



Foreign Op.

(office in foreign country)

Problem



Branch / S / J.V.



∴ we require a standard which would guide in

a) Translation of F.C.T.

b) Translation of T.B. of F.O.

As soon as we convert FCT into INR there is an impact of F.C.E.R.

IND AS 21

## #2 Overview

This IND AS prescribes.

Definitions

#3

Accounting for F.C.T.

#4

F. Operations (F.O.)

#5

Trans. with subsidiary

#6

# #3 Definitions



## i) Exchange Rate :-

It is rate at which one unit of F.C. can be exchanged into INR.

eg → Case 1  
 $1 \$ = ₹ 82$   
 Then  $4000 \$ = ?$

Case 2  
 $₹ 1 = 0.0125 \$$   
 Then  $4000 \$ = ?$

Case 3  
 $1 A \$ = 1.22 \$$   
 $= 1.22$

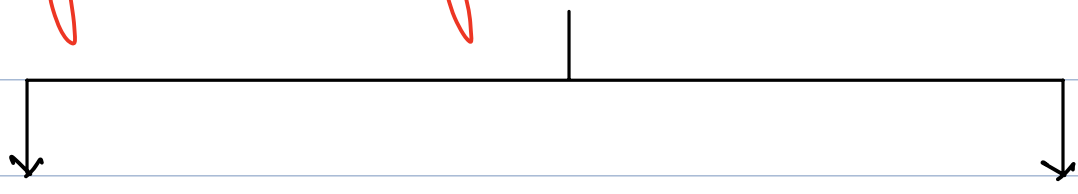
\$	₹
1	82
4000	??
	$4000 \times 82$
	$\Rightarrow ₹ 328000$

\$	₹
0.0125	1
4000	??
	$\frac{4000}{0.0125}$
	$\Rightarrow ₹ 320000$

Then 4000 US \$ = ?

US \$	A \$
1.22	1
4000	??
	$\frac{4000}{1.22}$
	A \$ 32787

## ii) Bifurcation of A s l



**monetary**  
 Those contractual A s l which are to be settled at fixed determinable

**Non-monetary**  
 Those non contractual A s l which are not to be settled at

amount.



- eg →
- TIR & TIP.
  - ↳ Bank Bal.
  - ↳ loan
  - ↳ Invt in bonds/deb.
  - ↳ E.B. payable in cash.
  - ↳ Tax liability
  - ↳ **Advance.** \*\*

Its a special asset } may be settled in cash  
 or may not be.  
 but fixed det. amt.

fixed determinable

Amount



- eg →
- PPF
  - ↳ I.P.
  - ↳ Inventory
  - ↳ I.T.A.
  - ↳ B.I.A.
  - ↳ Eq. share.
  - ↳ R.S.S.

### iii) Types of Currency

Functional  
(F.L.C.)

i) Currency of primary economic environment in which entity operates.

ii) Currency in which entity's majority of transactions takes place.

Presentation  
(P.C.)

Currency in which f/s are prepared.

eg:-

Foreign  
(F.C.)

Any currency other than FLC

iii) B.O.A. are maintained in

BMW INDIA.



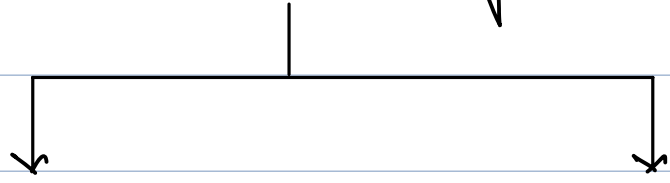
F.L.C.

FLC = ₹

P.C. = ₹



iv) Determination of FLC.



Primary factors.  
↓  
Currency that mainly dominates

- I<sup>st</sup> Sales
- II<sup>nd</sup> purchase
- III<sup>rd</sup> Expense
- IV<sup>th</sup>. Competitive/Regulatory environment.

Secondary factors.  
↓  
Currency in which entity

- I<sup>st</sup> funds are raised.
- II<sup>nd</sup> Earnings are retained.

eg-2

Primary factors

Secondary factors

	S	P	E	C/RE	Funds	R.E	
HD Ltd	\$	₹	₹/\$	\$	₹	₹	FLC = ₹
Buro (UK)	₹	₹	₹	₹/₹	₹	₹	FLC = ₹



generally FLC & P.C. might be same & FC & FLC be same. but can all 3 currency be diff. ? Yes.



Indian  $\Rightarrow$  biz. in dubai  $\Rightarrow$  FLC  $\Rightarrow$  ₹  
 $\hookrightarrow$  F.C. \$ & P.C.  $\Rightarrow$  Dirham  
This is same when Singapore occupied China & Africa occupied by UK.

HD View.

## #4 AICing for PCT

(a)

Initial Recognition  
@ spot Rate on  
Date of Transaction

Subsequent Recognition

Settled before yr. end.

Not settled (unsettled)  
as on yr. end.

i) Transaction should be



Recognised @ spot rate  
as on Date of settlement.

ii) Any E.D. Should be  
trf. to P/L.

a) Monetary items

Should be  
Valued



@ Closing rate

i.e. rate as on yr. end.

exception "Advance"

↓  
Should continue @

Original rate. & it

Should not be restated.

Any Exch. diff. is trf.  
to P/L. (refer eg. 3)

b) Non monetary items

eg → Today I entered into  
contract to purchase  
watch after 3m @  
\$1000 paying today  
So it will not make  
any difference.

∴ T.B. of A/L is @ Original Rate.

Case 1

N.M.I. Carried at Cost

eg → PPE @ Cost Model, I.P.

Case 2

N.M.I. Carried

@ F.V.



