AS 11 — The effects of changes in foreign exchange Rates

1. Scope

AS 11

1. Accounting for foreign currency transactions
2. Translating the Financial Statements of foreign operations → Discussed in Branch A/c's
3. Accounting for forward exchange contracts

2. Definitions

(a) Reporting Currency:

→ It is the currency in which Financial statements are prepared.

(eg. BB Virtuals (Indian Co) → reporting currency "₹")

(b) Foreign Currency :

It is the currency other than reporting currency

(c) Monetary items

B/s

		~~PPE~~	~~10L~~
T.P.	20K	T.R.	50K
loan taken	1L	~~Inventory~~	~~20K~~
o/s exp	10K	~~Investment~~	~~1L~~

Monetary items are those assets and liabilities, which are to be received or paid in fixed or determinable amounts of money

eg: Cash & cash equivalent, Trade receivables or Debtors, Trade payables or Creditors

d. Non-Monetary items. :

→ Non-monetary items are asset liabilities, other than monetary items.

Eg: PPE, Inventories, Share Capital, Investments in Equity shares etc.

Note: Monetary / Non. Monetary, sirf B/S items ka hota hai

3. Accounting for foreign currency transactions

It is a transaction Which is denominated or requires settlement in a foreign currency.

Examples of foreign currency :

- Purchase or sale of goods and services in foreign currency,
- Borrowing or lending of funds in foreign currency,
- Purchase or sale PPE denominated in foreign currency

Example

– AK ltd an indian company purchased a PPE for $ 10,000 on 01.12.27 on credit. The exchange rate on 01/12/27 was ₹ 55/$.

J.E.	01.12.27	PPE A/c Dr	₹5,50,000	
		To Creditors		₹5,50,000

Continuing with above example, exchange rate on 31/3/28 was ₹ 60/$.

PPE → Non. monetary item → Not Remeasured at closing rate on Yr end.

Creditors → Monetary item → Remeasured @ closing rate on Yr end.

$10000 × (₹60/$ - ₹55/$) = ₹50000 → Exchange loss (As we will pay more)

OR

Before $10000 × ₹55/$ = 5.5L → Crs

Now $10000 × ₹60/$ = 6L → Crs (Liab increased ∴ loss)

(₹50K) Exchange loss.

↓

J.E. Exchange loss (P/L) A/c Dr ₹50000
To Creditors ₹50,000

* Summary of Foreign currency transactions

- **Initial Measurement**
  - ↓ Recognise using Rate on Date of Transaction
- **(Yr end) Subsequent Measurement**
  - **Monetary items**
    - ↓ Remeasure @ closing rate
  - **Non-Monetary items**
    - **Carried at Historical Cost**
      - ↓ No need to Remeasure on Yr end.
      - ↓ eg: PPE @ Cost Model
        - Inventory @ cost
        - Investments @ cost
    - **Carried at Fair Value or NRV**
      - ↓ Remeasure at closing rate.
      - ↓ PPE @ Rev Model
        - Inventory @ NRV
        - Invst @ Market Value
        - etc.

* Foreign Exchange Rate difference

↓

Transferred to P/L

Illus 2

J.E.

01/01/X1 Purchase / Inventory A/c Dr 1125000

To Creditors A/c 1125000

($15,000 × ₹75/$)

31/03/X1 → Crs - Monetary item - Remeasure @ closing rate

($15000 × ₹74/$) = 11,10,000 (Now)

11,25,000 (Before)

Ex Gain 15,000

Creditors A/c Dr 15,000

To Ex Gain (P/L) 15,000

[$15000 × (74/$ - 75/$)]

F.Y. 31/3/X1 Ends Here

7/7/X1 Creditors A/c Dr 11,10,000

To C/B 1095000 ($15000 × ₹73/$)

To Ex Gain (B/F) 15000 [$15000 × (73/$ - 74/$)]

Shortcut

Liab		Asset	
Ex Rate ↑	loss	Ex Rate ↑	Gain
Ex Rate ↓	Gain	Ex Rate ↓	loss

Illus 3

J.E

01/01/x1 C/B A/c Dr ₹ 2,16,00,000

To Foreign loan A/c ₹ 2,16,00,000

($450000 × ₹48/$)

