

# FINANCIAL INSTRUMENTS WORKSHOP PROGRAM

## IAS 32 Presentation of Financial Instruments



# Content



1. Introduction and overview of Financial Instruments
2. Relevant Standards
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# 1. Introduction



Businesses are normally financed using several tools i.e. can raise capital using new shares, issuing loans or buying goods and other assets on credit.



# 1. Introduction



The business can also lend if it has surplus funds or sell goods and other assets on credit.



All these means of borrowing and lending are referred to as Financial Instruments.



# 1. Introduction

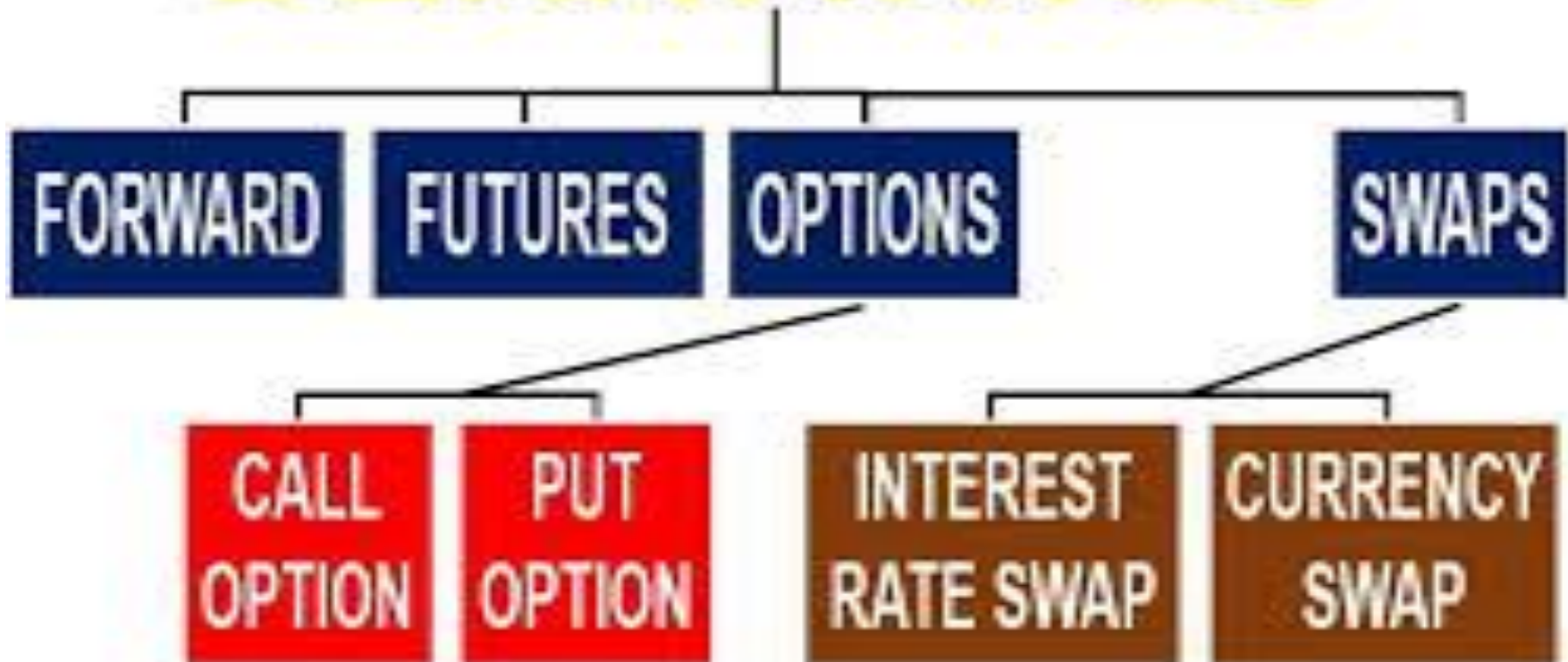


Due to financial innovation, Financial Instruments have become complex. The main area of innovation is in the creation of derivatives which have special features and significant impact on a business.



