J.K. SHAH®
CLASSES
CAFC→INTER CA→FINAL CA↗

FINAL CA
MAY '19
REVISION NOTES
Financial Reporting

Part - VI

Ind AS 33 / AS 20 - Earning Per Share

1) **Basic EPS** = $\frac{\text{Net Profit or loss attributable to Equity Share Holders}}{\text{Weighted Average nos.of Equity Shares}}$

2) Time is the weighting factor for calculation of Weight Average nos. of Equity Shares i.e. weighted average no. is calculated on the basis of Equity Shares Outstanding during the period.

Shares are included in the Weighted Average nos. of Equity Shares from the date the consideration is receivable. For e.g.

Shares Issued	Included as of
• For cash	Date of cash receivable
• Against conversion of debentures	Date of conversion
• Against interest or principal	Date on which interest ceases to accrue
• Against settlement of liability	Date when settlement becomes effective
• For acquisition of assets	Date on which acquisition is recognised
• Against services rendered	When service is rendered
• Bonus shares	Beginning of reporting period

3) Partly paid equity shares should be treated as a fraction of an equity share i.e. converted to equivalent fully paid shares.

4) **Bonus Issue :** When calculating Weight Average nos. of Equity Shares, nos. of Equity Shares must be so adjusted as if the bonus issue was made at the start of the earliest reporting period.

5) **Right Issue :** If the rights issue is made at fair value then it is treated on a normal issue, i.e. included in weight average from the date of issue. However, rights issue is usually at below the fair price i.e. there is a bonus element to it. In this case the nos. of shares outstanding before the rights issue are to be multiplied by a Rights Factor, which is calculated as follows :

Rights Factor = $\frac{\textbf{Fair Value per share immediately prior to the exercise of rights}}{\textbf{Theoretical ex-rights fair value per share.}}$

6) In case of a share split or consolidation only the nos of shares changes without any change in resources. EPS must be calculated on the basis of revised nos. of shares from the beginning of the reporting period. (Similar to bonus issue)

7) Potential Equity share is a financial instrument or a contract that entitles its holders to equity shares. e.g. Convertible Debentures, Convertible Preference Shares,

Options including Employee stock option and share warrants.

Contingently issuable shares (e.g. shares issued under a loan contract on default of payment of principal or interest)

8) Potential Equity shares are considered as dilutive when their conversion into Equity Share would decrease the EPS from continuing ordinary operations.

9) **Diluted EPS** = $\frac{\textbf{Net Profit attributable to Equity Share Holders after adjustment for diluted earnings)}}{\textbf{Weighted Average nos.of Equity Shares} \left(\begin{matrix}\textbf{assuming the conversion of}\\ \textbf{diluted potential Equity Share}\end{matrix}\right)}$

10) **Calculation of Diluted Earnings**:

Net profit & Loss attributable to ESH :	XXX
Add: Interest on convertible debentures / loan	
(after tax effect)	XXX
Add: Preference dividend including dividend tax on	
Preference Dividend on convertible preference share	XXX
Diluted Earnings	**XXX**

Any other changes in expense or income that would result from the conversion of the dilutive potential Equity share must also be adjusted.

11) Only the dilutive potential Equity Share are considered for calculation of Diluted EPS. Anti-dilutive potential Equity Share are ignored. To decide whether potential Equity Shares are dilutive or anti-dilutive, each issue of potential Equity Share is considered separately. In order to maximise the dilution each issue is considered in the sequence from the most dilutive to the least dilutive. To determine the sequence, the earnings per incremental potential Equity Share is calculated. Where the earnings per incremental share is the least, the potential Equity Share is considered as the most dilutive.

12) **Re-statement :** If the number of equity shares or potential shares outstanding is increased as a result of bonus issue, share split, consolidation of shares, the calculation of basic and diluted equity per share should be adjusted for all the period presented.

If changes occur after the balance sheet date but before the approval of financial statements by the competent authority, the EPS calculation for these financial statements and any prior period financial statements should be restated on the basis of new number of shares.

13) **Disclosure**

The amount used as numerator for calculating basic and diluted equity and its reconciliation with net profit or loss for the period.Further company should disclose basic & diluted EPS from continuing & discontinued operating seperately.

