reliably measurable, in which case, the FV of liability. There would be a P&L gain/ loss
- If the parent company issues equity shares of the subsidiary company's shares instead of its own shares will the Financial liability / Equity classification be impacted? SM: Yes, since shares of sub co would not be equity from holding co's perspective and would be other financial asset
- A Company has given advance for shares/assets to one of the group company (associate). Both parties have entered into contract for settling the advance. However, the contract contains right to first refusal and 20% discounted price. Whether the contract contains any derivative component? How to account such right to first refusal? SM: No derivative since in the definition of derivative one of the three criteria – no/ nominal initial investment not met. ROFR is covenant of the advance

- For Case study 1, IndAS 27 give option only for "Separate Financial Statements' and not for consolidated FS? Or is it for Both? SM: Only separate FS
- what is impact of subsidiary investment in MAT transition amount? SM: Per s/115JB(2C) if classified as FVPL, there is MAT addition/ deletion. If treated as FVOCI no MAT impact, impact only at time of transfer – gain/loss to be offered for MAT. At cost, no MAT impact, until transfer. U/s115JB(2A), transition adjustment if FVPL offred to MAT over 5 year (1/5 each yr) from 1st yr of Ind AS transition
- If amount invested in Associate is fully provided for and carry value in Nil, how to value that associate in IndAS? It is unlisted associate and no financial information is available. SM: Assuming equity investment in associate. Ind AS 27 gives you option to carrying investment at cost less impairment in separate FS
- In case of cumulative preference shares , the dividends arrears are required to be paid by the company even though it does not declare dividends in a particular year. What is the treatment as per INDAS-32 in this case SM: Depends on whether dividend is mandatory or discretionary. That is based on Pref Share Agreement/ Articles of the co. If mandatory, its treated as liability i.e. finance cost accounted every year, irrespective of whether or not declared. If discretionary, its equity component, no provision. If dividend declared in a yr, its treated as dividend in SOCIE
- actual dividend paid would always be recorded as dividend, irrespective of instruments recorded as liability? SM: Pl refer response to previous question
- Can sir please explain preference dividend considered as finance cost and when is it considered in statement of changes in equity SM: Pl refer response to previous question
- Lease equilisation for a lessor is a financial asset or non financial SM: only accrued and due lease payment as per lease agreement is financial instrument. Lease equalisation due to straightlining not FI
- If the company has invested in mutual funds which are hybrid i.e. there is both debt and equity element, then should it be classified as FVTOCI (with recycling or without recycling) ? Company's intention is to held it for long. SM: FVPL since SPPI test not met
- In a business combination a part of purchase consideration is Compulsorily redeemable cumulative preference shares dividend @12% on face value. Value of preference shares include premium. Considering the premium the dividend rate turns out to be 1%, How will we account the same since premium is already on the balance sheet as it is a part of PC? SM- financial liability since redemption obligation +mandatory dividend (if I understand you correctly). If dividend not mandatory, compound instrument. Premium is financial liability.
- case study 4, how to apply probability for debt and equity as it is either or SM: No probability test. FL measured at the earliest redemption date assuming redemption will occur
- how to value market linked debentures SM: Amortised cost at variable EIR
- in case of compound instrument, how to arrive at value at which financial liability and equity will be measured? ie. criterion percentage wise or any other manner? SM: Pl refer the solution to case study. No percentage/probability assessment
- In case study 6, should the holder know what the issuer is classifying; and based on that holder should account as FVTOCI or FVTPL ? How is this possible in practice ? SM: assessment based on terms of the instrument from issuer perspective. No need to look at BS of issuer (issuer may be IGAAP entity also)
- How will you present short sold shares under slb scheme and short positions under futures contract for a stock broker? SM: FV financial liability
- If the Subsidiary gives an Interest free loan to Holding Co, how the same would be accounted for SM: FV different treated as distribution charged directly to reserves (SOCIE)

