AS 11 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

classmate
Date
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Topics to be recovering

1. Foreign currency Transactions. I-2
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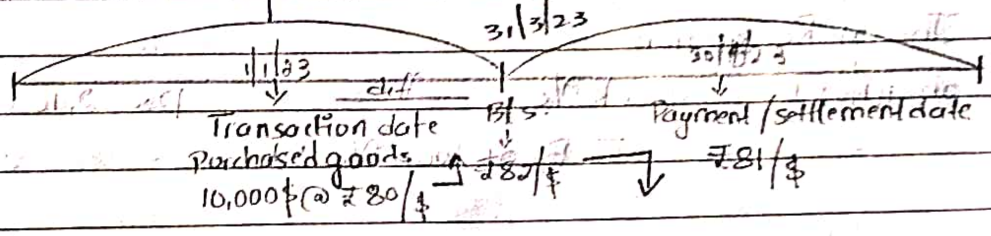
2. Para 46 & 46A. I 8 & 9
3. Foreign currency operations. I 6, 7 & 1
4. Forward Exchange contracts. I 4 & 5.

1 Foreign currency Transactions.

Eg:- Mr. A purchased goods from Mr. Trump (USA) on 1/1/23 \$10,000 on this date \$ rate was ₹80/dollar. At year end 31/3/23 rate per \$ = ₹82/\$ & Mr. A paid \$10,000 to Mr. trump @ ₹81/\$ on 30/4/23. How will you report such transactions as per AS 11.

payment



⇒ Initial Recognition

Purchase entry

on 1/1/23 purchase A/c (10,000\$ × ₹80/\$) Dr 8,00,000 -
To Mr Trump A/c. - 8,00,000

Subsequent Recognition

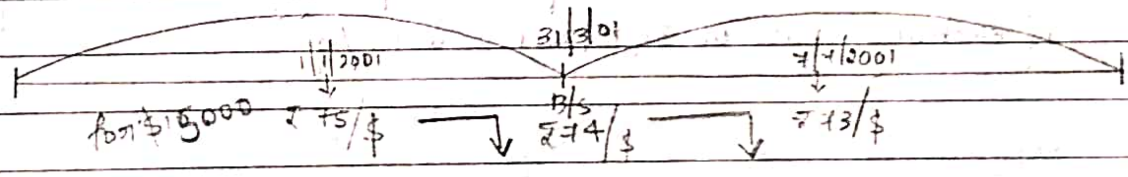
Loss incurred

on 31/3/23 P&L A/c (Loss on exchange rates) Dr 20,000 -
To Mr. Tromp A/c [10,000\$ × (82-80)] - 20,000

Gain/profit

on 30/4/23 Mr. Trump A/c (10,000\$ × ₹82/\$) Dr 8,20,000 -
To Bank A/c (10,000\$ × ₹81/\$) - 8,10,000
To P&L A/c (Bal fig) - 10,000

I-2



⇒ Initial Recognition.

on 1/1/2001 Purchase A/c (15,000\$ × ₹75/\$) Dr 11,25,000 -
To Creditors A/c. - 11,25,000

P&L A/c Dr 15,000 -
To Diff in ex-rates - 15,000

example 4:- on 15/4/19 A Ltd purchased goods from X Ltd (USA) for 17,000$
But payment was made on 17/8/19.
ex-rates on i. 15/4/2019 = ₹ 54/$ payment is made
ii. 17/8/2019 = ₹ 55.5/$ before closing B/s.
iii. 31/3/2020 = ₹ 53/$
Suggest the accounting treatment in accounts.

=> 1/4/19 — 15/4/19 — 17/8 — 31/3/19
15/4/19: purchased 17,000$ ₹ 54/$
17/8: Payment ₹55.5/$
31/3/19: ₹53/$ —> no treatment because it may have bal in Nextyr

Initial Recognition
on 15/4/19 Purchase A/c (17,000$ ₹ 54) Dr 9,18,000 -
To X Ltd A/c. - 9,18,000

on 17/8/19 Diff in ex-rates Dr 25,500 -
To X Ltd A/c (17,000$ X (55.5-54)) - 25,500

transferred

X Ltd A/c (17,000$ X 55.5) Dr 9,43,500 -
To Bank A/c - 9,43,500
(Being payment made).

on 31/3/20 P&L A/c Dr 25,500 -
To Diff in ex-rates A/c. - 25,500

2009 June.
Example 5:- 1/4/19 — 26/2/20 — 31/3/20 — 5/6/20 — 31/3/21
26/2/20: goods purchased 1,000$ @ 46.60
31/3/20: 47/$
5/6/20: paid ₹ 47.50/$
31/3/21: ₹48.50/$
Calculate gain/loss for F/Y 19-20 & 20-21 as per AS-11.

=> *As per AS 11 "The effects of changes in foreign ex-rates"
Foreign currency transactions should be recorded initially at SPOT rate & subsequently at the year end monetary items are revised

at closing rate.
The difference of exchange rates at the year end & at the date of settlement is transferred to P&L A/c

* In the given case
Here, foreign currency transactions are to be recognised at 3 different stages as under

a) 26/2/2020 (initial Recognition)

Purchase A/c (1000 \$ x 46.60)	Dr	46,600	-
To Sundry creditor A/c		-	46,600

b) on 31/3/20 (Subsequent Recognition)

* Diff in ex-rate	Dr	400	-
To Sundry creditors A/c (1000x(47-46.6))		-	400
* P&L A/c	Dr	400	-
To Diff in ex-rates		-	400

c) on 5/6/20

* Difference in ex-rate	Dr	500	-
To Sundry creditors A/c (1000 \$ x (47.50-47))		-	500
* Sundry creditors A/c	Dr	47,500	-
To Bank A/c (1000 \$ x 47.50)		-	47,500

transferred

d) on 31/3/21

* P&L A/c	Dr	500	-
To Diff in ex-rates A/c		-	500

2. Para 46 & 46A (for Depreciable fixed assets)
* option available to Companies
* For treatment of difference in exchange rates
* Arised from the translation (Revising) of long term foreign currency monetary items
* Only if Depreciable fixed assets acquired by such long term foreign currency loan.

option for company

either
option 1
As normal transfer to P&L A/c.

