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Accounting Standard (AS) 30 Accounting for Financial Instruments

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ABSTRACT

Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement, issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years.

The objective of this Standard is to establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The scope of these interests in subsidiaries, associates and joint ventures that are accounted for Financial Statements and Accounting for Investments in Subsidiaries in Separate Financial Statements.

Financial Instruments, it is used in this Standard with the meanings specified in defines financial instrument, financial asset, financial liability, equity instrument.

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments.

Recognition, An entity should recognize a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Keywords : Financial Instruments, A financial asset or financial liability

1. Introduction:

Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement, issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4-2011 for all commercial, industrial and business entities except to a Small and Medium-sized Entity, Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange.

2. Objective of accounting for financial instrument :

The objective of this Standard is to establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in Accounting Standard (AS) 31, Financial Instruments: Presentation. Requirements for disclosing information about financial instruments are in Accounting Standard (AS) 32, Financial Instruments.

3. Scope :

This Standard should be applied by all entities to all types of financial instruments except.

- (a) Those interests in subsidiaries, associates and joint ventures that are accounted for under AS 21, Consolidated Financial Statements and Accounting for Investments in Subsidiaries in Separate Financial Statements, AS 23, Accounting for Investments in Associates, or AS 27, Financial Reporting of Interests in Joint Ventures.
- (b) Rights and obligations under leases to which AS 19, Leases.
- (c) Employers' rights and obligations under employee benefit plans, to which AS 15, Employee Benefits, applies.

- (d) Financial instruments issued by the entity that meet the definition of an equity instrument in AS 31,
- (e) (i) Rights and obligations arising under an insurance contract as defined in the Accounting Standard on Insurance Contracts or (ii) a contract that is within the scope of Accounting Standard on Insurance Contracts⁸ because it contains a discretionary participation feature.
- (f) Contracts for contingent consideration in a business combination. This exemption applies only to the acquirer.
- (g) Contracts between an acquirer and a vendor in a business combination to buy or sell an acquire at a future date.
- (h) Loan commitments other than those loan commitments described in paragraph an issuer of loan commitments should apply AS 29.
- (i) Financial instruments, contracts and obligations under share-based payment transactions, except for contracts within the scope of this Standard, to which this Standard applies.
- (j) A right to receive payments as reimbursement of expenditure, the entity is required to make, to settle a liability that it recognizes as a provision in accordance with AS 29.

4. Definition of a Derivative:

Financial Instruments: Presentation is used in this Standard with the meanings specified in defines the following:

4.1 Definitions of Four Categories of Financial Instruments:

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions.

- (a) It is classified as held for trading.

- (b) Upon initial recognition it is designated by the entity as at fair value through profit or loss.

Accounting Standard (AS) 32, Financial Instruments: Disclosures, requires the entity to provide disclosures about financial assets and financial liabilities it has designated as at fair value through profit or loss, including how it has satisfied these conditions.

4.2 Definitions Relating to Recognition and Measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectible.

4.3 Definitions Relating to Hedge Accounting

A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. A forecast transaction is an uncommitted but anticipated future transaction. Functional currency is the currency of the primary economic environment in which the entity operates.

5. Recognition and De recognition:

Initial Recognition, An entity should recognize a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

5.1 Derecognition of a Financial Asset

Before evaluating whether, and to what extent, derecognition is appropriate under an entity determines whether those should be applied to a part of a financial asset or a financial asset in its entirety.

5.2 Derecognition of a Financial Liability

An entity should remove a financial liability from its balance sheet when, and only when, it is extinguished. An exchange between an existing borrower and lender of debt instruments with substantially different terms should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

6. Measurement:

Initial Measurement of Financial Assets and Financial Liabilities When a financial asset or financial liability is recognized initially, an entity should measure it as follows:

- A financial asset or financial liability at fair value through profit or loss should be measured at fair value on the date of acquisition or issue.
- Short-term receivables and payables with no stated interest rate should be measured at original invoice amount if the effect of discounting is immaterial.
- Other financial assets or financial liabilities should be measured at fair value plus/ minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

6.1 Subsequent Measurement of Financial Assets

For the purpose of measuring a financial asset after initial recognition, this Standard classifies financial assets into the following three Categories defined.

Financial assets at fair value through profit or loss;

- (a) held-to-maturity investments;
- (b) loans and receivables; and
- (c) Available-for-sale financial assets.

6.2 Subsequent Measurement of Financial Liabilities

After initial recognition, an entity should measure all financial liabilities at amortised cost using the effective interest meth-

od, except for:

- (a) Financial liabilities at fair value through profit or loss.
- (b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) Short-term payables with no stated interest rate should be measured at the original invoice amount if the effect of discounting is immaterial.
- (d) Financial guarantee contracts as defined.

6.3 Fair Value Measurement Considerations

In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, AS 31, and Financial Instruments: Presentation or AS 32 on Financial Instruments: Disclosures¹, an entity should apply. The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

7. Hedging:

If there is a designated hedging relationship between a hedging instrument and a hedged item as described and accounting for the gain or loss on the hedging instrument and the hedged item should follow:

7.1 Hedge Accounting

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair Values of the hedging instrument and the hedged item. Hedging relationships are of three types:

- (a) Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.
- (b) Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.
- (C) hedge of a net investment in a foreign operation as defined in AS 11.

7.2 Fair Value Hedges

If a fair value hedge meets the conditions during the period, it should be accounted for as follows:

- (a) The gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount measured in accordance with AS 11 should be recognized in the statement of profit and loss.
- (b) the gain or loss on the hedged item attributable to the hedged risk should adjust the carrying amount of the hedged item and be recognized in the statement of profit and loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in the statement of profit and loss applies even if the hedged item is an available-for-sale financial asset.

7.3 Cash Flow Hedges

If a cash flow hedge meets the conditions in during the period, it should be accounted for as follows:

- (a) The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge should be recognized directly in an appropriate equity account, say, Hedging Reserve Account; and

- (b) The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge should be recognized in the statement of profit and loss.

7.4 Hedges of a Net Investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, should be accounted for similarly to cash flow hedges:

- (a) The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge should be recognized directly in the appropriate equity account; and
- (b) The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge should be recognized in the statement of profit and loss.

8. Conclusion :

AS 30 requires financial assets classified as available for sale (AFS) and financial assets and financial liabilities at fair value through profit or loss to be remeasured to fair value. Unless a financial asset or a financial liability is designated as a cash flow hedging instrument, fair value changes for financial assets and financial liabilities at fair value through profit or loss are recognized in the statement of profit and loss, and fair value changes for AFS assets are recognized in the appropriate equity account. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized directly in the equity account should be recognized in the statement of profit and loss on disposal of the foreign operation.



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