31/3/x1 Ex loss (P/L) ₹ 450000

To Foreign loan A/c ₹ 450000

($450000 × ₹49/$ − ₹48/$)

31/07/x1 Foreign loan A/c Dr ₹ 2,20,50,000

Ex loss A/c Dr 225000 → ($450000 × ₹49.5/$ − ₹49/$)

To C/B A/c 2,22,75,000 ($450000 × ₹49.5/$)

Ques 3 (CDR) → Refer Ques Bank

Ques 6 (CLDR)

Trade payable on date of transaction (in ₹) = ₹975000

(in \$) = ₹975000 / ₹75/\$ = \$13000

31/3/22 Ex loss = ₹52000

[\$13000 × (₹79/\$ − ₹75/\$)]

01/05/22 Ex Gain = ₹9100

(\$13000 × (₹78.30/\$ (−) ₹79/\$)

Ques 8 (CLDR)

i) Trade payables / Creditors

1st July'22 → ₹ 3096000

€ 36000 (₹ 3096000 ÷ 86)

ⓐ Value of Trade payable on Yr end (in ₹) = €36000 × ₹90/€ = ₹32,40,000

ⓑ Ex Gain / loss on Trade payable on Yr end = €36000 × (₹90/€ − ₹86/€)

= ₹144000 (Ex loss)

ii) Plant & Mach's (Amount was paid on date of import ∴ No Creditors)

1st Oct'22 = €18,500 × ₹88/€ = ₹16,28000

Value of P&M on Yr end = ₹1628000 → Non Monetary item ∴ Not remeasured.

Ex Gain / loss on Yr end = NIL

→ Export kiya means Sales

T-R
To Sales

iii) Trade re'ables

1st Dec'22 → ₹ 50,40,000

€ 60,000 (₹50,40,000 ÷ 84)

Value of T.R on Yr end = €60000 × ₹90/€ = ₹54,00,000

Ex Gain / loss on Yr end = €60,000 × (₹90/€ − ₹84/€) = ₹360000

⇓

Ex Gain.

Ques 7 (CLDR)

Option No.1 :- Pay immediately with cash discount of 1% on the payable.

Total Amt payable on 31/3/23 (₹50,000 × ₹97)	48,50,000
less: Cash discount @ 1%	(48500)
	48,01,500
Add: Borrowing cost @ 15% for 6 months (4801500 × 15% × 6m/12m)	360112.5
	51,61,612.5

Option (ii) Pay after 6 months with Interest @ 5% p.a. on the payable

Total Amount payable on 30.09.23 (₹50,000 × 99)	49,50,000
Add: Int @ 5% for 6 months (4950000 × 5% × 6m/12m)	123750
	5073750

Thus option (ii) is Beneficial as outflow is lower by ₹ 87862.5
(₹ 51,61,612.5 (-) ₹ 5073750)

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* Exception to charging Ex Gain / loss to P/L (Para 46A) 46 &

Don't apply this for DDs / CAs / Short term loan etc)

Option is available when company has a

Long term foreign currency monetary item (eg. long term foreign loan)

Related to a depreciable Asset
(long term foreign loan taken for depreciable Asset)

Ex Diff on long term loan can be adjusted from the cost of Asset

(Ex loss → Add to cost of Asset)
Ex Gain → less from cost of Asset)

NOT related to depreciable Asset

Ex diff shall be trf to a seperate account in R&S
Name of A/c's → "Foreign currency Monetary item translation diff A/c"
(FCMITD A/c)

eg: loan "Ex loss" = 10 lakhs
5yrs ~~P/L~~ FCMITD A/c's

B/s
R&S
FCMITD (10L)

over the period of 5yrs trf to P/L
as remaining loan term is 5yrs.