(or)
option 2.
Transfer such difference of ex-rates ~~to fixed~~ to that depreciable fixed assets
+ / −
Dr   cr

for Non-depreciable fixed assets (or) for other
* Long term loan in foreign currency
* To purchase Non-depreciable fixed assets / other assets / related to to liability
Transferred to FCMIT
Foreign, Currency, Monetary, Items, Translation A/c

-8. As per AS 11 'The effects of changes in foreign exchange rates'
The co. has taken loan for fixed assets if co. opted for Para 46 then co. can capitalise in respective fixed assets (or) transferred to P&L A/c.
In the given case
Assuming that the co. has not exercised the option of capitalisation under para 46 of AS 11.
In case the co. opts to avail the benefit of para 46A, then nothing is required to be done since the co. has done the correct treatment.

Calculation:-

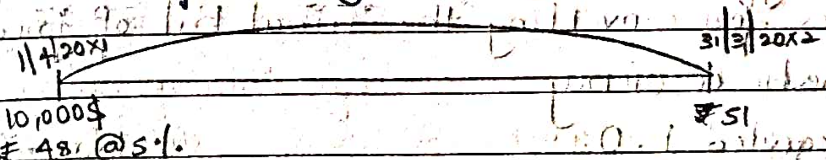
FCL = $\frac{₹3,000 \text{ lacs}}{₹40}$ = 75 lacs $

Exchange rate difference = 42.50 - 40 = 2.50.

∴ 75 lacs $ × 2.50 = ₹ 187.5 lacs.

Conclusion:-

Entire loss due to exchange difference amounting ₹ 187.5 lacs to be charged to P&L A/c for the year.



T-9 i) Para 46A is not availed

a) on 1/4/20X1 Bank A/c (10,000×48) Dr 4,80,000
To foreign loan A/c 4,80,000

b) on 31/3/20X2 Finance cost A/c (10,000×51×5%) 25,500
To Bank A/c 25,500.

c) on 31/3/20X2 Foreign Diff in ex-rates Dr 30,000
To foreign loan A/c (10,000×(51-48)) 30,000.

Note:- In this case, the option under para 46A is not availed, the exchange loss of ₹30,000 is recognised as an exps in the statement of P&L for the year 31/3/20X2.

ii) Para 46A is availed.

a, b, c entry are same.

on 31/3/20X2. PPE A/c Dr 30,000
To foreign diff in ex-rates 30,000

Note:- In this case, option under para 46A is availed, the exchange loss of ₹ 30,000 is capitalised in the cost of PPE & it will indirectly recognised in P&L A/c.

iii) para 46A is availed
a, b, c are same entry
on 31/3/20X2 FCMITDA A/c Dr 30,000
To foreign Diff in ex-rate A/c 30,000

Note:- In this case, option under para 46A is availed, the exchange loss of ₹ 30,000 is accumulated in the FCMITDA/c

3. Foreign currency Operations

Rules for converting the Tribal Bal of foreign operation into domestic currency

Integrated F.O. Good son	Non-integrated F.O. uncontrolled son
⇒ Indicates of IFO.	Indicators of NIFO.
i. Enterprise may control activities of business in foreign	i. Sustantially autonomy of transaction.
ii. Finance is raised by main entity	ii. Selfly raised locally in foreign
iii. Transaction with reporting entity = High volume	iii. Transaction with reporting entity = low volume
iv. Foreign operations are dependent on reporting entities decision	iv. Independently decide.

Rules for Conversion of Foreign Currency Trail balance in to Home currency

I.F.O.	NIFO.
1. Monetary items = closing rate.	1. Exps/Incomes = Actual/Avg. rate
2. Exps/Incomes = Actual/Avg. rate	2. All others = closing rate.
3. Fixed assets/Acc. Depⁿ (or) Investment = Historical → Actual rate (always given by quarters); Revaluation → Closing rate	3. Diff = foreign currency translation Reserve FCTR
4. Inter-related items = At amt in others books	
5. Diff = P&L A/c	

4. Forward Exchange Contract

Mr. A India $\xrightarrow{\text{contracted}}$ Mr. John USA

has to pay in future 10,000$

₹80/$ ⟶ future expected ₹83/$

Bank

Purpose:

To protect our loss = Hedging

To Trade/speculate

* Contract for exchange of foreign currency.
* At a fixed predecided rate.
* On a specified future date.

Purpose

To protect = Hedging

To trade = Speculation

Items	Integral foreign operations	Non-Integral fore. operations
• Monetary items (cash, Bank bal, Debtor, creditor, loans, BR, BP)	closing rate	closing rate
• Non monetary items (FA)	Rate on date of purchase	closing rate.
• Inventory	closing rate	closing rate
• P&L A/c items	Average rate	Average rate
• Ex-difference	Charge to P&L A/c	Accumulated in FCTR (foreign currency translation reserve).