Weighted average number of shares used as denominator for calculating basic and diluted EPS and reconciliation of their denominators to each other.

Ind AS 33 / AS 20

Q.1. On 1.4.2017 A Ltd. has 1800 equity shares outstanding. On 31.8.2017, it issued 600 equity shares for cash. On 1.2.2018 it bought back 300 equity shares. Calculate weighted average number of shares as on 31.3.2018.

Q.2. B Ltd. had 1800 equity shares outstanding as on 1.4.2017 fully paid of Rs.10. On 31.1.2018 it issued 600 equity shares of 10 each 5 paid. Calculate weighted number of equity shares as 31.3.2018.

Q.3. C Ltd. had 2,00,000 equity shares outstanding as on 1.4.2017. On 1.1.2018 it issued 2 equity shares bonus for each share outstanding on 31.12.2017. Net profit for 2016-17 was ₹ 18,00,000, net profit for 2017-18 was ₹ 60,00,000. Calculate Basic EPS 2017-18 and adjusted EPS for 2016-17.

Q.4. On 1.4.2017 D Ltd. had 5,00,000 shares outstanding. On 1.6.2017, it issued one new share for each five shares outstanding at ₹ 15. Fair value of one equity immediately before the right issue was ₹ 21. Net profit for the year 2016-17 was ₹ 11,00,000 and for 2017-18 ₹ 15,00,000. Calculate the basic EPS for 2017-18 restated EPS for 2016-17.

Q.5. E Ltd. had outstanding equity shares 50,00,000 on 01.04.2017. Net profit for the year is ₹ 1,00,00,000; E Ltd. had 12% 1,00,000 convertible debentures outstanding of 100 each to be converted into 10 equity shares. Tax rate is 30% Calculate (i) Basic EPS (ii) Diluted EPS

Q.6. F Ltd. had 5,00,000 equity shares outstanding on 01.04.2017. Net profit for 2017-18 was ₹ 12,00,000, average fair value per share during 2017-18 was ₹ 20 F Ltd. has given share option to its employees of 1,00,000 shares at option price of ₹ 15 Calculate Basic EPS and diluted EPS.

Q.7. G Ltd. has outstanding equity shares of 20,00,000 on 01.04.2017, average fair value per equity share during 2017-18 was ₹ 75 Potential equity shares in capital structure of G Ltd. are as under (i) Options - 1,00,000 shares with exercise price of ₹ 60 (ii) 8% Convertible preference share of 8,00,000 shares of ₹ 100 to be converted into 2 equity shares; attributable corporate dividend tax 10% (iii) 12% convertible debentures of ₹ 100 each, nominal value ₹ 10 crores convertible into 4 equity shares. Tax rate 30%, Net profit attributable to equity shareholder 1,00,00,000.

Q.8. From the Books of Bharati Ltd., following informations are available as on 1.4.2017 and 1.4.2018 :

1. Equity Shares of ₹ 10 each 1,00,000
2. Partly paid Equity Shares of ₹ 10 each ₹ 5 paid 1,00,000
3. Options outstanding at an exercise price of ` 60 for one equity share ₹ 10 each. Average Fair Value of equity share during both years ₹ 7510,000
4. 10% convertible preference shares of ₹ 100 each. Conversion ratio 2 equity shares for each preference share 80,000
5. 12% convertible debentures of ₹ 100. Conversion ratio 4 equity shares for each debentures. Tax Rate is 30%10,000
6. 10% dividend tax is payable for the years ending 31.3.2018 and 31.3.2017.
7. On 1.10.2017 the partly paid shares were fully paid up

8. On 1.1.2018 the company issued 1 bonus share for 8 shares held on that date. Net profit attributable to the equity shareholders for the year ending 31.3.2018 and 31.3.2017 were₹10,00,000.

Calculate :

(i) Earnings per share for years ending 31.3.2018 and 31.3.2017.
(ii) Diluted earnings per share for years ending 31.3.2018 and 31.3.2017.
(iii) Adjusted earnings per share and diluted EPS for the year w ding 31 3.2017 assuming the same information for previous year, also assume that partly paid shares are eligible for proportionate dividend only.