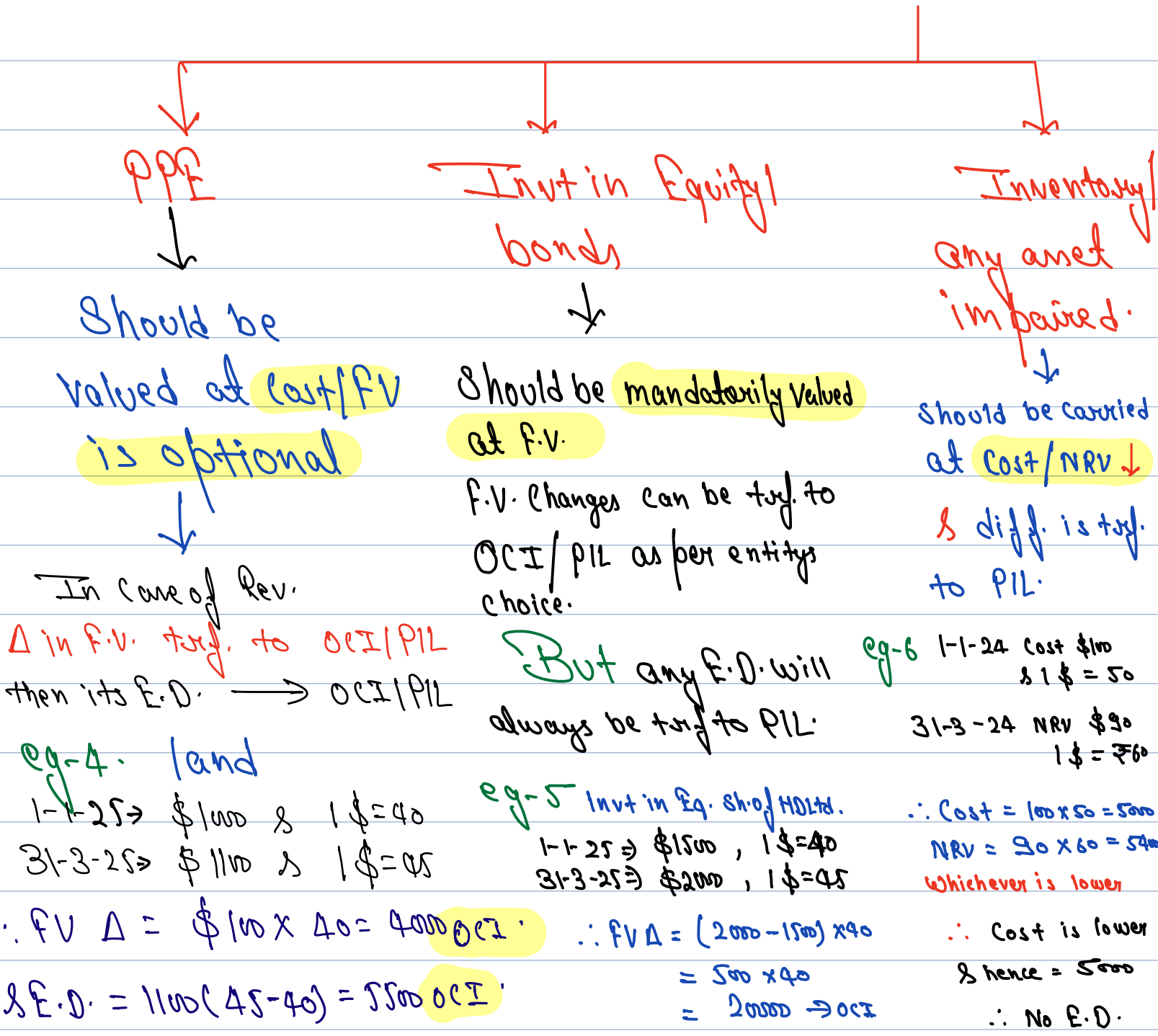
i) Such N.M.I. should be Carried at cost.

ii) it should not be overstated & ∴ E.D. will not come

eg ⇒ PPE @ Rev. model; BIA.



i) Such asset should be valued at E.R. as on Date of Revaluation



PPE

Invest in Equity/Bonds

Inventory/Any asset impaired

Should be valued at Cost/FV is optional

Should be mandatorily valued at F.V.

Should be carried at Cost/NRV

In case of Rev.

Δ in F.V. trf. to OCI/PIL then its E.D. → OCI/PIL

eg-4. Land

1-1-25 ⇒ \$1000 & 1\$ = 40  
31-3-25 ⇒ \$1100 & 1\$ = 45

∴ FV Δ = \$100 x 40 = 4000 OCI  
& E.D. = 1100(45-40) = 5500 OCI

F.V. changes can be trf. to OCI/PIL as per entity's choice.

But any E.D. will always be trf. to PIL.

eg-5 Invst in Eq. sh. of HLDd.

1-1-25 ⇒ \$1500, 1\$ = 40  
31-3-25 ⇒ \$2000, 1\$ = 45

∴ FVA = (2000-1500) x 40 = 500 x 40 = 20000 ⇒ OCI

eg-6 1-1-24 Cost \$100 & 1\$ = 50  
31-3-24 NRV \$90 1\$ = ₹60

∴ Cost = 100 x 50 = 5000  
NRV = 90 x 60 = 5400  
whichever is lower  
∴ Cost is lower & hence = 5000  
∴ No E.D.



$$\begin{aligned}
 \text{S.E.D.} &= 2000 \times (45 - 40) \\
 &= 2000 \times 5 \\
 &= 10000 \rightarrow \text{OCI}
 \end{aligned}$$



eg-3

Transaction

T.D.

S.D.

Y.E.

