

CA FINAL

FR

COMPACT

Sample Notes

Curated By:-

CA, CPA

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(AIR 2 - CA Foundation, AIR 4 - CA Inter, AIR 24 - CA Final)



ABOUT

CA VINOD KUMAR AGARWAL

(AIR-2nd, 4th & 24th IN FOUNDATION,
INTER & FINAL RESPECTIVELY)

SUMMARY

Founder Member of A.S. Foundation, India's Leading Academy for C.A. Course, CA Vinod Kumar Agarwal is a fellow member of ICAI and a past member of the Board of Studies, ICAI. With a teaching experience of twenty years, he has guided more than 1,00,000 students and is ranked as one of the best teachers for Accounts and Financial Management at Intermediate level and Financial Reporting and SFM at Final Level. He has authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, and his books have sold more than 2,00,000 copies.

PUBLICATIONS AND ACHIEVEMENTS

- A merit holder in all the three levels of exams conducted by ICAI (2nd rank, 4th rank, and 24th rank in CA Foundation, CA Intermediate and CA Final respectively).
- Scored 99 marks in Accountancy in CA Foundation.
- Authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management.
- Compiled a book "No Truth, Only Interpretations", a book on motivation, inspiration and guidance.
- Compiled a book, "Mind Candy", a book on motivation.
- Compiled a book, "Sweet Voice", a book on inspirational quotes.
- Working experience with India's top firms like M/s. S.B. Billimoria and A.F. Ferguson (both member firm of Deloitte).
- Published article in the Students Newsletter of ICAI on "Valuation of Equity Shares" and "Stock Market Index".
- Presented a paper on "Corporate Governance and Role of Auditor" in National Students Conference held in Goa.

EDUCATION

- Passed the Certified Public Accountant (CPA) (USA) exam in 2007.
- Post-graduation from Pune University with First Class.
- Graduation from B.M.C.C, Pune with distinction.
- Passed the Diploma in Business Finance Conducted by ICFAI, Hyderabad.
- Passed the Derivative Module test conducted by National Stock Exchange.
- Also appeared for UPSC exam and cleared Mains twice.

TEACHING EXPERIENCE

- Teaches Accounts, Advanced Accountancy, Financial management and Economics for Finance at CA Intermediate Level and Financial Reporting and Advanced Financial Management (AFM) at CA Final level.
- Pioneer of creating and distributing video tutorials in pen drives/google drive among students.
- Produced All India Toppers (1st Rank) in CPT examination and final examination apart from more than 250 all India merit- holders.
- More than 30000 Facebook subscribers, more than 42000 YouTube subscribers.
- Sold more than 40000 video lectures in pen-drive and google-drive mode.
- In 2019, launched a brand VKNOW, to become a national brand for digital learning.

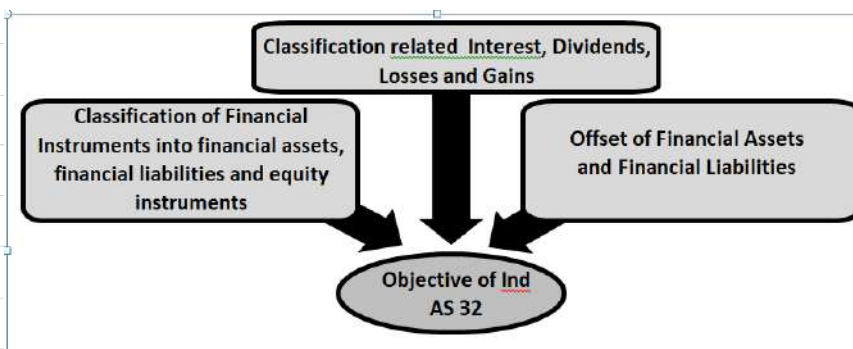
TEACHING APPROACH

- Simple and effective way of teaching through concept building, class-room practice, home-exercise, and power-point presentation.
- A large variety of problems are solved in the class to meet the examination requirements.
- Notes are updated frequently covering amendments and exam problems.

1. STANDARDS DEALING WITH FINANCIAL INSTRUMENTS UNDER IND AS

- ⇒ Under Ind AS, three standards deal with accounting for financial instruments.
- ⇒ **IND AS 32 FINANCIAL INSTRUMENTS: presentation** deals with the presentation and classification of financial instruments as financial liabilities or equity and sets out the requirements regarding offset of financial assets and financial liabilities in the balance sheet.
- ⇒ **IND AS 107 FINANCIAL INSTRUMENTS: disclosures** sets out the disclosures required in respect of financial instruments.
- ⇒ **IND AS 109 FINANCIAL INSTRUMENTS** contains guidance on the recognition, derecognition, classification and measurement of financial instruments, including impairment and hedge accounting.

2. OBJECTIVE OF IND AS 32



3. FINANCIAL INSTRUMENTS – MEANING

A financial instrument is defined as

- ⇒ any **contract**
- ⇒ that gives rise to a **financial asset of one entity** and
- ⇒ a **financial liability** or
- ⇒ **equity instrument** of another entity.

- ☺ 'Contract' and 'contractual' refer to an agreement between two or more parties that has clear economic consequences.
- ☺ The parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law.
- ☺ Contracts, and thus financial instruments, may take a variety of forms.
- ☺ Contract can be written or oral (i.e need not be in writing).
- ☺ Entities or parties can be individual, company, trust, society, non-government organisation or government.
- ☺ It is mandatory that contract should exist for Financial Instrument.