## 2. Introduction

# DERIVATIVES





## 2. Relevant Standards



Standard	Title
IAS 32	Presentation (Mainly for Borrowers)
IAS 39	Recognition and Measurement (Both Borrowers and Lenders)
IFRS 7	Disclosures (Borrowers and Lenders)
IFRS 9	Financial Instruments ( Has replaced IAS 39)



### 3. Definition of terms



**Financial instrument (FI)**: this is a contract that leads to a financial asset to one party and a financial liability or equity to another party. (Financial Asset to the lender and Financial Liability/Equity to the borrower)



By  
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### 3. Definition of terms



**Financial Asset (FA)**: this is either cash or the right to receive cash or any other financial asset e.g. Investment in Shares/ Loan stock, Trade Receivables and Derivatives that have a net cash inflow position.



wiseGEEK



### 3. Definition of terms



**Financial liability (FL)**: this is an obligation to deliver cash or any other financial asset e.g. loan stock and redeemable preference shares trade payables derivatives that have net cash outflow position.

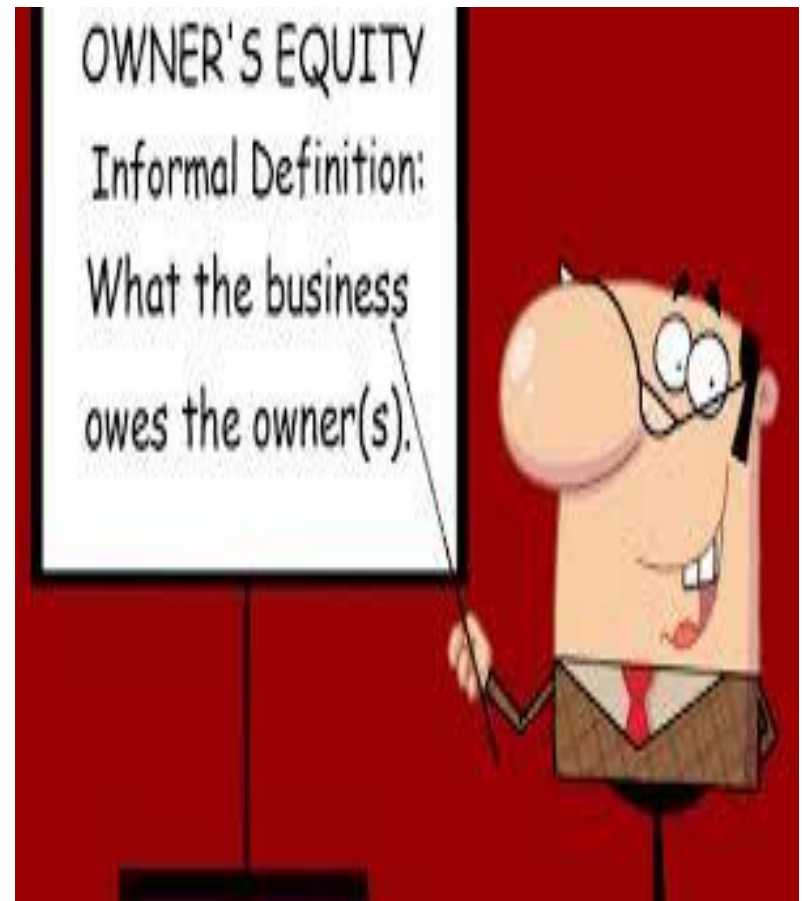




### 3. Definition of terms



**Equity (E)**: this is a financial instrument that gives a residual interest in the business i.e. total assets-total liabilities e.g. Ordinary shares and other preference shares.





## 4. IAS 32 - Presentation



### 1. Split of financial Instruments into Financial Liability and equity:

The issuer of a financial instrument (borrower) shall classify the instrument, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the **substance of the contractual** arrangement.



### 3. Definition of terms



Substance means that:

If the financial instrument will be paid back before the company is to be wound up, then it is a **financial liability**.

If there is no requirement to pay back before winding up, then it is **Equity**.