S.D.

$$1 \$ = 60$$

$$1 \$ = 61$$

$$1 \$ = 62$$

$$1 \$ = 63$$

i) Exp. of \$50

Exp. 3000  
To bank 3000

$$(50 \$ \times 60)$$

ii) purchase of goods from Buddy on credit 150 \$

purch. Dr 9000  
To Buddy 9000  
(60 x 150)

E.D. Dr 150 (By)  
Buddy 9000  
To bank 9150  
(150 x 61)

iii) Sold goods to Harshit @ \$200

*→ NI*  
Harshit 12K  
To Sale 12K  
(200 x 60)

Harshit 400 Bank 12600  
To E.D. 400  
(200 x (62 - 60))  
To Har. 12000  
To E.D. 200 (By)  
(200 x 63)

iv) purch. of PPE for \$200 (cost model)

*→ NM I @ cost*  
PPE 12K  
To bank 12K  
(200 x 60)



→ N.M.I. @ F.V.

v) purch. of PPE.  
for \$200 Rev.  
on yr. end  
\$250

PPE 12K  
To bank 12K  
(200x60)

PPE Dr 3500  
OCI ← To F.V.A 3000 (50x60)  
OCI ← To F.D. 500  
(250 x (62-60))

**Question # 1**

Identify the functional currency :

**Case 1 :**

M LTD a subsidiary in India, purchases goods from A Inc. a USA based company its holding Co. Purchases are done in USD and are based on prices in the US market. Prices of the goods are influenced by USD markets. Other expenses are incurred in INR. M Ltd has an external commercial borrowing in USD

Soln :- US \$      Purch \$      Exp ₹      CRE \$      Sales \$      Fund \$

**Case 2:**

USA Co. owns a subsidiary in India Rattle Ltd. Materials are manufactured by USA Ltd and assembled in India. All the goods are sold in Australia, based on

selling prices determined by USA Ltd. and influenced by Indian Market. The company has a loan from an Indian Bank.

Sale A \$      CRE ₹      Fund ₹  
Soln :- INR ₹

**Question # 2**

On 1.04.08 X ltd purchased goods from USA worth \$ 1,000. Spot Rate ₹ 60.  
Payment on 1.5.08 \$300 (Spot Rate was 1\$ = ₹ 61). On  
01.08.08 \$500      Spot Rate - ₹ 62  
01.05.09 \$200      Spot Rate - ₹ 64  
Year end 31.03.09      Spot Rate - ₹ 63

Sol<sup>n</sup> :-

In the books of XLtd.



1-4-08

Purchase Dr (\$1000 x 60) 60000  
To US Crs. 60000



1-5-08

US Crs Dr 18000  
Exch. loss (PIL) Dr 300 (Biff)  
To Bank 18300  
(300 \$ x 61)

1-8-08

US Crs Dr (500 \$ x 60) 30000  
Exch. diff. (PIL) Dr 1000  
To Bank (500 \$ x 62) 31000

31-3-09

Exch. loss (PIL) Dr (200 \$ x 3) 600  
To US Crs 600

1-5-09

US Crs Dr (200 \$ x 63) 12600  
Exch. loss (PIL) Dr 200  
To bank (200 \$ x 64) 12800

### Question # 3

On 01.06.16 Joy sold goods in US for \$ 1,200 ( Spot Rate = ₹ 61 )

01.07.16 received \$500 (Spot Rate = ₹ 64)

01.10.16 received \$80 (Spot Rate = ₹ 62)

01.05.17 received balance (Spot Rate = ₹ 61)

Year end 31.03.17 Spot Rate = ₹ 60

Sol<sup>n</sup> :- 1-6-16 Joy Dr ( 1200 \$ x 61 ) 73200  
To Sales 73200

1-7-16 CIB Dr ( 500 \$ x 64 ) 32000  
To P/L (B/f) 1500  
To Joy ( 500 \$ x 61 ) 30500

1-10-16 CIB Dr ( \$ 80 x 62 ) 4960  
To P/L (B/f) 80  
To Joy ( 80 \$ x 61 ) 4880

31-3-17 P/L Dr 620  
To Joy ( 620 \$ x 1 ) 620

1-5-17 CIB Dr ( 620 \$ x 60 ) 37200  
P/L Dr 620  
To Joy ( 620 \$ x 61 ) 37820

### Question # 5

On 30th January, 2011, A ltd purchased a machinery for \$5000 from USA supplier on credit basis. A ltd's functional currency is the Rupee. The exchange rate on the date of transaction is 1\$ = ₹ 60. The fair value of the machinery determined on 31st March, 2011 is \$5,500. The exchange rate on 31st March, 2011 is 1\$ = ₹ 65. The payment to overseas supplier done on 31st March 2012 and the exchange rate on 31st March, 2012 is 1\$ = ₹ 67. The fair value of the machinery remain unchanged for the year ended 31st March 2012.

Pass journal entries for the year ended on 31st March, 2011 and 31st March, 2012 according to Ind AS 21. *Tax rate 30%* {RTP - MAY - 2018}

Sol<sup>n</sup>:

In the books of A Ltd.

30-1-2011 PIM (\$5000 x 60) 300000 Non MI @ Rev. Inv  
To Supplier 300000 M.I.

31-3-2011 PIM Dr 57500  
To Rev. Res. (5000\$ x 60) OCI 30000  
To Exch. gain (5500\$ x 5) OCI 27500

31-3-2011 Exch. loss. Dr (5000\$ x 5) P12 25000  
To Supplier 25000

31-3-2011	C.A.	T.B.	T.D.	T.R.	D.T
PM.	357500	300000	57500	30%	17250
			T.T.D		DTL
Supplier	325000	300000	25000	30%	7500
			D.T.D.		DTA.



O.C.I Dm 17250

To DTL 17250



8

DTA Dm 7500

To P/L 7500

31-3-12 P/M Dm 11000

To Exch. gain ( $\$ 5500 \times 2$ ) 11000

31-3-12 Supplier Dm 32500

Exch. loss (P/L) 10000

To Bank ( $\$ 5000 \times 67$ ) 33000

31-3-12

C.A.

T.B.

T.D.

T.R.

C.I.

D.T.

- op.D.T. = C.Y.

D.T.

P/M. 368500 300000 68500 30%. 20550 - 17250 = 3300

T.T.D.

