

# AS 11: The Effects of Changes in Foreign Exchange Rates

## Foreign Currency Transaction

Transaction which is denominated or requires settlement in foreign currency

Example: Buying & selling of goods/services or Lending/Borrowing in foreign currency

### Initial Recognition

Transaction recorded at Spot Rate  
i.e. Exchange rate on transaction date

### Subsequent Recognition

#### Monetary Item

Asset/Liability receivable or payable  
in fixed or determinable amount of money

Example: Debtors, creditors, Loan given,  
Loan taken etc.

Use exchange rate at  
Balance sheet Date

#### Non Monetary Item

Other than Monetary Items

Example: Fixed Assets, Inventories,  
Inv. in shares, share capital, etc.

At  
Historical cost

Date of  
Transaction

At  
Fair value

Date of  
Valuation

	<u>Exchange Difference</u>	
	<u>Inc.</u>	<u>Dec.</u>
Asset	Gain	Loss
Liability	Loss	Gain

(Exchange Difference to be transferred to P&L A/c)

## Special Case : Para 46A (Optional)

Long Term Foreign Currency Monetary Item ( $\geq 12$  Months)

Exchange Difference

Related to Depreciable Capital Assets

Adjust Cost of Asset  
(+, -)

Others

Accumulate in FCMITDA &  
amortise over period  
(Disclosed under Reserves & surplus)

## Forward Exchange Contracts

Agreement to exchange different currencies at Forward rate

Forward rate is specified exchange rate for exchange of currencies at specified future date

Trading or speculation

Gain/Loss: P&L A/c  
Premium or discount not recognised separately

Not for Trading or speculation

Premium or Discount amortize  
over life of contract

Foreign Operations — Covered in Branch Accounting