- Case study 7 - instead of 25 years if the loan is repayable on demand. How do you treat the same? SM: no discounting / FV differential
- In q7 whether interest rate can be taken borrowing rate of group ? SM: no – borrowing rate of borrower company
- Case study 7 based on which para it will be considered as investment in subsidiary SM: no – no specific para- but based on conceptual framework. Also many ITFG bulletin faqs
- If Parent gives a loan to its subsidiary at a interest which is lower then the market interest . How this instrument is treated in the books of issuer and the holder ? SM: Similar to what is explain in the case study, but the FV differential (parent contritbution will be lower)
- In case study 7 if the interest free loan is given by parent to subsidiary for 11 months period, what should be the treatment SM: discounting not required since may not be material
- Can u explain the accounting treatment of interest rate swaps..??
- In case No 7 - What should be Interest rate to Calculate FV at initial recognition? SM: As explained in the solution – interest on similar loan without conversion with similar tenure/ currency
- How will the unwinding of fair value be accounted in case of interest free loan between Hold Co and Sub. In both the books SM: Interest cost
- Case Study 7---- if loan is given by Common Subsidiary.... Example H Ltd holds A Ltd and B Ltd... Loan is given by A Ltd to B Ltd... then what will be the treatment...? SM: contribution/ distribution recognised in reserve since under promoter influence
- certain unquoted investments are recognised and measured @ cost which approximates fair value. How the same is evaluated under Ind AS 113 with some examples. SM: Level 3 valuation
- in case of corporate guarantee if I replace comfort letter, whether treatment will be same? SM: As discussed depends on exact term of CL. If the parent is undertaking to reimburse the bank/ counterparty, its would be akin to FG
- in case study 8 - Fin G'tee whether am i allowed not to charge Notional income @2% as per IND AS? SM: yes
- Which part is shown as investment is subsidiaries. Only notional interest or total interest free loan.SM Deemed equity investment
- If Corporate give letter of Comfort for Cash credit facility of Associate how do they account for it. 1) if CC is used for some amount 2) if CC utillisation is zero SM - No value
- We have come accross that now GST Authorities asking for GST payment on Notional Guarantee Commission as Holding company is providing service to subsidiary. Hence, we are stucked up on raising invoice on subsidiary. SM - No GST since only Ind AS adjustment.
- Can you please repeat the interest rate to be taken in case study 8? SM - interest on similar loan without conversion with similar tenure/ currency
- In scenario 1 of case study 8-Guarantee, where will the fair value of guarantee liability be debited.Is it receivable.SM: no. its Deemed investment in sub
- what is treatment of corporate guarantee given by holding company on behalf of the it's joint venture company??? SM: similar to sub- deemed investment in JV
- what about comfort letter given to lender for loan taken by subsidiary SM: As discussed depends on exact term of CL. If the parent is undertaking to reimburse the bank/ counterparty, its would be akin to FG
- why a corporate guarantee issuer treat this financial liability in case of financial guarantee ? though there is an income as commission SM – since there is any obligation in case the sub defaults
- How to reverse Financial Guarantee Assets? SM – No FG asset

- Indian company give Corporate Guarantee to bankers of Overseas Subsidiary towards debt taken by Subsidiary. If Subsidiary defaults the debt payment, what should be accounting treatment of Corporate Guarantee in Holding companies books. Till default it was treated as Contingent liability. Whether Holding Company should wait for revocation of corporate guarantee by Subsidiaries for accounting SM – don't wait till default. Account for FGO on DAY 1 as financial liability and then every BS date assess whether additional liability required based on the financial health of the sub. So before time of default holding already has a financial liabillty in its books
- case study 11, how to measure the liability SM: At FV
- For Case study 11, will equity in Subsidiary be eliminated against the liability of Hltd at the time of consolidation SM: In CFS the liability is there at group level
- In Case 11, if IPO happens the how interest accrued will be accounted for SM: finance cost
- In Case study-11,where will holding company debit its obligation to buy shares from PE and Interest liability. SM – deemed investment in sub
- Please explain the entries in the books of holding company and in subsidiary company in respect of financial guarantee given by holding company for loan taken by subsidiary company from banks SM – Dr. Investment in sub CR. FGO in Holding. No entry in subsidiary (optional)
- In case of Buy Back with 14% IRR, Holding Company is showing as financial liability. what will accounting entry on initial recognition? SM – debit deemed investment in sub
- For Buyback obligation of H Co. in private equity investment in S Co., aren't there any probability estimation measurement permitted? I understand corresponding value will be accounted as investment in S Co., which actually doesn't exist in substance, initially? Is this understanding correct? What will happen if IPO of S Co. is successfully launched? SM – NO probability estimation since its contignet settlement term. Yes. Understanding correct. If IPO happens, financial liability knocked off against investment.
- Whether the intention of investor is to be considered in case of OCPS for determining classification?? SM - no
- In case study 11 on buyback obligation, H Ltd accounts it as financial liability for the buyback obligation and accrues interest liability at 16% IRR. Additionally how the takeover of PE inv share (principal & interest) is recognised in INVESTMENTS in the parent separate financial statements? SM - yes
- Referring to Case -12, in case a company is in a distress and not able to convert the CCPS at a given IRR and based on the latest position of the company , CCPS holders are required to settle at lower amount. In this case how do we measure the fair value of CCPS: SM: initial FV not changed subseuqnetly
- When Holding company recognised Financial guarantee to subsidiary at FV and debit the amount as part of investment in subsidiary,Now when it apply impairment test annually in respect of its investment in subsidary and found that carrying amount which include actual investment plus effect of financial guarantee liability is less than FV,then is it require t o impair the investment in subsidiary. SM: Yes absolutely correct
- For FVTOCI, even though it is fair valued; still why ECL is required? Does FV not take the care ? SM: ECL still required. FV is based on current credit risk. ECL considers future credit loss also
- if we follow ecl as per stage 2 i.e. completly based on past experience or historical rate...whereas suddenly if client receive major amount in next month ...should we consider this subsequent payment while making ecl provision as these subsequent payment will dent my historical data- SM: reverse ECL
- what if the company doesn't have any default for trade receivable in the past years. still it has to provide for ECL? SM: ECL required, but loss rate would be low