DTL

31-3-12 O.C.I Dm 3300

To DTL 3300

P/L Dm 7500

To DTA. 7000

(Reverse DTA on supplier :: Settled)



Question # 6

On 1st January, 2018, P Ltd. purchased a machine for \$ 2 lakhs. The functional currency of P Ltd. is Rupees. At that date the exchange rate was \$1 = ₹ 68. P Ltd. is not required to pay for this purchase until 30th June, 2018. Rupees strengthened against the \$ in the three months following purchase and by 31st March, 2018 the exchange rate was \$1 = ₹ 65. CFO of P Ltd. feels that these exchange fluctuations wouldn't affect the financial statements because P Ltd. has an asset and a liability denominated in rupees. Which was initially the same amount. He also feels that P Ltd. depreciates this machine over four years so the future year-end amounts won't be the same.

Examine the impact of this transaction on the financial statements of P Ltd. for the year ended 31st March, 2018 as per Ind AS. <sup>21</sup> {RTP - NOV - 2018}

Sol<sup>n</sup>:- In the books of P Ltd.

1-1-2018 PIM Dr (\$2Lac x 68) 13600000 → Non MI @ cost  
To Supplier 13600000 → MI

31-3-2018 Dep. (PIM) Dr 850000  
To PIM 850000

$$\left( \frac{136 \text{ Lac.}}{4 \text{ yrs}} \times \frac{3 \text{ m}}{12 \text{ m}} \right)$$

31-3-2018 supplier (2L x 3) 600000  
To Exch. gain 600000

31-3-18 i) PIM would appear in BLS as Non CA

@ ₹ 127.5 lac.

ii) Supplier should appear in B/S  
@ ₹ 130 lac.

iii) impact on P/L = Exchange gain of 6 L  
& Dep. of 8.50 L.



### Question # 7

Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1st January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31st March, 2018. USD 30 million is received on 1st April, 2018 in full and final settlement of the purchase consideration.

The exchange rates on 1st January, 2018 and 31st March, 2018 are ₹ 72 per USD and ₹ 75 per USD respectively.

State the date of transaction for advance consideration and recognition of revenue. Also state the amount of revenue in INR to be recognized on the date of recognition of revenue.

{RTP - MAY - 2019}

Sol<sup>n</sup>:- In the books of A Ltd.

1-1-18 Bank Dr 1440  
To Advance 1440  
( $\$20m \times 72$ )

31-3-18 Adv. from co. Dr 1440  
Des. ( $\$30m \times 75$ ) 2250  
To Sales. 3690  
(B/S)

1-4-18 Bank Dr 2250  
To Des. 2250

## Question # 4

Calculate difference and show its treatment.

### Situation - 1

Cost of Inventory = \$10,000 (Spot Rate = ₹ 62)

NRV of Inventory = \$11,000 (Spot Rate = ₹ 62.5)

### Situation - 2

Cost of Inventory = \$10,000 (Spot Rate = ₹ 62)

NRV of Inventory = \$9,000 (Spot Rate = ₹ 62.5)

### Situation - 3

Plant and Machinery at cost is \$10,000 (Spot Rate = ₹ 60)

FV as on date of balance sheet is \$9,800 (Spot Rate = ₹ 61)

### Situation - 4

Plant and Machinery at cost is \$10,000 (Spot Rate = ₹ 60)

FV as on date of balance sheet is \$11,000 (Spot Rate = ₹ 61)

Assuming revaluation model

### Situation - 5

Investment in Equity at cost is \$10,000 (Spot Rate = ₹ 60)

FV as on date of balance sheet is \$9,800 (Spot Rate = ₹ 62)

Soln:-

### Situation 1

$$\text{Inventory Cost} = 10000 \times 62 = 620000$$

$$\text{NRV} = 11000 \times 62.5 = 678500$$

∴ it should be valued at lower of cost / NRV

i.e. @ ₹ 620000

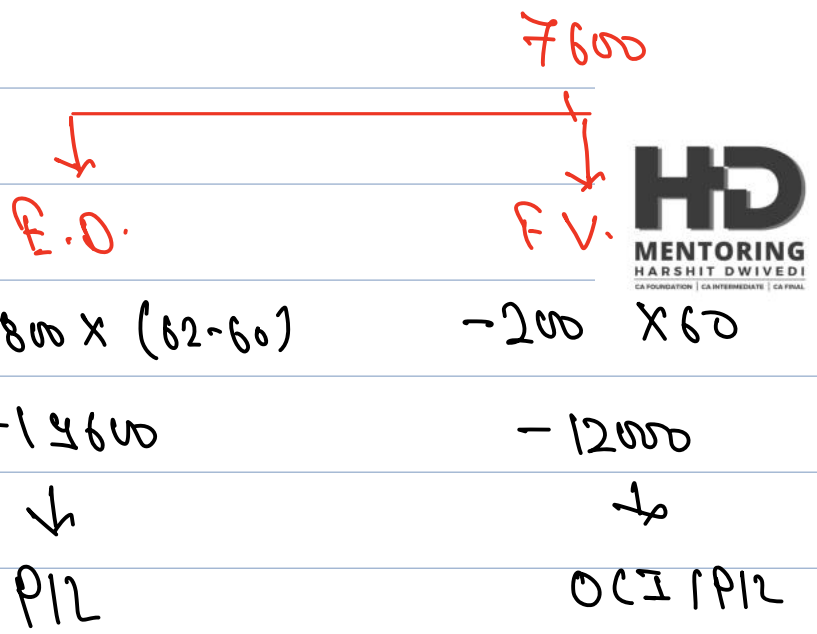
∴ No E.D.

### Situation 2

$$\text{Inventory Cost} = 10000 \times 62 = 620000$$

$$\text{NRV} = 9000 \times 62.5 = 562500$$





## B) Foreign Currency loan

Step 1 op. bal. of loan in F.C.

loan taken	xxx
- TIC	<u>(xx)</u>
C.A.	<u>xxx (a)</u>

Step 2 L.A.T. in foreign currency

yr.	op. bal.	Int @ E.I.R.	install.	cl. bal.
1	(a)	xxx	xxx	xxx

Step 3: Loan all in INR (₹)

To bank            xxx (install. in F/C x cl. Rate)	By Bank            xxx (a) x spot rate)
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or  
(S.R. on date of pay.)

