AS 11 – Notes

Section 1: Accounting of foreign currency transactions

Definition of foreign currency: Any currency other than reporting currency of the entity.

Definition of a foreign currency transaction: Any transaction that **is denominated** in or **requires settlement** in foreign currency.
Eg: (i) purchase or sale of goods in foreign currency; (ii) borrowing or lending funds in foreign currency; (iii) becoming a party to forward contract; (iv) acquires or disposes assets or incurs or settles liabilities in foreign currency.

Monetary items: Money held**, assets and liabilities receivable or payable in fixed or determinable amounts of money**. In other words, these are the items where change in the exchange rate will impact the cash flows receivable or payable for the reporting entity.

Non-monetary items: Assets and liabilities other than monetary items.

Accounting:

a) Foreign currency transactions are **initially accounted by applying the exchange rate as on the transaction date.** For practical purposes average rate for a week or month can be used if there is no significant fluctuation in exchange rates.
b) As at the balance sheet date, **monetary items are restated using the closing rate as at the balance sheet date.** However, non-monetary items that are carried at historical cost are not restated.
c) Non-monetary items which are carried at fair value or any other value that is denominated in foreign currency should be restated using the exchange rate as on the date of determination of such value.
d) Contingent liability is converted using the closing rate.

Recognition of exchange difference:

a) Exchange gain or loss arising due to restating or settlement of monetary items **should be taken to P&L.**
b) **Para 46 and 46A exceptions:**
- Exchange difference in respect of long-term foreign currency monetary item (asset or liability having a term of 12 months or more) **that relates to acquisition of depreciable capital asset should be adjusted against cost of the asset.**
- In other cases, **exchange difference should be accumulated in FCMITDA** (Foreign Currency Monetary Items Translation Difference Account) and taken to P&L over the balance life of such asset or liability.
- FCMITDA should be **presented as a part of reserves and surplus** in the balance sheet irrespective of **whether it is debit or credit balance.**
- The **above option is irrevocable** and should be applied to all such foreign currency monetary items.

- Para 46 is only applicable only till 31 March 2020, but there is no time limit for 46A.

Section 2: Accounting of foreign operations

a) There are two types of foreign operations as per AS 11 – (i) Integral foreign operation (IFO) and (ii) non-integral foreign operation (NIFO)
b) **Foreign operation** is a subsidiary, associate, joint venture or branch that carries out activities in a country other than the country of the reporting enterprise.
c) **IFO:** It is a foreign operation whose activities are integral to those of the reporting entity. **IFO carries on its business as if it is an extension of reporting entity's operations**. In this case, change in exchange rates affects the cash flows of the reporting entity.
d) **NIFO:** Any foreign operation that is not IFO. In this case, change in exchange rates will have a little or no direct effect on cash flows but will affect the net investment made in the operation.
e) **Rules for translation of foreign currency trial balance into INR:**

FS item	**IFO**	**NIFO**
Opening stock	Opening rate	Opening rate
Closing stock	Closing rate	Closing rate
Revenue items (expenses and incomes except depreciation and goods received from HO)	Average rate	Average rate
Depreciation	At the date of purchase of asset	Average rate
Goods received from HO and HO a/c	Take it from the HO books – no need to convert	Take it from the HO books – no need to convert
Fixed assets and other non-monetary items	Original rate on the date of transaction	Closing rate
Other monetary assets and liabilities	Closing rate	Closing rate
Contingent liability	Closing rate	Closing rate
Treatment of difference in the TB	P&L	FCTR (Foreign Currency Translation Reserve)

Note:

- NRV in case of inventory and fair value or any other similar valuation in foreign currency should be translated into INR using the exchange rate on the date of calculating such values.
- FCTR **will be taken to P&L upon disposal of such NIFO**. Write down of NIFO balance doesn't amount to disposal, hence FCTR should not be transferred to P&L.
- In case of partial disposal of NIFO, proportionate amount of FCTR will be taken to P&L.

f) When IFO changes to NIFO, exchange differences arising on translation of non-monetary items at the rate on the date of reclassification should be accumulated in FCTR. However, if NIFO is reclassified as IFO, the translated amounts of non-monetary items using the rate on the date of such reclassification will be treated as historical cost for subsequent periods. However, exchange difference accumulated in FCTR should not be taken to P&L until the operation is disposed.

Section 3: Accounting of forward exchange contracts

a) **Forward exchange contract:** It means an agreement to exchange currencies at a forward rate.
b) **Forward rate:** It is the specified rate at which currencies are exchanged in the future.
c) **Spot rate:** It is the exchange rate on the date of entering into the forward contract.
d) If the forward rate is more than spot rate, then it is premium on forward contracts. However, if the spot rate is more than forward rate then it is discount.
e) **Accounting for forward contracts entered into for hedging purposes:** **Premium or discount should be taken to P&L over the life of the contract** and any profit or loss on cancellation or renewal should be taken to P&L. For detailed accounting refer examples discussed in class.
f) With respect to a contract that is entered into for trading or speculation purposes, premium or discount on such contract is ignored. As at each balance sheet date the value of the contract is marked to its current market value and gain, or loss is recognized in P&L.

Section 4: Scope of the standard

This standard does not:

a) Specify the currency in which the FS should be presented (reporting currency). Reporting currency is generally currency of the country in which the entity is located.
b) Deal with presentation of cash flows arising from foreign currency transactions and translation of cash flows of a foreign operation.
c) Deal with exchange differences to the extent they are regarded as borrowing cost as per AS 16.
d) Deal with restatement of FS from reporting currency into any other currency.