In case of financial instruments, the two parties are called:

1. **Issuer of the instrument** who presents it on the **liability side** of Balance Sheet. The issuer has to decide whether the instrument has to be presented as financial liability or equity instrument.
2. **Holder of the instrument** who presents it on the **asset side** of Balance Sheet. Holder always presents it as financial asset.

	Financial Asset of one party	Financial Liability / Equity of Another Party
1.	Debtors	Creditors
2.	Cash	RBI's Liability
3.	Investment in equity shares of X Ltd.	Equity share capital - X Ltd.
4.	Investment in Redeemable Preference Share	Redeemable Preference Share Capital
5.	Bank Balance	Deposit in the books of bank

4. EXAMPLE OF FINANCIAL INSTRUMENTS

Primary Financial Instruments	Derivative Financial Instruments
⇒ Cash	⇒ Derivative Assets (call option, put option, forward, future, swap, etc)
⇒ Bank Balance	⇒ Derivative Liabilities
⇒ Investment in Equity Instruments	⇒ Derivative Equity
⇒ Investment in Debt Instruments	⇒ Hedging Instruments
⇒ Receivables (Debtors)	⇒
⇒ Bills Receivables	
⇒ Borrowings Equity Share Capital	
⇒ Redeemable Preference Share Capital	
⇒ Debt - Issued bonds and other debt instruments issued by the entity	
⇒ Convertible Debt	
⇒ Dividend Payable	
⇒ Trade payables, Bills payables,	
⇒ Security Deposit (Asset), Security Deposit (Liability)	
⇒ Staff Advances	

5. FOLLOWING ARE NOT FINANCIAL INSTRUMENTS

- ⇒ Plant / Property / Fixed Assets (No Contract)
- ⇒ Intangible Assets (No Contract)
- ⇒ Capital Work-in-Progress (No-Contract)
- ⇒ Intangible Assets under development
- ⇒ Investment Property (Land & Building)
- ⇒ Prepaid Expenses (Contract exist, but the contractual right to receive cash is missing)

- ⇒ Inventory (No Contract)
- ⇒ Provisions (No Contract) (Present Obligation)
- ⇒ Provision for Tax (Statutory Obligation)
- ⇒ Deferred Tax (No Contract)
- ⇒ Deferred Revenue (Contract exists, but to be settled in goods & services)
- ⇒ Warranties (Provision) (Present Obligation)
- ⇒ Gold and Other Commodities (No Contract)
- ⇒ Biological Assets,
- ⇒ Advance for goods

6. FOLLOWING ARE CONTRACTS WHICH ARE RECEIVABLE/PAYABLE IN CASH BUT STILL OUT OF SCOPE

- a) **Indemnification Assets** – (Amount recoverable from other party, in case of loss) – Covered by IND AS 37.
- b) Rights and obligations under employee agreement (Covered by IND AS 19)
- c) Share based awards (Covered by IND AS 102)
- d) Investment in subsidiary, associate and joint venture if entity selects the option to record them on cost basis.
- e) Agreements made for business combinations (forward contracts) are out of scope. Deferred consideration is covered within the scope of this standard.
- f) Insurance Contracts under IND AS 104.
- g) Contract assets/liabilities created under IND AS 115.
- h) Lease receivables and lease payable at inception of lease (under IND AS 116), Subsequent treatment is covered under IND AS 109. For example, impairment of lease receivable will be covered by IND AS 109.
- i) Certain loan / financial guarantees because they are covered by IND AS 104.
- j) Certain executory contracts**
 - a) Some executory contracts are within scope of IND AS 109.
 - b) Executory contracts mean contract to buy or sell any non-financial item which is needed for usage requirements of entity. Example of non-financial items-cement, steel, paper, milk, copper, etc.
 - c) Executory contracts should be treated as follows :

TEST 1 – Past Practice Test

- If entity has past practice for setting similar contracts in net cash settlement, or,
- If entity has past practice for quick buying and reselling of non-financial items with objective of earning from short-term price changes of non-financial items, than we

consider past practice test has been passed and contract made is classified within the scope of IND AS 109.

TEST 2 -

- Contract permits “net settlement” and entity intends to settle contract on ‘net basis’,
 - Then such contracts are within scope of IND AS 109.
 - All other contracts are out of scope of IND AS 109.
- d) Contracts which are within scope are treated as derivative asset/liabilities contract (within meaning of forward or options)
- e) Entity has option to designate its contracts within scope of IND AS 109, if such contract can be “net” settled.

7. MEANING OF FINANCIAL LIABILITY

Financial Liability is a liability which qualifies **any of following four elements** :

- i) **Element No.1** – Financial liability is liability which has **contractual obligation** to deliver cash or any other financial asset (e.g. bank, bills receivable, investment, etc.)

It means this contractual obligation can not be avoided.

Example: Loan, debentures, Trade payable, bills payable, expense payable etc. are financial liabilities.

Note : Deferred revenue and most warranty obligations are not financial liabilities because they will be settled by delivery of goods and services.

- ii) **Element No. 2** – Financial liability is a liability which has **contractual obligation** to **exchange** financial assets/financial liabilities in potentially unfavourable conditions. These are derivative liabilities where we may be **positioned in unfavourable conditions** in future and will be required to pay in cash/bank/investment/equity, etc.

Example – Derivative liabilities

Example 1 – X Ltd (writer) takes a short position (writes) in a **CALL** option with A Ltd (holder) at an exercise price of Rs 50 per share. The call option is to be settled on a ‘net’ basis, i.e. without physical delivery of shares. If on the balance sheet date, the market price is Rs 60, X Ltd stands to lose. It will be obliged to pay Rs 10 to settle the option. Such a contract is potentially unfavourable to X Ltd. Therefore the option is a derivative financial liability.

