SWASA :: PROFESSIONAL ENLIGHTENMENT

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AS-11-EFFECTS OF CHANGES IN THE FOREIGN EXCHANGE RATES

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SCOPE:

- ✓Accounting foreign currency transactions
- ✓Translate Financial Statement of foreign currency transactions
- ✓Accounting forward exchange contract

What is Foreign Operation?

Activities conducted in a country other than the country where the Reporting Enterprise Operates.

Foreign Exchange Rate:

Ratio of exchange of two currencies

Exchange Difference:

Arise when the rate of settlement of monetary items differs from the rate at which it was recorded initially in the books.

Forward Rate:

Specified rate at which two currencies are exchanged at a specified future Date.

- Foreign Operation
  - Integral
  - Non-integral

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Integral& Non Integral Foreign Operation:

- Integral Foreign operation will be treated as if it is the extension of the Reporting enterprise
- Integral part of those reporting enterprise.
- Transactions are reported by reporting enterprise itself.
- Purchase of fixed asset and depreciation translated at the rate on date of purchase ; if assets are at fair value ,date at which assets are valued.

Non Integral foreign operation is the one which is not an integral foreign operation.

Monetary Items(Cash, Bank, Recoverable and Payable in Foreign currency.)

- Restatement is necessary using Closing rate as on the date of Balance sheet ie.31st of March

Non-monetary items:

- Eg fixed asset,inventories.
- Which is not a monetary item.
- No need to restate as on the date of balance sheet.

Initial Recognition:

Assets should be recorded in the books of accounts using the exchange rate that pertains as on the date of transactions.

As on the date of balance Sheet:

Check whether it is a Monetary or Non monitary item then restate using the closing rate incase if it is a Monetary item, if not no need to re-state.The difference has to be taken to Profit and loss account.

As on Settlement Date:

At the time of settlement it has to be restated using the rate prevailing as on that date. The difference should be taken to P&L account.

Indication that the foreign operations are NIFO rather IFO

- ✓Reporting enterprise may control but foreign enterprise has significant autonomy
- ✓Transaction with reporting enterprise are not in that high amount
- ✓Finance from own operations
- ✓Cost of labor , material and other expenses settled by local currency(foreign)
- ✓Sales takes place in local currency(foreign)

THANK YOU

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