AS 30 -32: Financial Liabilities

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Definition

A contractual obligation

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or

- Company has purchased raw material from Techno & Co. Payment due on 25th Feb 2011. On reporting date 31st Dec 2010, ‘Techno & Co. a/c’ is a FL – obligation to deliver cash
- Company A writes a put option for Rs 150 for 2 months. A is obliged to purchase shares at 150 even if the market prices are lower on the settlement date if the counter party exercises the option – exchange of FL with potential unfavourable conditions.

Definition

Contract that will or may be settled in entity's own equity instrument

- Non derivative – obliged to deliver variable number of own equity instruments
- Derivative – settlement by exchange of cash or financial asset for fixed number of entity's own equity instrument.

- Company sold goods worth 2 lacs and agreed to issue equivalent value own equity shares based on the rates prevailing on the settlement date – non derivative
- Company issues an option to sell 1 lac own equity shares. Share price will be determined as follows:

  Share Price = 0 to 10 → 10 shares at 1 each

  Share Price = 11 to 20 → 10 shares at 1.5 each

Classification

- Held at fair value through P&L (HAFV)
  - Financial liability held for trading
  - An obligation which is intended to be settled within a short span of time
  - Entity designates it under this category (only if it projects more relevant result)

- Other financial liabilities held at amortised cost
  - Creditors, customer deposits, borrowings

Measurement

Initially

- At fair value
- Except short term payables (at invoice value)
- Guarantees – as per AS 29

Subsequently

- HAFV at fair value
- Short term payables at invoice value
- Financial guarantee and loan below market rate = at higher of
  - Value as per AS 29
  - Amortised cost
- Others at amortised cost

De-recognition

- Extinguished: discharged, cancelled, expired, modified terms & conditions (part or whole)
- Carrying amount – consideration paid (cash / kind) = P&L statement
  - Cash paid to creditors
  - Share issued against liability
  - Part settlement of a liability through court judgment
  - Re-schedule loan terms / repayment period
- When part of the liability is extinguished – bifurcate carrying amount based on fair value

De-recognition

- When part of the liability is extinguished – bifurcate carrying amount based on fair value

Particulars	
Financial Liability (repay after 5 yrs)	1500
Initially booked at fair value (10% discount rate)	931
Repaid in 1st year	300
Fair value of repayment	186
Deduct 186 from 931 and not 300	

Change in terms and conditions

Changes in terms & conditions will result into a new agreement if:

1. Present value of the cash flows under new terms including additional fees paid or received (original effective interest rate)
2. Present value of remaining cash flows of original liability
3. Difference between (1) & (2) is at least 10%

Thank you

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