Example 2 – X Ltd (writer) takes a short position (writes) in a **PUT** option with A Ltd (holder) at an exercise price of Rs 50 per share. The put option is to be settled on a ‘net’ basis, i.e. without physical delivery of shares. If on the balance sheet date, the market price is Rs 40. X Ltd stands to lose. It will be obliged to pay Rs 10 to settle the option. Such a contract is potentially unfavourable to X Ltd. Therefore the option is a derivative financial liability.

- iii) **Element No. 3** – Financial Liability is a liability which has **contractual obligation**, which is **non-derivative** in nature and it will be **settled in own equity** instrument, which will be **variable in nature**.
- iv) **Element No. 4** – Whenever any contract, which is **derivative in nature**, to be **settled in own equity instrument** should be recorded as financial liability **except in case of derivative which will be exchanged for fixed cash against fixed number of own equity instruments**. This exception will make derivative as equity instrument.

Example : 3

1. A written option to buy gold that, if exercised, is settled **net** in the entity's own instruments by the entity delivering as many of those instruments as are equal to the value of the option contract.

8. SUMMARY OF THE CONCEPT OF BOTH 'FIXED TEST' AND 'FIXED FOR FIXED TEST':

S. No.	Particulars	Situation	Remarks	Logic
1.	Non-Derivative	Passes Fixed Test	Equity Instruments	Fixed no. of equity instruments is being issued.
2.	Non-Derivative	Fails Fixed Test	Financial Liability	Variable no. of equity instruments is being issued.
3.	Derivative	Passes Fixed for Fixed Test	Equity Instruments	Issuer does not have an obligation to pay cash. Holder is not exposed to variability.
4.	Derivative	Passes Fixed for Variable Test	Financial Liability	Own variable equity instruments are used to settle obligation for fixed amount.
5.	Derivative	Passes Variable for Fixed Test	Financial Liability	Issuer does not have an obligation to pay cash. Holder is exposed to variability.
6.	Derivative	Passes Variable for Variable Test	Financial Liability	Both parties (issuer and holder) are exposed to variability.

9. CLARIFICATION ON FINANCIAL LIABILITY

- i) If any of element is satisfied for financial liability but such instrument qualifies condition to be **deemed equity**, then consider it to be deemed equity (deemed equity is defined by Para 16A to 16D of IND AS 32).
- ii) Share warrants or similar rights, options granted to whole class of instruments which pass fixed to fixed test are equity instruments.
- iii) If any contract has settlement alternative i.e. it can be settled in cash or other form, then consider it as financial liability. Since, entity does not have unconditional right to avoid cash outflow.

Tutorial Note – If cash outflow can not be avoided, it is financial liability.

10. MEANING OF DERIVATIVES –

Contract which qualifies **ALL** of the following conditions are derivatives –

a) Whose value changes due to underlying. Underlying can be interest rate, index, commodity prices, forex rates, shares, any benchmark, etc.

In fact, it can be anything financial or non-financial.

b) It involves nil investment or very low investment at inception.

c) It will be settled at a future date.

Examples of Derivatives

⇒ Options – call and put option, Future (Traded on exchange), Forwards (over the counter derivative), Swaps – Interest rate swap, share swap agreement, etc.

11. WHEN SHOULD FINANCIAL LIABILITIES BE RECOGNISED?

⇒ Financial liabilities should be recognised **when entity becomes party to** it i.e. when contractual obligation can be enforced by law.

12. CLASSIFICATION AT INCEPTION

⇒ Financial liabilities (FL) should be classified as :

a) FVTPL, or

b) Amortised Cost

⇒ **Financial Liabilities classified at FVTPL**

a) Derivative Liabilities

b) Financial guarantee / loan guarantee

c) Contingent consideration as Financial liabilities (FL).

d) Accounting mis-match (to be discussed later)

Remaining liabilities are classified as amortised cost.

13. ACCOUNTING UNDER AMORTISED COST METHOD (ACM)

Measurement of Financial liabilities (FL)-

⇒ At inception, FL should be measured at fair value. Here, fair value is proceeds less transaction cost.

⇒ If FL is short-term in nature, it should not be discounted. Any difference on settlement will be transferred to profit and loss at the time of settlement.

⇒ If FL is long-term in nature, then it should be discounted.

⇒ Fair value is considered as discounted value. Hence, effective rate of interest (effective interest method, EIM) should be calculated for accounting purpose.

⇒ **Fair value = Proceeds less transaction cost.**

- ⇒ Effective interest rate is that discount rate at which fair value is equal to present value of contractual obligation.
- ⇒ FL at amortised cost is not re-measured subsequently. It is accounted as follows :

Journal Entry – Amortised Cost Category

Date		Debit	Credit
1	AT INCEPTION		
	Bank A/c	Dr.	
	To Financial Liability		
	(Being financial liability recorded at proceeds less transaction cost)		
2.	BORROWING COST		
	Borrowing cost A/c	Dr.	
	To Financial Liability		
	(Being interest charged)		
	(It will be recorded at EIR)		
3.	CONTRACTUAL OBLIGATION SETTLED		
	Financial Liability A/c	Dr.	
	To Cash / Bank		
	To Equity (Variable)		
	(Being amount paid)		

NOTE –

1. Borrowing cost will be transferred to profit & loss.
2. Financial Liability will be classified in Balance Sheet as non-current or current based on payment due dates.

14 REASONS OF VARIABLE NUMBERS OF SHARES

In element no.3 and 4, own shares are used for settlement, and these shares if variable, makes contract financial liability.