### 3. Definition of terms

*Classification as liabilities or equity*

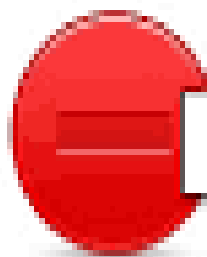
SUBSTANCE



DEFINITIONS

*Is there a contractual obligation to transfer economic benefit?*

YES



LIABILITY

NO

EQUITY





### 3. Definition of terms



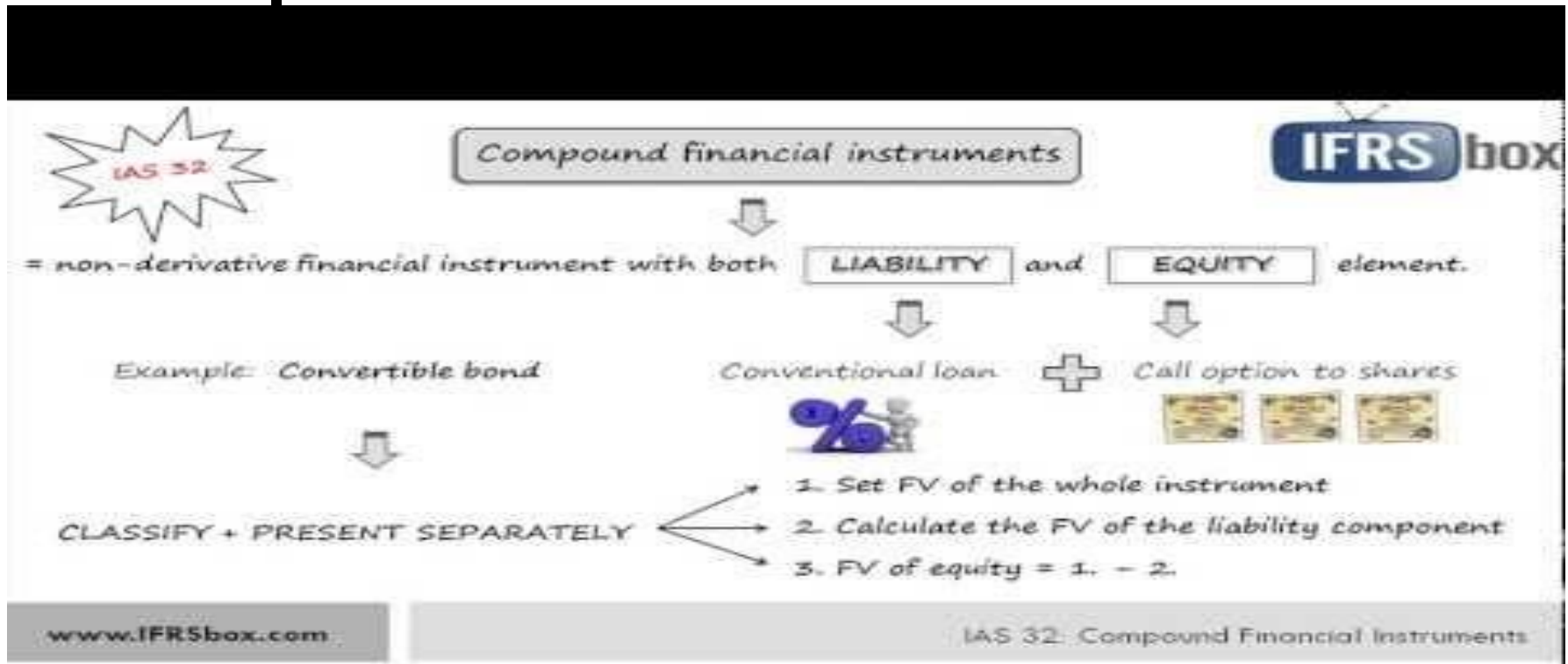
Under classification into equity and liabilities:

- 1. Puttable financial instruments**
- 2. Settlement in own shares**
- 3. Contingent Settlement provisions**
- 4. Settlement options**



# 4. IAS 32 - Presentation

## 2. Compound Financial Instruments





## 4. IAS 32-Presentation



### 3. Treasury Shares

If a company buys back its own shares the buy back and any other expenses should be deducted from share capital and reserves and not an expense. Shares bought back = **Treasury shares.**





## 4. IAS 32-Presentation



### 4. Interest, dividends, losses and gains

Interest and other gains and losses arising from borrowing a loan should be reported in the profit or loss, while dividends and other gains and losses from issuing new shares should be reported in equity i.e. mainly share premium.



## 4. IAS 32-Presentation



### **5. Offsetting a financial asset with a financial liability**

A Financial Asset and a Financial Liability should not be offset unless the company has a legal right to do so or there is intention to settle on a net basis.