Q.9. X Co. Ltd. supplied the following information. You are required to compute the basic earning per share :

(Accounting year 1.1.2018 - 31.12.2018)		
Net Profit	:	Year 2017 : ₹ 20,00,000
	:	Year 2018 : ₹ 30,00,000
No. of shares outstanding prior to Right Issue	:	10,00,000 shares
Right Issue	:	One new share for each four outstanding i.e., 2,50,000 shares. Right Issue price - ₹ 20 Last date of exercise rights - 31.3.2018.
Fair rate of one Equity share immediately prior to exercise of rights on 31.3.2018	:	₹ 25

Q.10. Given below are details of equity share capital of AB Ltd.

Particulars	**No.**	**₹**
Equity shares of ₹ 10 each fully paid up on 1.4.2016	10,00,000	99,00,000
Calls in Arrears on 1.4.2016	----	1,00,000
Calls in Arrears Received on 1.6.2016	----	50,000
New Issue amount paid up on 1.10.2016 ` 7.5	10,00,000	75,00,000
Calls in Arrears Received on 1.3.2017	----	50,000
PBIT for the year ended on 31.3.2017	₹ 2,60,00,000	
Tax Provision	₹ 30,00,000	
10% Preference Share Capital issued on 1.7.2016	₹ 20,00,000	

Dividend distribution tax : 10%.
Compute Basic EPS.

Q.11. Given below is equity share capital structure of X Ltd. :

No. of outstanding shares of		
₹ 10 each fully paid up		20000000
₹ 25 each fully paid up		10000000
₹ 5 each fully paid up	60000000	
Profit after tax		150000000

Compute EPS.

FINANCIAL INSTRUMENTS (Ind AS 109, 32, 107)

(1) Objective : To establish principles for recognizing, measuring, treating, presenting & disclosing financial assets, financial liabilities and some contracts to buy or sell non-financial items

(2) 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

(3) A financial asset is any asset that is :

a. Cash

b. Equity Instrument of another entity

c. a contractual right :

- to receive cash or another financial asset from another entity or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity

d. a contract that will or may be settled in the entity's own equity instruments under certain circumstances

(4) A financial liability is any liability that is :

(a) 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 under certain circumstances

(5) An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. E.g.: Non-puttable equity shares, some types of preference shares and warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable equity shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. An obligation of an entity to issue or purchase a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument of the entity.

(6) Certain types of loan commitments are within the purview of Ind AS 109. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Since a commitment to make a loan at a specified rate of interest during a fixed period of time is, in effect, a written option for the potential borrower to obtain a loan at a specified rate and, therefore, meets the definition of a derivative (financial instrument).

(7) Ind AS 109 is applicable to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non- financial item in accordance with the entity's expected purchase,sale or usage requirements

(8) A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. After initial recognition, an issuer of such a contract should measure it at the higher of :

(i) The amount determined in accordance with Ind AS 37; and

(ii) The amount initially recognized

Similar treatment to be given for loan commitments.

(9) Physical assets (such as inventories, property, plant and equipment) and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset. Similarly, Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

(10) Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by government) are not financial liabilities or financial assets.

(11) A derivative is a financial instrument or other contract all three of the following characteristics:

a. its value changes in response to the change in the underlying

b. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

c. it is settled at a future date.

(12) Embedded derivatives are derivatives that are included in the provisions of other contracts. Thus, embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. An embedded derivative should be separated from the host contract and accounted for as a derivative if, and only if :-

a. The economic characteristics of the host contract & embedded derivative are not 'closely & clearly related'.

b. The embedded derivative would meet the definition of a derivative on a stand-alone basis.

c. The hybrid instrument is not valued at fair value through P & L.

If an embedded derivative is separated, the host contract should be accounted for under Ind AS 109 if it is a financial instrument, and in accordance with other appropriate Standards if it is not a financial instrument.

(13) Initial Recognition :- Financial instruments are generally recognized at fair value at inception. Financial assets & liabilities are generally recognized on the balance sheet only when the entity becomes a party to the contractual provisions of the instrument.