- a) Changes in market price/fair value can affect no. of own shares used for settlement.
- b) Sometimes in a single contract, various inter-dependent events are specified, due to which no. of shares may change.

Such, contracts qualify “Variable” test. Hence, it is financial liability.

EXCEPTION –

In following cases, no. of own shares to be settled may vary. Still, it will deemed to be fixed.

- i) When variation in no. of shares arises due to **protective rights** given to holder.

Example – No. of shares will change if –

- a) Bonus is declared, or
- b) Company applies share splitting

- c) Company applies share consolidation
 - d) Company makes follow on offer at lower price
 - e) Due to passage of time
- ii) When variation is specified in discrete contracts for discrete events, i.e., separate contracts exists for separate events. These can be called independent event affecting variable number of shares.

15. SPECIAL POINTS ON FINANCIAL LIABILITIES

a) ZERO COUPON BOND (ZCB) / DEEP DISCOUNT BOND (DDB) -

These are financial liabilities, since entity has contractual obligation to deliver cash. These should be classified as "Amortised Cost" and accounted using "effective interest method" (EIM).

b) PERPETUAL BONDS / NON-REDEEMABLE BONDS

- ⇒ These Bonds are issued with interest but no redemption clause. It means principal will continue for indefinite period.
- ⇒ These should be treated as compound financial instrument (CFI) since principle amount will never be paid (similar to equity).
- ⇒ Financial liability, is arising due to interest obligation.
- ⇒ Market rate of interest is identified for calculation of financial liability and equity.
- ⇒ Split Accounting will be applied.

c) PREFERENCE SHARES

These can be elementary (pure) financial liability or elementary (pure) equity instrument or compound financial instrument (hybrid).

⇒ If Preference shares are redeemable	This part is financial liability.
⇒ If preference shares are irredeemable	This part is equity instrument.
⇒ Preference Shares are entitled to mandatory fixed dividend	This part is Financial liability.
⇒ Preference Shares are entitled to cumulative fixed dividend	This part is Equity instrument.
⇒ Preference Shares are entitled to non-cumulative fixed dividend	This part is equity instrument.
⇒ Preference Shares are entitled to dividend linked with ordinary shares i.e. if dividend is paid to ordinary shares, then dividend will be paid to preference shares	This part is equity instrument because dividend payment is not obligatory.

⇒ Preference Shares are convertible into fixed number of shares	This part is equity instrument.
⇒ Preference Shares are convertible into variable number of shares	This part is financial liability.
⇒ If preference share is redeemable and dividend is non-cumulative	It is compound financial instrument.

d) BUY-OUT OBLIGATIONS

- ⇒ Sometimes companies enter into contract where in company is under contractual obligation to buy its own shares (fixed numbers) at fixed price.
- ⇒ These contracts are derivative in nature and should be considered at equity (Fixed-for-Fixed test passed). These are equity instrument.
- ⇒ But IND AS 32 requires in such cases to record financial liability also for contractual obligation. This will be charged from equity and either paid at expiry of contract or re-transferred to equity.
- ⇒ **Note** – Any option premium received on derivative is considered as equity.

e) BUYOUT CONTRACTS FOR NON-CONTROLLING INTEREST (NCI)

If any parent enters into contract with NCI for its buyout, then also following accounting is required.

S.No.	Particulars		Debit	Credit
1.	NCI A/c	Dr.		
	To Financial Liability			
	(Being FL recorded at present value of redemption amount using market rate of interest)			
2.	Borrowing Cost A/c	Dr.		
	To Financial Liability			
	(Being Interest charged)			
3.	Upon settlement			
	Case A – Option exercised			
	Financial Liability A/c	Dr.		
	To Bank			
	Case B – Option Lapsed			
	Financial Liability A/c	Dr.		
	TO NCI			

f) DERIVATIVES ON NON-FINANCIAL ASSET (NFA) ACQUIRED BY ENTITY

- ⇒ If entity acquires any non-financial asset and if has obtained derivatives on such NFA,
Then –

- Accounting for NFA will be as usual as per applicable standard.
- Accounting for derivative will be as derivative liability / asset.
- Both will be dealt separately.

g) FOREIGN CURRENCY CONVERTIBLE BONDS (FCCB)

- ⇒ It is carve out. This point is dealt differently in IAS - 32.
- ⇒ Whenever any entity has issued bonds -
 - Which have equity conversion option / right
 - Which are to be converted into fixed number of own equity shares
 - Which are issued in foreign exchange

should be treated as non-derivative contract settled in fixed number of own shares and hence treated equity.
- ⇒ But IAS 32 treats them derivative due to change in foreign exchange rates and hence, consideration for converting into fixed share, keeps on charging (due to forex rates). Hence, IAS 32 treats it as financial liability.

h) SETTLEMENT ALTERNATIVES

- ⇒ A Financial instrument will have two settlement alternative -
 - (i) Cash
 - (ii) Equity
- ⇒ The classification will depend upon who has the option and whether the option is in the money or out of money.
- ⇒ **If option is with the holder** - The entity has no option to avoid payment, it is financial liability.
- ⇒ If the option is with the issuer, and
 - (i) **Option is in the money** - It is equity element.
 - (ii) **Option is out of money** - It is financial liability element.
- ⇒ If the question is silent as to who holds the option, assume that the option is with the holder.

EXAMPLE : 4 - ASF Ltd. issued 9% debenture which can be redeemed or converted into 10,000 fixed number of own shares. The classification will depend upon whether the holder has the option or ASF Ltd. has option.

i) SHARE WARRANTS

These are derivative contracts.