Note: Once the option is exercised, it is irrevocable

Illus 8

3yrs loan (long term loan)

01/01/x1 → Foreign currency loan = ₹3000 lakhs

$75 lakhs (₹3000 lakhs ÷ ₹40/$)

31/12/x1 Ex Diff on foreign loan = ₹187.50 lakhs (Ex loss)

[$75 lakhs × (₹42.5/$ - ₹40/$)]

If company opts for Para 46/46A

⇓

Ex loss added to cost of PPE

Cost of PPE = ₹3000 lakhs + ₹187.5 lakhs

= ₹3187.5 lakhs

⇓

Depn will be charged on this

If company does not opt for Para 46/46A

⇓

Ex loss of ₹187.5 lakhs

⇓

Trf to P/L

Illus 9 (CDR)

Journal entries in the Books of A Ltd

i) option under Para 46A is not availed

01/04/x1	Bank A/c Dr	₹ 480000	
	To Foreign loan A/c		₹ 480000
	($10000 x ₹ 48/$)		
31/3/x2	Interest on loan (P/L) A/c Dr	₹ 25,500	
	To C/B		₹ 25,500
	($10000 x 5% x ₹ 51/$)		
31/3/x2	Ex loss (P/L) A/c Dr	₹ 30,000	
	To Foreign loan A/c		₹ 30,000
	[$10000 x (₹51/$ - ₹48/$)]		

ii) option under Para 46A is availed

01/04/x1	Bank A/c Dr	₹ 480000	
	To Foreign loan A/c		₹ 480000
	($10000 x ₹ 48/$)		
31/3/x2	Interest on loan (P/L) A/c Dr	₹ 25,500	
	To C/B		₹ 25,500
	($10000 x 5% x ₹ 51/$)		

31/3/x2 Ex loss ~~(P/L)~~ A/c Dr ₹ 30,000
TO Foreign loan A/c ₹ 30,000
[$10000 × (₹51/$ - ₹48/$)]

31/3/x2 PPE A/c Dr 30000
TO Ex loss 30000

iii) loan taken for other than depreciable asset

01/04/x1 Bank A/c Dr ₹ 480000
TO Foreign loan A/c ₹ 480000
($10000 × ₹ 48/$)

31/3/x2 Interest on loan (P/L) A/c Dr ₹ 25,500
TO C/B ₹ 25,500
($ 10000 × 5% × ₹ 51/$)

31/3/x2 Ex loss A/c Dr ₹ 30,000
TO Foreign loan A/c ₹ 30,000
[$10000 × (₹51/$ - ₹48/$)]

31/3/x2 If para 46 A availed
FCMITD A/c Dr 30000
TO Ex loss 30000

If para 46 A not availed
P/L Dr. 30,000
TO Ex loss 30,000

Ques 1 (LDR)

01.04.19 PPE ₹ 3000 lakhs CIB ₹ 3000 lakhs

To CIB ₹ 3000 lakhs To foreign loan ₹ 3000 lakhs

($ 50 lakhs × ₹60/$)

Ex loss on foreign loan

Ex loss on 1st instalment repaid = [$ 10 lakhs × (₹62 − ₹60)] = 20 lakhs

Ex loss on o/s princ. = [$ 40 lakhs × (₹62 − ₹60)] = 80 lakhs

Total loss 100 lakhs.

As per AS 11, para 46 A availed ∴ Capitalise Ex loss to cost of PPE

Day 1 value Ex loss

31/3/20 → Cost of PPE = 3000 lakhs + 100 lakhs

= ₹ 3100 lakhs

Deprn for 19-20 @ 20% = ₹ 620 lakhs

4] Translation of Financial Statements of Foreign operation

A] Foreign Branch

B] Classification of Foreign operation — Integral / Non Integral

C] Translation of FS

D] Treatment of Ex Diff

Already covered in Branch A/c's

E] Indicators for identification of Non-Integral Foreign operation

- Non-integral foreign operation should have a significant Degree of independence in its activities
- Transactions with the head office are in very low proportion
- Transactions and activities of foreign operation Are mainly financed from its own operations or local borrowings
- Cost of labour material And other components Are primarily paid in local currency of foreign operation
- Foreign operations sale are mainly in their own currency
- Sales price are determined by local competition of foreign operation
- There is a active local sales market for foreign operations products

IFO → P/L   NIFO → FCTR

F. Changes in classification of foreign operation

1) Integral → Non Integral → Ex G/L from date of reclassificatⁿ t/f to FCTR

2) Non-Integral → Integral → —— " —— to P/L

(Old Ex Diff will continue to stay in FCTR)

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5. Accounting for forward Exchange Contracts

Forward Exchange contract entered for managing risk (Hedging)

Premium (loss) or discount (gain) arising at the inception of such forward contract should be amortised over the life of the contract.