(14) Financial Assets can be bifurcated into the following 2 categories :

a. At amortised cost

b. At fair value i) through P & L ii) through Other Comprehensive Income

(15) Financial assets at Fair Value through P & L :-

a. Held for trading :- Intention of short term profit; derivatives except if hedges;

b. Designation at inception :- Voluntary designation subject to certain conditions

Fair valuing assets or liabilities through P & L is permitted if :

a. The contract contains embedded derivatives except where the split is prohibited

b. Doing so results in more relevant information by reducing accounting mismatches or when a group of financial assets & financial liabilities is evaluated on fair value basis.

(16) Financial Assets @ Amortised Cost :- Non-derivative financial assets - (market) quotes may or may not be available - management has intention & ability to hold till maturity - no intention of trading - fixed or determinable payments & fixed maturity.

(17) Financial Assets at Fair Value through OCI :- Non-derivative financial assets - designated as AFS or are not classified at amortised cost or FV through P & L

(18) Financial Liabilities can be bifurcated into the following 2 categories :-

- At fair value through P & L :- held for trading or designated at inception
- Amortised Cost

(19) Classification is important because IT DRIVES MEASUREMENT.

(20) The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

(21) The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(22) 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.

(23) Fair value hierarchy :- Active market - published quotes; No active market – valuation techniques; No active market - Cost less impairment (for equity investments only).

(24) Impairment of financial assets is to be done if there is objective evidence of impairment. Impairment loss = Carrying amount - recoverable amount.

(25) Impairment Accounting :

At FV through P&L	Not applicable as already at FV
Items carried at amortized cost	Impairment = Carrying value - PV of future cash flows discounted at original effective interest rates
Short term loans & receivables at original invoice	Impairment = Carrying amount - undiscounted cash flow
At FV through OCI	Amount of loss to be removed from equity & taken to P&LA/c

Q.1. Entity XYZ enters into a fixed price forward contract to purchase one million kilograms of copper in accordance with its expected usage requirements. The contract permits XYZ to take physical delivery of the copper at the end of twelve months or to pay or receive a net settlement in cash, based on the change in fair value of copper. Is the contract accounted for as a derivative?

Ans. While such a contract meets the definition of a derivative, it is not necessarily accounted for as a derivative. The contract is a derivative instrument because there is no initial net investment, the contract is based on the price of copper, and it is to be settled at a future date. However, if XYZ intends to settle the contract by taking delivery and has no history for similar contracts of settling net in cash or of taking delivery of the copper and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price, the contract is not accounted for as a derivative.

Q.2. A Entity XYZ owns an office building. XYZ enters into a put option with an investor that permits XYZ to put the building to the investor for Rs.150 million. The current value of the building is Rs. 175 million. The option expires in five years. The option, if exercised, may be settled through physical delivery or net cash, at XYZ's option. How do both XYZ and the investor account for the option?

Ans. XYZ's accounting depends on XYZ's intention and past practice for settlement. Although the contract meets the definition of a derivative, XYZ should not account for it as a derivative if XYZ intends to settle the contract by delivering the building if XYZ exercises its option and there is no past practice of settling net.
The investor, however, cannot conclude that the option was entered into to meet the investor's expected purchase, sale or usage requirements because the investor does not have the ability to require delivery. In addition, the option may be settled net in cash. Therefore, the investor has to account for the contract as a derivative. Regardless of past practices, the investor's intention does not affect whether settlement is by delivery or in cash. The investor has written an option, and a written option in which the holder has a choice of physical settlement or net cash settlement can never satisfy the normal delivery requirement for the exemption from Ind AS 109 because the option writer does not have the ability to require delivery. However, if the contract were a forward contract rather than an option, and if the contract required physical delivery and the reporting entity had no past practice of settling net in cash or of taking delivery of the building and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price, the contract would not be accounted for as a derivative.

Q.3. The definition of a derivative in Ind AS 109 requires that the instrument "is settled at a future date". Is this criterion met even if an option is expected not to be exercised, for example, because it is out of the money?

Ans. Yes. An option is settled upon exercise or at its maturity. Expiry at Maturity is a form of settlement even though there is no additional exchange of consideration.

Q.4. Entity XYZ, whose functional currency is the Indian Rupees, sells products in France denominated in Euro. XYZ enters into a contract with an investment bank to convert Euro to Indian Rupees at a fixed exchange rate. The contract requires XYZ to remit Euro based on its sales volume in France in exchange for Indian Rupees at a fixed exchange rate of 55.00. Is that contract a derivative?