- In ECL this loss rate is actual bad debts or just a lapsing of due dates movement? SM: ot just default but also delay in realisation
- During taking the Total Debtors in ECL on which provision to be created can we deduct some specific items like Under Arbitration is going on (with favorable condition to Client), Customer kept on hold for Some Tax issue (confirmed it will be paid after tax issue is resolved, and similar issues? SM: Yes treated separately
- As per RBI rule, in case of non systematic NBFC, NPA is an asset overdue by more than 180 days and even Ind AS doesn't compulsory says to consider Stage 3 as PAR 90 days only. Can a company opt for stage 3 as PAR 180 and not as PAR 90. Any company who has opted Stage 3 other than PAR 90 overdue assets. In case if in the first year of adoption company has taken PAR 90 can it change its stage 3 from PAR 90 to PAR 180 SM: explained in the session
- Although the topic de-recognition would not be covered if possible can you pls explain the accounting treatment for conversion of non convertible preference shares i.e. finacial liability to optionally convertible preference shares (fixed on fixed ratio) in the books of issuer considering the change in Equity feature is a substantial change or not substantial change both options SM: Since this is an extinguishment of liability by issuing equity (assuming OCPS is entirely equity), its covered by App D to Ind AS 109. Equity is e recorded at FV of equity (OCPS) unless its not reliably measurable, in which case, the FV of liability. There would be a P&L gain/ loss
- The Company has no history of default and delay in case of trade receivable. whether in such company ECL will be created and if yes, then what should be basis of creation ECL model? SM: loss rate will be NIL
- please elaborate stage 1,2&3 of ECL Model. how to calculate?
- f Corporate give letter of Comfort for Cash credit facility of Associate how do they account for it. 1) if CC is used for some amount 2) if CC utillisation is zero SM: NIL value
- can you incorporate the working of security deposit to be disclose in the financial statement SM: ROU asset under Ind AS 116 (FV differential) and financial instrument (FV of deposit)
- Whether one subsidiary is selling goods to another subsidiary of same holding company, whether we should apply ECL in respect of this receivable from related company. SM: yes in separate FS
- Can certain debt instruments issued by Holding Company to subsidiary which will be carried for a perpetual period be carried at cost under Ind AS 27? SM: Equity instrument
- Please take a scenario where parent has provided Loan to subsidiaries and also charging interest but there in not repayment (Cash Outflow) has been made by Subs they are just taking into accounts the figures in accounting but not actual cash flows are there To the parent as per the agreement, then is there any requirement for ECL? SM: Yes, since there is only evergreening of loan
- For compounding instrument to compute number of equity shares for calculating DEPS, what share value needs to be taken to compute no. of shares? SM: Maximum no. if shares that can be converted
- If non-cumulative preference shares are converted to cumulative preference shares, if reclassification from PVTPL to amortised cost required? and if yes, is there any disclosure requirements and calculations? SM: Not clear – redeemable / convertible
- How forward looking is incorporated in ECLs? SM: Judgemental – depends on the future market view of the customer base/ borrower base
- Are the recent amendmemts in the Ind AS as per recent MCA Notification also going to be included as a part of this course? Mainly Interest Rate Benchmarking Reform SM: Sorry , no

because very specific and narrow scope amendment to hedge accounting – exemption for IBOR related ineffectiveness

- Can you guide options of calculating LGD in ECL in case company doesn't have loss history in past. Even FIRB data is too old for consideration SM: RBI IRB regulation considered as base, topped up for COVID impact – the projections of macro factors that you have formed your regression for forward looking.
- the company is making provision for ECL due to Covid. Whether the opposit side company should account such gain ? SM: P&L gain
- A Company engaged in generation of wind energy has paid an performance guarantee deposit to it's customer. The energy supply agreement is entered for a period of 3 years. Whereas the performance guarantee deposit is agreed for a period of 12 months. The said deposit is expected to be renewed at the end of 12 months considering the fact the energy supply agreement extends upto 36 months. How would such deposits get accounted under IND AS 109? Whether on the date of payment they would be required to fair valued and unwound with interest income over the year of 12 months or 36 months?SM: can take a view that FV is the 12 month redemption value – may ignore discounting based on agreement may be cancelled any time, if factual
- if corporate guarantee (without commission) is given by IND AS company to associate company to whom IND AS is not applicable - will it be a deemed investment? SM: day 1 FV charged to P&L since no control