

Liabilities and equity

1.1. Classification of an instrument as liability or equity

Equity is the residual interest in the assets of an entity after deducting all its liabilities. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

Some financial instruments that meet the definition of a liability are classified as equity because they represent the residual interest in the net assets of the entity:

(a) **A puttable instrument is a financial instrument that gives the holder the right to sell that instrument back to the issuer for cash or another financial asset or is automatically redeemed or repurchased by the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.** A puttable instrument that has all of the following features is classified as an equity instrument:

(i) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets.

(ii) The instrument is in the class of instruments that is subordinate to all other classes of instruments.

(iii) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.

(iv) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any 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 unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments.

(v) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).

(b) Instruments, or components of instruments, that are subordinate to all other classes of instruments are classified as equity if they impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

The following are examples of instruments that are classified as liabilities rather than equity:

(a) An instrument is classified as a liability if the distribution of net assets on liquidation is subject to a maximum amount (a ceiling). For example, if in liquidation the holders of the instrument receive a pro rata share of the net assets, but this amount is limited to a ceiling and the excess net assets are distributed to a charity organisation or the government, the instrument is not classified as equity.

(b) A puttable instrument is classified as equity if, when the put option is exercised, the holder receives a pro rata share of the net assets of the entity measured in accordance with this IFRS. However, if the holder is entitled to an amount measured on some other basis (such as local GAAP), the instrument is classified as a liability.

(c) An instrument is classified as a liability if it obliges the entity to make payments to the holder before liquidation, such as a mandatory dividend.

(d) A puttable instrument that is classified as equity in a subsidiary's financial statements is classified as a liability in the consolidated group financial statements.

(e) A preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

1.2. Original issue of shares or other equity instruments

An entity shall recognize the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments.

(a) If the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset.

(b) If the entity receives the cash or other resources before the equity instruments are issued, and the entity cannot be required to repay the cash or other resources received, the entity shall recognise the corresponding increase in equity to the extent of consideration received.

(c) To the extent that the equity instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources, the entity shall not recognize an increase in equity.

An entity shall measure the equity instruments at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement shall be on a present value basis.

An entity shall account for the transaction costs of an equity transaction as a deduction from equity, net of any related income tax benefit.

1.3. Sale of options, rights and warrants

To equity issued by means of sales of options, rights, warrants and similar equity instruments an entity shall apply principles stated above and referring to original issue of shares or other equity instruments.

1.4. Capitalization or bonus issues of shares and share splits

A capitalization or bonus issue (sometimes referred to as a stock dividend) is the issue of new shares to shareholders in proportion to their existing holdings. For example, an entity may give its shareholders one dividend or bonus share for every five shares held. A share split (sometimes referred to as a stock split) is the dividing of an entity's existing shares into multiple shares. For example, in a share split, each shareholder may receive one additional share for each share held. In some cases, the previously outstanding shares are cancelled and replaced by new shares. Capitalization and bonus issues and share splits do not change total equity. An entity shall reclassify amounts within equity as required by applicable laws.

1.5. Convertible debt or similar compound financial instruments

On issuing convertible debt or similar compound financial instruments that contain both a liability and an equity component, an entity shall allocate the proceeds between the liability component and the equity component. To make the allocation, the entity shall first determine the amount of the liability component as the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The entity shall allocate the residual amount as the equity component. Transaction costs shall be allocated between the debt component and the equity component on the basis of their relative fair values.

The entity shall not revise the allocation in a subsequent period.

In periods after the instruments were issued, the entity shall systematically recognize any difference between the liability component and the principal amount payable at maturity as additional interest expense using the effective interest method.

1.6. Treasury shares

Treasury shares are the equity instruments of an entity that have been issued and subsequently reacquired by the entity. An entity shall deduct from equity the fair value of the consideration given for the treasury shares. The entity shall not recognize a gain or loss in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

1.7. Distributions to owners

An entity shall reduce equity for the amount of distributions to its owners (holders of its equity instruments), net of any related income tax benefits.

Sometimes an entity distributes assets other than cash as dividends to its owners. When an entity declares such a distribution and has **an obligation to distribute non-cash assets to its owners, it shall recognize a liability. It shall measure the liability at the fair value of the assets to be distributed.** At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognized in equity as adjustments to the amount of the distribution.

1.8. Non-controlling interest and transactions in shares of a consolidated subsidiary

In consolidated financial statements, a non-controlling interest in the net assets of a subsidiary is included in equity. An entity shall treat changes in a parent's controlling interest in a subsidiary that do not result in a loss of control as transactions with equity holders in their capacity as equity holders. Accordingly, the carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognized directly in equity and attributed to equity holders of the parent. An entity shall not recognize gain or loss on these changes. Also, an entity shall not recognize any change in the carrying amounts of assets (including goodwill) or liabilities as a result of such transactions.