Refer illus 4

Forward exchange contract entered for trading or speculation

Here the Profit /loss is computed by comparing forward rate & sale rate & such profit/loss is recorded in P/L.

refer illus 5

Hedging	Speculation
Purchase of Plant/Goods (+) Forward Contract	Only forward contract
Compare Forward rate & spot rate Book Ex G/L over the contract period	Compare forward rate & sale rate Book Profit /loss on sale date

Ab Hai Bhai Samajh!!

Illus 4 (LDR) → Hedging

Forward Rate (Price @ which we fix forward contract) ₹ 49.15 / $

(–) Spot Rate (Aaj ki normal rate) (₹ 48.85 / $)

Premium on contract (per $) ₹ 0.3 / $

Contract Amt $ 1,00,000

Total loss ₹ 30,000

1st Feb x1 — 3 months — 30/04/x1

2 months — 31/3/x1 — 1 month

loss = ₹ 30000

Book over 3 months

20k loss

10k loss

Contract period 3 months (2 months falling in the year ended 31st March, 20X1)

Loss to be recognised (30,000/3) x 2 = ₹ 20,000 in the year ended 31st March, 20X1. Rest ₹ 10,000 will be recognised in the following year.

Extra Example → Hedging

01/03/x1 PPE purchased for $ 15000 rate was ₹ 45 / $.
to be paid after 3 months.
Co. entered into forward contract to buy $ @ ₹ 47 / $
Calculate Ex Gain / loss & Discuss its treatment

Forward rate ₹ 47 / $

Spot ₹ 45 / $

Premium (loss) ₹ 2 / $

(×) $ 15000 → ₹ 30000 loss

01/03/x1 — 1m — 31/3/x1 — 2m — 31/05/x1

10k loss

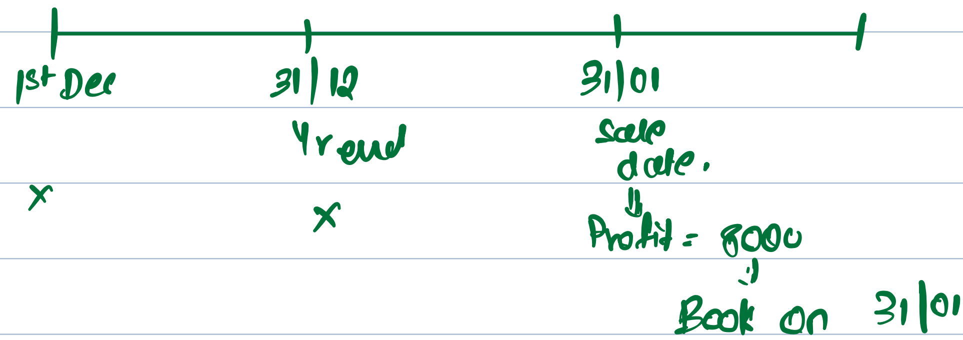
20k loss.

Illus 5 (LDR)

Contract Rate (forward Rate) = ₹ 47.10
~~Spot~~ Sale Rate = ₹ 47.18

Profit (per \$) = ₹ 0.08
Contract value \$ 1,00,000

Profit ₹ 8000



Extra Eg:

AK entered into forward contract for US \$ 15000 @ ₹ 46/\$ when rate was ₹ 45/\$.

It sold the contract after 2 months for ₹ 44.5 /\$.

Calculate Ex G/L & discuss its treatment

Contract Rate (Forward rate) = ₹ 46 /\$
~~Spot~~ Sale Rate (₹ 44.5/\$)

loss ₹ 1.5 /\$

Contract value \$ 15000

Total loss ₹ 22500

Book after 2 months.