To bal. (1d) x x x

(Cl. bal. in FIC x Cl. Rate)

By int.

(int. in FIC x Avg. rate)

x x x



Any (B/f = Ench. g/L)  $\Rightarrow$  Adj. to P/L.

Step 4 Pass J.E. from loan a/c

(People do make LAT in FIC & LAT in INR then cal. E.D. but in my opinion ledgerised)

NO CLOUD.

c) FIC inv in Bond  $\Rightarrow$  follow same method as above

Practice Q.3 of ICAI SM, RTP MAY 20.

On 1<sup>st</sup> April, 20X1, Makers Ltd. raised a long term loan from foreign investors. The investors subscribed for 6 million Foreign Currency (FCY) loan notes at par. It incurred incremental issue costs of FCY 2,00,000. Interest of FCY 6,00,000 is payable annually on 31<sup>st</sup> March, starting from 31<sup>st</sup> March, 20X2. The loan is repayable in FCY on 31<sup>st</sup> March, 20X7 at a premium and the effective annual interest rate implicit in the loan is 12%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

- 1<sup>st</sup> April, 20X1 - FCY 1 = ₹ 2.50.
- 31<sup>st</sup> March, 20X2 - FCY 1 = ₹ 2.75.
- Average rate for the year ended 31<sup>st</sup> March, 20X2 - FCY 1 = ₹ 2.42. The functional currency of the group is Indian Rupee.

Advise the appropriate accounting treatment for the foreign currency loan in the books of Makers Ltd. for the financial year 20X1-20X2. Also calculate the initial measurement amount for the loan, finance cost for the year, closing balance and exchange gain / loss.

Sol<sup>n</sup>:-

Step 1	op. bal. of loan in f.c.
loan taken	6000000
- TIC	<u>(200000)</u>
	<u>5800000</u>

Step 2. LAT in P.c.

year	op. bal.	Int @ 12%	Install.	cl. bal.
1	5800000	696000	600000	5896000

Step 3 Loan ac in INR.

To bank	1650000	By Bank	14500000
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(600000 × 2.75)

(58L × ₹2.50)

To bal. c/d. 16214000

By int.

1684320

(5896000 × 2.75)

(696000 × 2.42)

By Ex loss. (P12)

1679680

### Question # 12

An Indian entity, whose functional currency is rupees, purchases USD dominated bond at its fair value of USD 1,000.

The bond carries stated interest @ 4.7% p.a. on its face value. The said interest is received at the year end.

The bond has maturity period of 5 years and is redeemable at its face value of USD 1,250.

The fair value of the bond at the end of year 1 is USD 1,060.

The exchange rate on the date of transaction and at the end of year 1 are USD 1 = 40 and USD 1 = 45, respectively. The weighted average exchange rate for the year is 1 USD = 42.

The entity has determined that it is holding the bond as part of an investment portfolio whose objective is met both by holding the asset to collect contractual cash flows and selling the asset.

The purchased USD bond is to be classified under the FVTOCI category. The bond results in effective interest rate (EIR) of 10% p.a.

Sol<sup>n</sup>:- Step 1 op. bal. of invt. in \$  
loan taken 1000

Step 2 LAT in \$

Yr	op. bal.	Int @ 10%	Int.	Cl. bal.
1	1000	100	59 (1250 × 4.7%)	1041

Int. received @ coupon rate on face value

Step 3

Inv't in Bond Ledger in (₹)



To bank 40000  
(1000 \$ x 40)

By Bank (59 \$ x 45) 2625

To int. 4200  
(100 \$ x 42)

By Bal. (1d. 47700  
(1060 x 45)

To FV change. 855  
gain  
(1060 - 1041) x 45

To P/L (gain) 5300  
Bid.

(1000 \$ x 5  
+ 100 \$ x 3)

# 5 Foreign operations. (F.O.)

i) meaning →

F.O. means → Subsidiary, associate, J.V.,  
branch. of any entity  
in any other country.

ii) FLC of FO



FLC of FO will be same as of parent if all the following conditions are fulfilled.



Activities of FO are carried out as extension of parent entity.

Transactions of FO with parent entity are in high proportion of its activities.

Cfs of FO are readily available for remittance to parent entity.

Cfs of F.O. are not sufficient for settlement of its debt.

*if any of above conditions is not fulfilled*  
Then F.O. has to determine its FLC by applying primary & secondary factors.

iii) if  $FLC(FO) \neq FLC(\text{parent})$   
Then F.O. prepares its FIS in FLC i.e. in its FLC.

Hence F.O. is required to translate its FIS into presentation currency of parent entity.  
FIS  $\Rightarrow$  BIS, SPL, SOCIE.

## iv) Rules for Translation of BIS/T.B.



- income & Exps.
- ASL (both m.I & N.m.I.)
- O.E. & R.E.
- ESC

Avg rate

Cl. Rate

actual rate

Actual rate on date of issue.



- profit earned during year
- g/w on consolidation
- Difference.

Avg. rate

Cl. Rate

FCTR  $\Rightarrow$  OCI(R)

## Notes.

a) FCTR will be classified to P/L on disposal of subsidiary.

b) while preparing CFS  $\Rightarrow$  FCTR  $\Rightarrow$  post Reserves.

$\therefore$  P share of FCTR will come in Con. O.F.  
NCI share of FCTR will be added to NCI.

c) Reconciliation of FCTR (if asked)

Items not converted.

at Cl. Rate

Actual

Value

@ Cl.

Rate

FCTR

(A-B)



S.C.

R.E.

C.Y. profit

(A)

(B)



Same as in BIS/T.B.

d) Calc<sup>n</sup> of C.I. Bal. of R.E. in FLC of parent.