Fixed consideration is exchanged against fixed number of own shares.

These are equity instruments.

j) PARA 16A TO 16D

If a financial instrument qualifies any of the four conditions for financial liability and also qualifies condition given in Para 16A to 16D, it is called deemed equity.

16. FINANCIAL ASSETS

- i) Cash
- ii) Equity instruments of another entity.
- iii) Contractual rights to receive cash or other financial asset.
- iv) Contractual rights to exchange financial asset or financial liabilities in potentially favourable conditions (These are derivatives).
- v) Contract will be settled in own shares, are non-derivative in nature and entity will obtain variable no. of shares.

EXAMPLE 4 -

Investment in own convertible debenture Rs.10,000, when number of share is variable.

EXAMPLE 6 -

Investment in own convertible debentures Rs.10,000, where no. of share is fixed. This is equity. It is not an asset. It will be deducted against equity.

- vi) Contracts that will be settled in own shares, that are derivative in nature, and which will be settled in other than fixed cash for fixed numbers of own shares.

Note - If any of above six conditions is satisfied, it means financial instrument is financial asset.

Note - If contractual right is subject to government approvals, still it is considered as financial asset.

Note - At inception we do not see, whether it will be realised or not (just check contractual right)

Settlement Alternative	
↓	↓
Contingent to certain conditions	Other Settlement Alternative
↓	↓
Always assume that conditions will be satisfied for getting cash.	Check if we have contractual right which can be enforced, then it is financial asset.

17. MEANING OF EQUITY

1. Any contract that evidences residual interest in assets of equity after deducting all of its liabilities is called equity.
2. Following instruments / components of instruments are equity -
 - Ordinary Shares
 - Instruments / components which pass fixed test
 - Instrument / components which pass fixed for fixed test.
 - Deemed Equity (16A to 16D)

3. **Any instrument qualifies any element of financial liability as well qualifies deemed equity condition, then consider it as deemed equity.**
4. **Conditions for deemed equity**
 - (a) Instruments is "puttable instrument" or any instrument which obligates to deliver pro-rata shares of net assets on liquidation of entity, AND
 - (b) Such instruments are MOST subordinated instruments on liquidation, AND
 - (c) Such instruments are entitled to share in net assets only, such share should not have any limits, AND
 - (d) Instruments have identical features, AND
 - (e) Instruments have no other right like right to convert or any other special redemption right, AND
 - (f) Total cash outflows on such instrument should be based on profits and losses of entity, AND
 - (g) Entity should not have another contract which is not at arms length with such instrument holder (Abusing above conditions)

18. **PUTTABLE INSTRUMENTS**

Puttable means where holder has right to put back (i.e. return) instrument to equity against cash upon occurrence of certain conditions, or without occurrence of any condition.

Example - Share in co-operative society, units of mutual funds.

19. **TREASURY SHARES**

The shares which are bought back are called treasury shares.

Whenever any entity receives back its own shares (buy back), then

- Cancel equity
- Do not recognise any profit/loss on cancellation / buyback
- Consideration paid or received shall be recognized directly in equity.

Such treasury shares may be acquired and held by the entity or by the members of the consolidated group. In the consolidated financial statements, consideration for treasury shares acquired and held by other members of the consolidated group, is deducted from equity.

20. **OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

Financial assets and financial liabilities can be set-off against each other if following conditions are satisfied -

- ⇒ There is a legally enforceable right to set them off.
- ⇒ Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

21. INTEREST, DIVIDEND, GAINS AND LOSSES

- ⇒ Interest, dividend, gains etc. on financial liability will be treated as expense (classify them as appropriate).
- ⇒ Generally interest and dividend are called borrowing cost.
- ⇒ Similarly, interest or dividend on financial assets are transferred to profit & loss account as income.
- ⇒ Transaction cost on equity will be adjusted against equity (not in profit & loss)
- ⇒ Example – Share issue expenses will be adjusted directly in SOCIE.
- ⇒ Transaction cost on equity which could not be issued will be written off as expense in profit & loss account.
- ⇒ Equity will never be re-measured.

22. ITEMS ARE TREATED AS INCOME OR EXPENSE IN PROFIT OR LOSS:

- ⇒ Interest payments on a bond issued by an entity;
- ⇒ Dividend payments on preference shares that are classified as financial liabilities;
- ⇒ Gains and losses associated with redemption or refinancing an instrument classified as a financial liability;
- ⇒ Gains and losses related to the carrying amount of an instrument that is a financial liability.

23. ITEMS ARE ACCOUNTED FOR WITHIN EQUITY:

- ⇒ **Dividend** payments on shares classified wholly as equity; and
- ⇒ **Incremental directly attributable costs** incurred in successfully issuing or acquiring an entity's own equity instruments (including transaction costs, regulatory fees, amounts paid to regulatory, legal, accounting and other professional advisers, printing costs, stamp duties).
- ⇒ The amount of transaction costs accounted for as a deduction from equity in the period is disclosed in line with the requirements of Ind AS 1 "presentation of financial statements".

24. ACCOUNTING TREATMENT OF FINANCIAL LIABILITY UNDER AMORTISED COST METHOD (ACM)

Step 1 – Identify financial instrument or Pure financial liability or hybrid instrument.

Note – Hybrid / Compound financial instruments will have components of financial liability and equity.

If instrument has option to convert into shares, it means it is hybrid instrument.

Case 1 – If principal amount is payment in cash on maturity and coupons are paid periodically, it is financial liability.

Case 2 – If coupons are paid periodically and principal is redeemed by issue of fixed number of shares, it is compound financial instrument (CFI).

