IND AS – 32, 109, 107
Financial Instruments

QUESTIONS

IND AS - 109

Q.1. KK Ltd. has granted an interest free loan of ₹ 10,00,000 to its wholly owned Indian Subsidiary YK Ltd. There is no transaction cost attached to the said loan. The Company has not finalised any terms and conditions including the applicable interest rates on such loans. The Board of Directors of the Company are evaluating various options and has requested your firm to provide your views under Ind AS in following situations:

(i) The Loan given by KK Ltd. to its wholly owned subsidiary YK Ltd. is interest free and such loan is repayable on demand.

(ii) The said Loan is interest free and will be repayable after 3 years from the date of granting such loan. The current market rate of interest for similar loan is 10%. Considering the same, the fair value of the loan at initial recognition is ₹ 8,10,150.

(iii) The said loan is interest free and will be repaid as and when the YK Ltd. has funds to repay the Loan amount.

Based on the same, KK Ltd. has requested you to suggest the accounting treatment of the above loan in the stand-alone financial statements of KK Ltd. and YK Ltd. and also in the consolidated financial statements of the group. Consider interest for only one year for the above loan.

Further the Company is also planning to grant interest free loan from YK Ltd. to KK Ltd. in the subsequent period. What will be the accounting treatment of the same under applicable Ind AS? **(May - 19)**

Q.2. An entity purchases a debt instrument with a fair value of ₹ 1,000 on 15th March, 20X1 and measures the debt instrument at fair value through other comprehensive income. The instrument has an interest rate of 5% over the contractual term of 10 years, and has a 5% effective interest rate. At initial recognition, the entity determines that the asset is not a purchased or original credit-impaired asset.

On 31st March 20X1 (the reporting date), the fair value of the debt instrument has decreased to ₹ 950 as a result of changes in market interest rates. The entity determines that there has not been a significant increase in credit risk since initial recognition and that ECL should be measured at an amount equal to 12 month ECL, which amounts to ₹ 30.

On 1st April 20X1, the entity decides to sell the debt instrument for ₹ 950, which is its fair value at that date.

Pass journal entries for recognition, impairment and sale of debt instruments as per Ind AS 109. Entries relating to interest income are not to be provided. **(Nov. - 19)**

IND AS 32

Q.3. XYZ issued ₹ 4,80,000 4% redeemable preference shares on 1st April 20X5 at par. Interest is paid annually in arrears, the first payment of interest amounting 19,200 was made on 31st March 20X6 and it is debited directly to retained earnings by accountant. The preference shares are redeemable for a cash amount of ₹ 7,20,000 on 31st March 20X8. The effective rate of interest on the redeemable preference shares is 18% per annum. The proceeds of the issue have been recorded within equity by accountant as this reflects the legal nature of the shares. Board of directors intends to issue new equity shares over the next two years to build up cash resources to redeem the preference shares.

Mukesh, Accounts manager of XYZ has been told to review the accounting of aforesaid issue. CFO has asked from Mukesh the closing balance of preference shares at the year end. If you were Mukesh, then how much balance you would have shown to CFO on analysis of the stated issue. Prepare necessary adjusting journal entry in the books of account, if required. **(May – 20)**

Q.4. On 1st January, 20X0, entity A issued a 10% convertible debenture with the face value of ₹1000 maturing on 31st December, 20X9.The debenture is convertible into ordinary shares of entity A @ a conversion price of ₹ 25 Per share. Interest is payable half yearly in cash. At the date of issue, entity A could have issued non-convertible debt with a 10 year term bearing a coupon interest rate of 11%. On 1st January, 20X5, the convertible debentures have a fair value of ₹ 1600 entity A makes a tender offer to the holder of the debentures to repurchase the debentures for ₹ 1600, which the holder accepts. At the date of repurchase, entity A could have issued non-convertible debt with a 5 year term bearing a coupon interest rate of 8%.

Q.5. A Limited has a policy of providing subsidized loans to its employees for the purpose of buying or building houses. Mr. X, who's executive assistant to the CEO of A Limited, took a loan from the Company on the following items :

- Principal amount is ₹ 10,00,000.
- Interest rate is 4% for the first ₹ 4,00,000 and 7% for the next ₹ 6,00,000.
- Start date is 1st January 2019.
- Tenure is 5 years.
- Pre – Payment option: Full or partial pre – payment at the option of he employee.
- The principal amount of loan shall be recovered in 5 equal annual instalments and will be first applied to 7% interest bearing principal.
- The accrued interest shall be paid on an annual basis.
- Mr. X must remain in service till the term of the loan ends.