Op. R.E.	@	actual rate
+ profit of C.Y.	@	avg. rate
- Div. paid	@	spot rate

v) Do not translate SPL of S in FLC of parent entity

∴ all items of P/L will be translated @ avg. rate instead of that translate C.Y. profit @ avg. rate.

vi) SOCIETY.



Particulars	S.C.	R.E.	FCTR	Total
Op. bal.	✓	✓	✓	✓
profit for the year	—	✓	—	✓
Div. paid	—	(✓)	—	(✓)
E. Diff.	—	—	(B/f)	✓
Cl. bal	✓	✓	✓	✓



## #6 Transaction with Subsidiary.

In this case we need to study 4 Trans.

a) Contra items.

b) V R P

c) g/w

d) Disposal of subsidiary.

A) Contra items.  $\Rightarrow$  amt due b/w P & S  
due to

a) purchase & sale of goods  $\Rightarrow$  Dr/cr.

b) loan

Care-1

Plan to settle

Care 2

No plan to settle.



↓  
i) Contra items will be eliminated in cfs.

ii) E.D. on C.I. will come in C.P.L. → P/L.

↓  
i) Contra items will be eliminated in cfs.

ii) E.D. on C.I. will come in C.P.L. → 0 C.I.

## B) URP

1st Calculate URP.

↳ on date of purchase/sale

S.P. of goods in FLC (P)	xxx
C.P. of goods in FLC (P)	xxx
	xxx

2<sup>nd</sup> J.E. in C.F.S.

C.P/L Dr      xxx

To URP      xxx

## C) Goodwill

1st calculate GIW in FLC of S.

N.A. of S. as on DOA.	xxx
- P.C.I. inv. ins.	xxx

- NCI



xxx

xxx

Goodwill



2<sup>nd</sup> g.w. on y. end will be valued @ Cl. Rate.

### D) Disposal of Subsidiary.

w/o loss of cont.

with LOC

a) increase stake of NCI as per today's value of N.A. of S + g/w.

a) Derecognise Subsidiary

b) J.E.

Bank Dr → Sale price.

Inv Dr → Inv. Retained.

NCI Dr

FCTR Dr → entire

To N.A. of S

To g/w

To O.F. → gain (B/F)

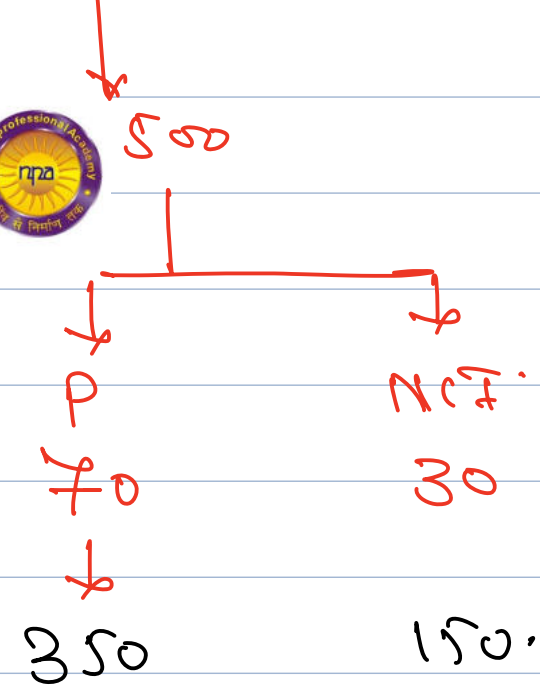
b) J.E.

Bank Dr xxx

FCTR Dr xxx

To NCI xxx

(% of stake sold x N.A. of S + g/w)



if 10% sold

$$\text{then } \Rightarrow \frac{350}{70} \times 10 = 50$$

↓

$$\frac{\text{Total FCTR.}}{\text{P's stake}} \times \% \text{ of stake sold.}$$

Any diff in above entry = GILL.

eg. 4

	P	S
FLC	\$	₹
E.R. as on 30-9-24		⇒ 1 \$ = ₹ 1.5
	31-3-25	⇒ 1 \$ = ₹ 2
P lends to S	\$ 100	on 30-9-24.

Sol<sup>n</sup>!

In the books S (₹)

In the books of P (\$)



i) Bank Dr 150  
 To P's loan 150  
 (1.5 x 100)

i) S's loan Dr 100  
 To Bank 100



2) E.D. Dr 50  
 To P's loan 50

S's T.B (£)

	Dr	Cr
P's loan		200
E.D.	50	

P's T.B. (\$) )

	Dr	Cr
S's loan	100	
E.D.		100

T.B. of S in \$

Dr Cr

P's loan  
 (200 / 2)

E.D. 25

if Plan to settle

CPIL ⇒ PIL

if No Plan to settle,

CPIL ⇒ OCI



P  
 \$  
 S  
 ₹  
 E.R. on 30-9-24 1 \$ = ₹ 2  
 E.R. on 31-3-25 1 \$ = ₹ 2.2



P sold goods of \$100 to S on credit & amount is still due.

Sol<sup>n</sup>:-

In the books of S (₹)

In the books of P (\$) & ₹

30-9-24 Purch. 200  
           To P 200  
           (100 \$ x 2 = 200)

30-9-24 S Dr 100  
           To sales 100

31-3-25 R.D. 20  
           To P 20  
           (100 \$ x 0.2 = 20)

On 31-3-25

T.B. of S (₹)

T.B. of P (\$)

Dr Cr  
 P. 220  
 R.D. 20

Dr Cr  
 S 100  
 T.B. of S (\$)

P. 100



$$F.D. \left( \frac{20}{2.2} \right)$$

9.09  
↓



$$\begin{array}{l} \$ \quad \quad \quad \text{₹} \\ 1 \rightarrow 2.2 \\ 20 \rightarrow \frac{20}{2.2} \end{array}$$

CPL.  
↳ P/L.