Case 3 - If coupons are paid periodically and there is an option to redeem in cash or fixed number of shares, it is CFI.

Note - Pure Financial liability already covered in Ind AS 32.

Note - If it is hybrid instrument, apply split accounting.

Step 2 - Under split accounting, identify components of financial liability.

These can be -

- ⇒ Contractual obligation to pay cash
- ⇒ Contractual obligation to pay variable number of own shares.
- ⇒ Contractual obligation that can not be avoided.

Step 3 - Identify discount rate to be used in split accounting. It is rate prevailing in market at the time of issue of instrument for similar instruments without equity element. It can be based on MIBOR or LIBOR.

Step 4 - Calculate financial liability by discounting Step 1 with Step 2.

Step 5 - Calculate Equity

		Amount
A	Proceeds without Transaction Cost	XXX
B	Less : Financial Liability (Step 4)	XXX
C	∴ Equity	XXX

Step 6 - Transaction Cost will be split in the ratio of financial liability and equity in Step 4 and Step 5.

Step 7 - Calculate financial liability "fair value" i.e. Step 4 less allocated transaction cost of Step 6. Also, calculate revised IRR based on fair value of financial liability (step 7) and contractual cash flow expected.

Step 8 - Initial recognition

Bank A/c (Proceeds less transaction cost)	Dr.	XXX	
To Financial Liability (fair value) (Step 7)			XXX
To Equity (Step 5 less allocated cost in step 6)			XXX
(Being component of financial liability & equity identified)			

Note - Equity will be reported in SOCIE as component of equity.

Note - Amortisation schedule of financial liability or stream of cash flow schedule is generally prepared at initial recognition.

Step 9 - Subsequent recognition

Do not change value of financial liability or equity after initial recognition due to change in market rate of interest.

Journal Entry :

Borrowing Cost A/c (EIM)	Dr.	XXX	
To Bank (Contractual cash flow)			XXX
To Financial liability (Balancing figure)			XXX
(Being interest charged)			

Alternatively, we can pass two entries

			Debit	Credit
1.	Borrowing Cost A/c	Dr.	XXX	
	To Financial Liability A/c			XXX
	(Being Interest Charged)			
2.	Financial Liability A/c	Dr.	XXX	
	To Bank A/c			XXX
	(Being contractual cash flow paid)			

Note -

Borrowing cost will be written off as expense.

Presentation of Financial Liability in Balance Sheet -

⇒ Non-current liability	
▪ Financial Liability	
✓ Borrowing	XXX
(Due after 12 months)	
⇒ Current Liability	
▪ Financial Liability	
✓ Other financial liability	XXX
(due within 12 months)	

Step 10 - Upon Settlement

a) Conversion to shares - compulsory conversion

i) **Fixed numbers :**

Equity A/c	Dr.	XXX	
To Share Capital A/c			XXX
To Securities Premium			XXX
(Being equity converted into equity shares)			

ii) **Variable numbers :**

Financial Liability A/c	Dr.	XXX	
To Share Capital			XXX
To Securities Premium			XXX
(Being financial liability converted into equity shares)			

b) Optional Conversion :

i) Financial liability paid by bank

Financial Liability A/c	Dr.	XXX	
To Bank			XXX
(Being Amount Paid)			

ii) Financial liability paid by shares

Financial Liability A/c	Dr.	XXX	
To Share Capital			XXX
To Securities Premium			XXX
(Being Amount Paid in shares)			
Equity A/c	Dr.	XXX	
To Securities Premium			XXX
(Being Amount transferred)			

Note – Transfer to securities premium is not mentioned by Ind AS 109. It can be transferred to “other reserves” also.

Notes:

- The requirement to separate out the equity and financial liability components of a compound instrument is consistent with the principle that a financial instrument must be classified in accordance with its substance, rather than its legal form.
- Taxes will be dealt with as per Ind AS 12.
- Interest will be recognized as expense in P & L A/c unless it can be capitalized under Ind AS 23.
- In case of amortised cost method, the student may be required to calculate Internal rate of return (IRR).
- Interest charged = Opening balance of financial liability x IRR
- No gain or loss arises from initially recognizing the components of the instrument separately.

25. EARLY REDEMPTION OF FINANCIAL LIABILITIES

Difference between carrying amount of financial liability and amount paid will be adjusted in profit & loss and equity as follows –

- Difference in carrying amount versus revised carrying amount based on balance cash flows and revised discount rate.
 - ⇒ It is called gain/loss on re-measurement.
 - ⇒ Considered as income / expense.
- Difference in revised carrying amount based on balance cash flows and the revised discount rate versus amount paid –
 - ⇒ It is called gain or loss on settlement.
 - ⇒ It is adjusted with equity.

Note - the equity component that is not eliminated may be reclassified to another line item within equity.

26. ACCOUNTING MISMATCH

Financial liabilities should always be classified at amortised cost except in few cases. One of such cases is Accounting mismatch, where financial liabilities be classified as FVTPL instead of amortised cost. Accounting mismatch arises when funds of financial liabilities are invested in financial assets where market rate of interest can affect fair values.

Reporting both assets and liabilities at fair value through profit and loss, i.e., FVTPL corrects the measurement inconsistency and produces more relevant information.