The market rate of a comparable loan available to Mr. X, is 12% per annum. Following table shows the contractually expected cash flows from the loan given to Mr. X.

(Amount in Rs.)

Date	Inflows				
	Outflows	Principal	Interest income @ 7%	Interest income @4%	Principal outstanding
1st January, 2019	(10,00,000)				10,00,000
31st December, 2019		2,00,000	42,000	16,000	8,00,000
31st December, 2020		2,00,000	28,000	16,000	6,00,000
31st December, 2021		2,00,000	14,000	16,000	4,00,000
31st December, 2022		2,00,000	-	16,000	2,00,000
31st December, 2023		2,00,000	-	8,000	-

Mr. X pre – pays ₹ 2,00,000 on 31st December 2020, reducing the outstanding principal as at that date to ₹ 4,00,000.

Following table shows the actual cash flows from the loan given to Mr. X, considering the pre – payment event on 31st December 2020:

Date	Inflows				
	Outflows	Principal	Interest income @ 7%	Interest income @4%	Principal outstanding
1st January, 2019	(10,00,000)				10,00,000
31st December, 2019		2,00,000	42,000	16,000	8,00,000
31st December, 2020		4,00,000	28,000	16,000	4,00,000
31st December, 2021		2,00,000	-	16,000	2,00,000
31st December, 2022		2,00,000	-	8,000	2,00,000
31st December, 2023		-	-	-	-

Record journal entries in the books of A Limited applying the requirements of Ind As 109.

Q.6. A Limited issues INR 1 crore convertible bonds on 1st July 20X1. The bonds have a life of eight years and a face value of INR 10 each, and they offer interest, payable at the end of each financial year, at a rate of 6 per cent annum. The bonds are issued at their face value and each bond can be converted into one ordinary share in A Limited at any time in the next eight years. Companies of a similar risk profile have recently issued debt with similar terms, without the option for conversion, at a rate of 8 per cent per annum.

Required:

(a) Provide the appropriate accounting entries for initial recognition.

(b) Calculate the stream of interest expenses across the eight years of the life of the bonds.

(c) Provide the accounting entries if the holders of the bonds elect to convert the bonds to ordinary shares at the end of the third year.

Q.7. Vedika Ltd. issued 80,000 8% convertible debentures of ₹ 100 each on 1st April, 2015. The debentures are due for redemption on 31st March, 2019 at a premium of 20%, convertible into equity shares to the extent of 50% and balance to be settled in cash to the debenture holders. The interest rate on equivalent debentures without conversion right was 12%. The conversion to equity qualifies as fixed for fixed.

You are required to separate the debt and equity components at the time of issue and show the accounting entries in Vedika Ltd.'s books at initial recognition only. The following present values of Rupee 1 at 8% and 12% are provided for a period of 5 years.

Interest rate	Year 1	Year 2	Year 3	Year 4	Years 5
8%	0.923	0.853	0.789	0.731	0.677
12%	0.887	0.788	0.701	0.625	0.557

Q.8. **Make necessary journal entries** for accounting of the security deposit made by Admire Ltd., whose details are described below. Assume market interest rate for a deposit for similar period to be 12% per annum.

Particulars	Details
Date of Security Deposit (Starting Date)	1st April, 2014
Date of Security Deposit (Finishing Date)	31st March, 2019
Description	Lease
Total Lease Period	5 years
Discount rate	12%
Security deposit (A)	20,00,000
Present value factor at the 5th year	0.567427

(OR)

Calculate EPS, when

	20X0	20X1	20X2
Profit attributable to ordinary equity holders of the parent entity	₹ 1,100	₹ 1,500	₹ 1,800

Shares outstanding before rights issue	500 shares
Rights issue	One new share for each five outstanding shares
Exercise price	₹ 5.00
Date of rights issue	1st January 20X1
Last date to exercise rights	1st March 20X1
Market price of one ordinary share immediately before exercise on 1st March 20X1:	₹ 11.00
Reporting date	31st December