### Question # 10

M limited is engaged in the business of manufacturing of bottles for pharmaceutical companies and Non- pharmaceutical companies. It has a wholly owned subsidiary, G ltd, which is engaged in the business of pharmaceuticals. G ltd purchases the pharmaceutical bottles from its parent company. The demand for G ltd is very high and the operations of M ltd are very large and hence to cater to its shortfall, G ltd also purchases the bottles from other companies at the competitive prices.

M ltd sold pharmaceutical bottles to G ltd for Euro 12 lacs on 1st February, 2001. The cost of these bottles was ₹ 830 lacs in the books of M ltd at the time of sale. At the year-end i.e. 31st March, 2001, all these bottles were lying as closing stock with G ltd.

What should be accounting treatment for the above?  
Following information is available:

Exchange rate on 1st February, 2001	1 Euro = ₹ 83
Exchange rate on 31st March, 2001	1 Euro = ₹ 85

Soln :-

In the books of M Ltd. → P.

In the books of G Ltd. → S.

1-2-01 G Ltd 996  
To Sden. 996

1-2-01 Purch. 12  
To M 12

$$\left( \begin{array}{l} \text{₹} \quad \quad \quad \text{₹} \\ 1 \quad \quad \quad 83 \\ 12 \text{ lac.} \quad \quad = 83 \times 12 = 996 \end{array} \right)$$

31-3-01

Gr L & E. 24

To E.D. (PIL) 24

(12L ₹ x ₹2)



In CFS:

- a) Receivable & payables will be eliminated in CFS.
- b) E.D. of ₹24 lac will appear in CPL (PIL)
- c) URP for M.

on D.O. Sale. ⇒ S.P. 996 lac.  
 ' ⇒ C.P. 830 Lac.  
166 Lac.

CPL Dr 166 lac

To inventory 166 lac

Note → In this Q. there is No plan to sale but No plan to sale in case of loan only.

Diff b/w Q.10 & eg. 4.15 is  
 in Q.10 E.D. is in books P only.  
 but in eg 4.15 E.D. is in books of S.  
 & then it is converted into P's currency.

## Question # 11

Global limited, an Indian Company acquired on 30th September, 2011 70% share capital of Mark limited, an entity registered in Germany. The functional currency for Global limited is INR and its financial year-ends on 31st March, 2012.

- I. The fair value of Net Assets of Mark Limited was 23 million EURO and Purchase consideration paid is 17.5 million EURO on 30th September, 2011. The exchange rate as at 30th September, 2011 was ₹ 82 / EURO and at 31st March, 2012 was ₹ 84 / EURO

What is the value at which the goodwill has to be recognised in the FS of Global limited as on 31st March, 2012?

- II. Mark limited sold goods costing 2.4 million EURO to Global limited for 4.2 million EURO during the year ended 31st March, 2012. The exchange rate on the date of purchase by Global limited as ₹ 83 / EURO and on 31st March, 2012 was ₹ 84 / EURO. The entire goods purchased from Mark Limited are unsold as on 31st March, 2012.

Determine the unrealised profits to be eliminated in the preparation of CFS.

{RTP - NOV - 2019}

Sol<sup>n</sup> (A) Cal<sup>n</sup> of giw. on 30<sup>th</sup> sept 2011 ₹

N.A. of S. as on DoA.	23
- invt in S.	17.5
- NCI (30%)	<u>6.9</u>
	<u>24.40</u>
	<u>1.40</u>
	giw

giw on 31-3-2012 will be recognised in FLC (P) i.e. ₹ @ C.F. Rate  
 $= 1.40 \times ₹ 84 = ₹ 117.6$

B) in the books of P. (₹) Global Ltd. in the books of S (₹) Mark.

Do P. Purch. Dr (4.2 x 83) 348.6

Global 4.2

To Mark. 348.6

To Sales 4.2



y.e. E.D. Dr (4.2 x 1) 4.2

To Mark 4.2

in CFS.

SP in ₹ 348.6

C.P. in ₹ (2.4 x 83) 199.2

149.4

CPL Dr 149.4

To inventory, 149.4

**Question # 8**

X Ltd has FLC (US\$) and needs to translate its FS into PC (A\$). The following is the statement of financial position prior to translation

Particulars	US\$	A\$
PPE	50,000	C.I. R.
Receivable	9,35,000	C.I. R.
	9,85,000	
Issued capital	50,000	30,555
Opening retained earnings	28,000	15,274
Profit for the year		
Accounts payable	20,000	avg. rate.
Accrued liabilities	8,40,000	C.I. R.
	47,000	C.I. Rate.
	9,85,000	
Opening Rate	A\$ 1 = US\$ 1.22	US\$ AS\$
Average Rate	A\$ 1 = US\$ 1.75	1.22
Closing Rate	A\$ 1 = US\$ 1.13	1.13

# Sol<sup>n</sup> :- B/S.



## Particulars.

## workings.

## amt. (AU\$)

PPE

$$(5000 \div 1.13)$$

44248

Receivables

$$(93500 \div 1.13)$$

827434

871682

S.C.

30555

R.E.

15274

profits

$$(2000 \div 1.75)$$

11429

acc. liab

$$(47000 \div 1.13)$$

41593

All payables

$$(84000 \div 1.13)$$

743363.

FCTR (B/f)

29468

871682

## FD Crift.

## Reconciliation

items not @ cl. Rate.	US \$	Actual (A)	@ cl. 1.13 (B)	Diff (A-B)
S.C.	5000	30555	44248	13693
R.E.	28000	15279	24779	9505
profit	20000	11429	17699	6270
		<u>57258</u>	<u>86726</u>	<u>29468</u>

## TEST YOUR KNOWLEDGE

1. Parent P acquired 90 percent of subsidiary S some years ago. P now sells its entire investment in S for ₹ 1,500 lakhs. The net assets of S are 1,000 and the NCI in S is ₹ 100 lakhs. The cumulative exchange differences that have arisen during P's ownership are gains of ₹ 200 lakhs, resulting in P's foreign currency translation reserve in respect of S having a credit balance of ₹ 180 lakhs, while the cumulative amount of exchange differences that have been attributed to the NCI is ₹ 20 lakhs

Calculate P's gain on disposal in its consolidated financial statements.