27. FIRST TIME APPLICATION OF SPLIT ACCOUNTING (IND AS 101)

On date of transition :

- ⇒ Calculate contractual cash flow balance in contract.*
- ⇒ Identify discount rate on date of transition.*
- ⇒ Record financial liability at value arrived by discounting cash flow with discount rate.*
- ⇒ Cancel liability already recorded*
- ⇒ Any difference will be adjusted in retained earnings.*

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FEEDBACK



Hello Sir,

After studying the first group of CA final in just four months, I passed in the first attempt and the feeling is amazing. Scored 53 in FR and 63 in SFM.. writing paper was so easy because I was familiar with every question and logic which was taught by you... Taking your class was my one of the best decision in my life..

Also I want to share that my financial condition is not good to purchase lectures of any faculty.. literally I decided to start with self study but You offered your lectures at very low price and it was golden opportunity for me..the tears of joy in my mother's eyes after hearing the result reminded me of you....

The amount of respect I have for you is not something I can put into words..

THANK YOU GURUJI...!

-Rushikesh Pokalekar

Hello, sir you are the best teacher. You are the best faculty for practical subject as well as theory subjects. I really enjoyed your class. Lots of questions like all past questions, RTP, MTP, study material question solved in classroom. It is very helpful for me because lot of practice is needed to tackle the exam. Sir, your theory subject Economics is very helpful for me because it solves practical approach in the classroom, lots of examples.

Thankyou so so so much sir.

- Payal Ramesh Mali

Hello, I am Rushikesh Shrihari Puri, studied the FM-ECO subject under the guidance of CA Vinod Kumar Agarwal sir. Sir won't speak much more about himself but his pervasive domain of knowledge regarding subject he teaches even Accounts can enlighten your brain with great thoughts & knowledge. Just last words to say, that please & a humble request to take real guidance under his roof of knowledge for becoming CA & human too. Yes, this institute is not on marketing basis, it is on the experience of student to student.

So, enjoy your CA inter journey as we all have enjoyed

- Rushikesh Shrihari Puri

Vinod sir teaches with utmost conceptual clarity which helped me retain concepts very easily, with logical explanation is at peaks which helps solve tricky question very easily. All RTP, MTP and past year questions were solved in class itself and sir teaches in a way that develops your thinking process which would eventually lead to solving of hard questions in very efficient and effective way.

Thankyou Vinod sir for everything.

-Sarthak Nalawade

FEEDBACK

Sir, I have purchased your SFM class...and i have scored exemption in it! Just wanted to thank you for all the concept clarity and making the subject so easy...Your way of teaching was simply awesome because you have always given reason behind every concept...and hence we never have to mug up any concept. Thank u so much sir.

Regards,
Nishigandha R. Daulatkar

Hello sir Wanted to convey my thanks to you for your wonderful guidance in my SFM subject. Scored 72 marks I was not prepared for rest of the group so just jumped into SFM preparation and achieved exemption. It was just because of your wonderful conceptual clarity and guidance.

Regards,
Nishtha Chopra

Dear Sir, I am your virtual class student Mayuri Sutar. I have majorly done my CA Final classes with AS Foundation (FR, SFM, Audit and Costing) regular as well as revision classes. Your SFM revision lecture are really helping me to complete my syllabus in very short time.

Thnx for entire team for processing my order in a speedy way. Very happy to take classes from Vinod sir who has such a great heart in understanding the needs of students and providing classes at such affordable prices. I will repay my debt to Vinod sir by scoring Exemption in May 21 attempt and post the Mark sheet here itself...Once again thnx thnx thnx....a lot

Good morning,
I wrote only 2nd group in this May 2022 attempt and I cleared that group and I attended Risk Management class from Vinod sir and I got exemption in that and I got 60 marks in that subject.

-Sonia S

Hello sir you are really the best teacher forever for the chapter portfolio management even 1st standard student can understand the concepts thoroughly. thank you so much sir.

- Venkatalakshmi Lakshmi.

Respected Vinod Sir,
Sir your FR and SFM regular batch lectures really helped me in my interview . Received an internship offer from Tresvista for an Investment Research role . Thank you for all the classes.

Thanks & Regards, Joydeep Gorai

Hello.. I have taken FR and SFM class from Vinod Sir. I scored 62 in FR and 64 in SFM. My registration no. is [REDACTED] I cleared CA in this attempt.

- Diganta Chowdhury

FEEDBACK

Thank you so much VK sir,
Your teaching techniques helped me
a lot to take 73 marks.

Regards,
Manjunath Doddamani

I scored 68 in SFM.. all thanks to you...
From hating financial management in
IPCC...to an exemption in CA final..
credits to you.

Thank you to Rakesh agrawal and VK
sir.. I bought video lectures from A.S.
Foundation. I got 59 marks in costing
And 74 marks in FSCM. Thanks a lot

Regards,
Abarna J

Hello sir,Glad to share that I cleared CA
final exam..Had cleared grp 2 in July
attempt already..Scored exemption in
FR & SFM..
Big big thanks to you !!
Thanks and regards,
CA Swapnil Kshirsagar

I took vinod sir's FR and SFM..scored
exemption in both

Regards,
Shebin Sebastian

Sir today I cleared my CA final group 1
with exemption in all subjects I secured
63 in FR & 63 in SFM
Thanks a lot sir for your guidance :)

Please convey my message to Vinod
Sir. Because of him I was able to pass
when result is just 11%

I have done Vinod Sir's FR revision
lecture's and able to score 55 Marks in
FR. Thank you very much Vinod Sir. I
cleared group 1

Regards,
Abhijit Mohan Lokhande

Hi Sir, I had secured exemptions in
SFM(60) and FM(73) in previous
attempts. SFM score helped me clear
G1 this time.