Ans. Yes. The contract has two underlying variables (the foreign exchange rate and the volume of sales), no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and a payment provision. Ind AS 109 does not exclude from its scope derivatives that are based on sales volume.

Q.5. Entity A has an investment portfolio of debt and equity instruments. The documented portfolio management guidelines specify that the equity exposure of the portfolio should be limited to between 30 and 50 per cent of total portfolio value. The investment manager of the portfolio is authorised to balance the portfolio within the designated guidelines by buying and selling equity and debt instruments. Is Entity A permitted to classify the instruments as @ FV through OCI?

Ans. It depends on Entity A's intentions and past practice. If the portfolio manager is authorised to buy and sell instruments to balance the risks in a portfolio, but there is no intention to trade and there is no past practice of trading for short-term profit, the instruments can be classified as @ FV through OCI. If the portfolio manager actively buys and sells instruments to generate short- term profits, the financial instruments in the portfolio are classified as at FV through P&L

Q.6. Entity A purchases a five-year equity-index-linked note with an original issue price of Rs.10 at a market price of Rs.12 at the time of purchase. The note requires no interest payments before maturity. At maturity, the note requires payment of the original issue price of Rs. 10 plus a supplemental redemption amount that depends on whether a specified share price index exceeds a predetermined level at the maturity date. If the share index does not exceed or is equal to the predetermined level, no supplemental redemption amount is paid. If the share index exceeds the predetermined level, the supplemental redemption amount equals the product of 1.15 and the difference between the level of the share index at maturity and the level of the share index when the note was issued divided by the level of the share index at the time of issue. Entity A has the positive intention and ability to hold the note to maturity. Can Entity A classify the note as an investment at amortised cost?

Ans. Yes. The note can be classified as an investment @ amortised cost because it has a fixed payment of Rs. 10 and fixed maturity and Entity A has the positive intention and ability to hold it to maturity. However, the equity index feature is a call option not closely related to the debt host, which must be separated as an embedded derivative. The purchase price of Rs. 12 is allocated between the host debt instrument and the embedded derivative. For example, if the fair value of the embedded option at acquisition is Rs. 4, the host debt instrument is measured at Rs. 8 on initial recognition. In this case, the discount of Rs.2 that is implicit in the host bond (principal of Rs. 10 minus the original carrying amount of Rs. 8) is amortised to the statement of profit and loss over the term to maturity of the note using the effective interest method.

Q.7. Can a bond with a fixed payment at maturity and a fixed maturity date be classified at amortised cost if the bond's interest payments are indexed to the price of a commodity or equity, and the entity has the positive intention and ability to hold the bond to maturity?

Ans. Yes. However, the commodity-indexed or equity-indexed interest payments result in an embedded derivative that is separated and accounted for as a derivative at fair value.

Q.8. Financial assets that are excluded from fair valuation and have a fixed maturity should be measured at amortised cost. How is amortised cost calculated?

Ans. Under Ind AS 109, amortised cost is calculated using the effective interest method. The effective interest rate inherent in a financial instrument is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument or, where appropriate, a shorter period to the net carrying amount at initial recognition.

Example Entity A purchases a debt instrument with five years remaining to maturity for its fair value of Rs. 1,000. The instrument has a principal amount of Rs.1,250 and carries fixed interest of 4.7 per cent that is paid annually (Rs. 1,250 x 4.7 per cent = Rs. 59 per year). The contract also specifies that the borrower has an option to

prepay the instrument and that no penalty will be charged for prepayment. At inception, the entity expects the borrower not to prepay.

It can be shown that in order to allocate interest receipts and the initial discount over the term of the debt instrument at a constant rate on the carrying amount, they must be accrued at the rate of 10 per cent annually. The table below provides information about the amortised cost, interest income and cash flows of the debt instrument in each reporting period.