Regards,
Kaushal

Sir, I cleared CA final in 1st attempt.
Special thanks to VK Agarwal Sir for all
his guidance and motivation ☺☺

Regards,
Siddhi Suman Parab

Hello sir I have taken CA final FR and
SFM lectures from A.S Foundation. Now
I have cleared both groups of CA Final

Regards,
Ashwani Kumar

I am very thankful to vinod sir. I cleared
group 1 and scored 53 in SFM. Vinod
sir's SFM class helps in clearing SFM.

Regards,
Ashutosh Kumar

I completed SFM revision it's good.
Sir covered all concepts.
- Srinath Y.C

Dear Vinod Sir, Very well explained.
In first 30 minutes sir has built the
base with help of various examples.
-Milan Jeswani.

Hi sir. Good evening. I have taken SFM
from you. I have cleared group-1.
I am very thankful to you sir.
I really loved the way you teach sir.
Regards
Sai Eshwar

I am also purchasing this sfm lectures
and I have also done the FR from
vinod sir by virtual classes ,it's really
helpful and having easy
understanding methods.

Ye sir hai jinke wajah se CA
intermediate students ko bahut help
milti hai. Aur to aur maine Vinod sir
ke classes kiye hai. Inke jaise
padhanewale kash hi koi ho sakate
hai.
- Laxman Patil

Dear Vinod Sir, I've attended your FR
and SFM regular classes. I liked it very
much and I've recommended the same
to my friends too. Many of my friends
have already watched your class. Thank
you so much sir.
Regards,
Anu

VK SIR STUDENT'S FEEDBACK

Vinod Kumar Agarwal sir-

- Teaches with 100% conceptual clarity,
- All of the queries are solved on emails within a day or two.
- Gives minimal homework,
- Almost all of the questions are solved in the class
- His lectures are effective
- The best thing is, in every chapter he teaches almost 60 questions whereas in ICAI material there are around 15 questions only
- Those questions includes ICAI material + Previous Exam questions + MTP RTP. So everything is covered
- He also, marks down the questions which seems to be important
- Although students of this generation tends more towards younger teachers maybe because they use humour, but the experience that VK sir has is exceptional!

-Saddab Idrisi

Hello Sir,

Bought your CA Inter Accounting Standards Group 2 book; I must say the book is so comprehensive that it covers everything in it.

I went through the lectures provided on YouTube, the way you covered the standards for examination purpose as well as for real life application was commendable. Thank you so much sir for all your efforts.

Regards,
Sakshi K

These is Unnat Chandak. I took CA Final FR classes from AS Foundation. Sir has taught us in very simple way and has covered all previous attempt paper questions in his book. His teaching techniques and practice questions helped me to get exemption in FR.

Respected Vinod Sir,

Good evening sir. Hope you are well . Sir I was from an engineering background enrolled in FR regular batch from Feb 2022 (online) . Sir, your teaching made me confident in FR. Thank you for all the important lectures delivered by you. And books are very good for revision. Will always be thankful to you for FR .

Thank & Regards
Name - Joydeep Gorai

Hi...i took risk management classes from Vinod sir...I cleared my 2nd grp of CA final.. scored good marks in Risk management...

Notes of risk management helped me a lot
-Supriya paygude

FEEDBACK



Subject : CA Final SFM Face-to-Face Batch

In the era of online/pen-drive lectures, it was great to have an opportunity to attend SFM classes face to face by VK Agarwal sir.

The portion was covered extensively & main focus was given on conceptual understanding. Face to Face batch helped me in covering full portion efficiently. Sir has taught SFM in such a way that now it feels easy & it has given me confidence that I can score marks in it & get exemption as well.

The class has been engaging & sir's enthusiasm to teach us is infectious & makes us excited to study more & love the subject.

He has covered all types of questions in the class not just from ICAI material but also from other reference material.

- Meenal Malpote

SFM Revision Batch

The batch was awesome & I got maximum out of it, that I could. Almost every concept was explained with detailed explanation, followed by solving problems in the class. Didn't have to mug up any rule or concept because it was explained thoroughly. Practice booklet provided by you have lots of problems that a student can do after chapters are over. The material was updated perfectly having latest types of sums asked by ICAI, even the RTP, MTP and exam questions of may 2023 were covered.

This batch was great covering huge syllabus in just 30 days. Thankyou sir.

-Champak Dixit

Face to face batches are the essence of learning and I have rediscovered the joy of studying after doing this SFM fully exam oriented face to face batch.

Sir has covered all concepts and has made us solve all varieties of questions in this short amount of time. Doing video lectures was taking very long & was not as fun as doing face to face lectures. I was lucky to find this batch and I'm amazed how quickly we were able to cover all of SFM, this has saved me a lot of precious time & has opened the doors for considering giving both groups.

The way sir has taught us, it made me understand and grasp all chapters. The notes given are concise & precise & easy for revision. I'm very confident in this subject now & I have also joined the FR Fully exam oriented face to face batch.

Sir has brought back my joy of learning. He is one of the rare faculties who is less interested in marketing & strives to help students in every way possible.

-Ajit Pawar

Hello Sir,

I am Abhay Singh From Chhindwara .

I want to express my heartfelt gratitude to you Sir, for providing free of cost class. I'm fortunate for receiving knowledge from the very experienced teacher V.K Agarwal Sir.

When I started your lecture it seemed very easy from me to understand the concept because you are providing indepth knowledge about every concept.

Alongwith it, you tell us about which topic is important for exam and also the question which is frequently asked in the exam .

And the Advanced Accounts Book is so precise that I am getting all MTP, RTP, previous year questions in a single book which helps me to get more practice of a variety of question in single compact book.

Thank you so much sir!

-Abhay Singh