Year	(a)	(b = a 10%)	(c)	(d = a + b - c)
	Amortised cost at the beginning of the year	Interest income	Cash flows	Amortised cost at the end of the year
20x6	1,000	100	59	1,041
20x7	1,041	104	59	1,086
20x8	1,086	109	59	1,136
20x9	1,136	113	59	1,190
20Y0	1,190	119	1,250 +59	----

On the first day of 2008, the entity revises its estimate of cash flows. It now expects that 50 per cent of the principal will be prepaid at the end of 2008 and the remaining 50 per cent at the end of 2010. As per Ind AS 109, the opening balance of the debt instrument in 2008 is to be adjusted. The adjusted amount is calculated by discounting the amount the entity expects to receive in 2008 and subsequent years using the original effective interest rate (10 per cent). This results in the new opening balance in 2008 of Rs. 1,138. The adjustment of Rs.

52 (Rs. 1,138 - Rs. 1,086) is recorded in the statement of profit and

loss in 2008. The table below provides information about the amortised cost, interest income and cash flows as they would be adjusted taking into account the change in estimate.

Year	(a)	(b = a 10%)	(c)	(d = a + b - c)
	Amortised cost at the beginning of the year	Interest income	Cash flows	Amortised cost at the end of the year
20x6	1,000	100	59	1,041
20x7	1,041	104	59	1,086
20x8	1,086+52	114	625+59	568
20x9	568	57	30	595
20Y0	595	60	625+30	—

If the debt instrument becomes impaired, say, at the end of 2009, the impairment loss is calculated as the difference between the carrying amount (Rs. 595) and the present value of estimated future cash flows discounted at the original effective interest rate (10 per cent)

Q.9. What is the accounting treatment of an investment in a bond (financial asset) that is convertible into shares of the issuing entity or another entity before maturity?

Ans. An investment in a convertible bond that is convertible before maturity generally cannot be classified as an investment @ Amortised Cost because that would be inconsistent with paying for the conversion feature—the right to convert into equity shares before maturity.

An investment in a convertible bond can be classified as @ FV through OCI financial asset provided it is not purchased for trading purposes. The equity conversion option is an embedded derivative.

If the bond is classified as @ FV through OCI (i.e., fair value changes recognised directly in the appropriate equity account until the bond is sold), the equity conversion option (the embedded derivative) is separated. The amount paid for the bond is split between the debt instrument without the conversion option and the equity conversion option. Changes in the fair value of the equity conversion option are recognised in the statement of profit and loss.

If the convertible bond is measured at fair value with changes in fair value recognised in the statement of profit and loss, separating the embedded derivative from the host bond is not permitted.

Q.10. Entity A holds 15 per cent of the share capital in Entity B. The shares are publicly traded in an active market. The currently quoted price is Rs. 100. Daily trading volume is 0.1 per cent of outstanding shares. Because Entity A believes that the fair value of the Entity B shares it owns, if sold as a block, is greater than the quoted market price, Entity A obtains several independent estimates of the price it would obtain if it sells its holding. These estimates indicate that Entity A would be able to obtain a price of Rs. 105, i.e., a 5 per cent premium above the quoted price. Which figure should Entity A use for measuring its holding at fair value?

Ans. As per Ind AS 109, a published price quotation in an active market is the best estimate of fair value. Therefore, Entity A should use the published price quotation of Rs. 100. It cannot depart from the quoted market price solely because independent estimates indicate that Entity A would obtain a higher (or lower) price by selling the holding as a block.

Q.11. An entity issues 2,000 convertible debentures at the start of year 1. The debentures have a three-year term, and are issued at par with a face value of Rs. 1,000 per debenture, giving total proceeds of Rs. 2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each debenture is convertible at any time up to maturity into 250 equity shares. When the debentures are issued, the prevailing market interest rate for similar debt without conversion options is 9 per cent.

Ans. The liability component is measured first, and the difference between the proceeds of the debenture issue and the fair value of the liability is assigned to the equity component. The present value of the liability component is calculated using a discount rate of 9 per cent, the market interest rate for similar debentures having no conversion rights, as shown below :

	₹
Present value of the principal - Rs. 2,000,000 payable at the end of three years	1,544,367
Present value of the interest - Rs. 120,000 payable annually in arrears for three years	303,755
Total liability component	1,848,122
Equity component (balancing figure)	151,878
Proceeds of the debenture issue	2,000,000