Sol<sup>n</sup>:

Bank	Dr	1500	
NCI	Dr	100	(100 × 10%)
FCTR	Dr	180	
			To NA of S 1000
			To gain on disposal <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">780</span>

Practical Q. 4 of SM

4. Infotech Global Ltd. (a stand-alone entity) has a functional currency of USD and needs to translate its financial statements into the presentation currency (INR). The following is the draft financial statements of Infotech Global Ltd. prepared in accordance with its functional currency.

### Balance Sheet

Particulars	31 <sup>st</sup> March, 20X3 ✓	31 <sup>st</sup> March, 20X2 ✓
	USD	USD



Property, plant and equipment	CL	50,000	55,000
Trade Receivables	CL	68,500	56,000
Inventory	CL	8,000	5,000
Cash	CL	<u>40,000</u>	<u>35,000</u>
<b>Total assets</b>		<b><u>1,66,500</u></b>	<b><u>1,51,000</u></b>
Share Capital	actual.	50,000	50,000
Retained earnings		<u>29,500</u>	<u>18,000</u>
<b>Total Equity</b>		<b><u>79,500</u></b>	<b><u>68,000</u></b>
Trade payables	Cl.	40,000	38,000
Loan	Cl.	<u>47,000</u>	<u>45,000</u>
<b>Total liabilities</b>		<b><u>87,000</u></b>	<b><u>83,000</u></b>
<b>Total equity and liabilities</b>		<b><u>1,66,500</u></b>	<b><u>1,51,000</u></b>

### Statement of Profit and Loss *(not interested)*

Particulars	USD
Revenue	1,77,214
Cost of sales	<u>1,13,100</u>
<b>Gross Profit</b>	<b>64,114</b>
Distribution costs	2,400
Administrative expenses	18,000
Other expenses	11,000
Finance costs	<u>12,000</u>
<b>Profit before tax</b>	<b>20,714</b>
Income tax expense	<u>6,214</u>
<b>Profit for the year</b>	<b><u>14,500</u></b>

### Extracts from Statement of Changes in Equity

Particulars	31 <sup>st</sup> March, 20X3 (USD)
Retained earnings at the beginning of the year <i>31-3-22</i>	18,000
Profit for the year	<u>14,500</u>
Dividends	<u>(3,000)</u>
Retained earnings at the end of the year	<u>29,500</u>



- Share capital was issued when the exchange rate was  $\text{USD } 1 = \text{INR } 70$ .
- Retained earnings on 1<sup>st</sup> April, 20X1 was  $\text{INR } 4,00,000$ .
- At 31<sup>st</sup> March, 20X2, a cumulative gain of  $\text{INR } 4,92,000$  has been recognised in the foreign exchange reserve, which is due to translation of entity's financial statements into  $\text{INR}$  in the previous years.
- Entity paid a dividend of  $\text{USD } 3,000$  when the rate of exchange was  $\text{USD } 1 = \text{INR } 73.5$
- Profit for the year 20X1-20X2 of  $\text{USD } 8,000$ , translated in  $\text{INR}$  at  $\text{INR } 5,72,000$ .
- Profit for the year 20X2-20X3 of  $\text{USD } 14,500$ , translated in  $\text{INR}$  at  $\text{INR } 10,72,985$ .

For the sake of simplicity, items of income and expense are translated at weighted average monthly rate as there has been no significant exchange rate fluctuation during the entire year and the business of the entity is not cyclical in nature.

Relevant exchange rates are as follows:

- Rate at 31<sup>st</sup> March, 20X2  $\text{USD } 1 = \text{INR } 73$
- Rate at 31<sup>st</sup> March, 20X3  $\text{USD } 1 = \text{INR } 75$

Handwritten notes showing exchange rates:  
 $\text{USD } 1 \rightarrow \text{₹ } 73$   
 $\text{₹ } 2 \rightarrow 2 \times 73$

Prepare financial statements of Infotech Global Ltd. translated from functional currency ( $\text{USD}$ ) to presentation currency ( $\text{INR}$ ).

Sol<sup>n</sup>: A) B/S:

Particulars	workings	31-3-03	workings	31-3-02
PPE	$5000 \times 75$	375000	$5500 \times 73$	401500
TIR	$68500 \times 75$	513750	$56000 \times 73$	408800
inventory	$8000 \times 75$	600000	$5000 \times 73$	365000
Cash	$40000 \times 75$	3000000	$35000 \times 73$	2555000
sh. Capital	$50000 \times 70$	3500000	$50000 \times 70$	3500000
R.E. (note 1)		1824985		272000

TIP.

4000 x 75

3000000

38000 x 73

277400



47000 x 75

3525000

45000 x 73

3285000

FCTR (B/f)

638015

MENTORING  
HARSHIT DWIVEDI  
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

492000

Note 1 Statement of R.E. in INR.

31-3-03

31-3-02.

Op. R.E.	972000	400000
profit for the year	1072985	572000
Div. paid. (3000 \$ x 73.5)	<u>(220500)</u>	—
Cl. R.E.	<u>1824485</u>	<u>972000</u>

B) SOCFE

Particulars.	sh. cap.	R.E.	FCTR	Total.
Op. Bal.	3500000	972000	492000	4964000
profit for the year	—	1072985	—	1072985
Div. paid.	—	(220500)	—	(220500)
E.D. in c.y. (B/f)	—	—	<u>146015</u>	—
	<u>3500000</u>	<u>1822485</u>	<u>638015</u>	<u>5962500</u>

C) Reconciliation of FCTR for 02-03 → 76

Particulars	US \$	actual (A) @ cl. rate	Diff.
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Sh. Cap.  
R. E.

50000

29500

(A)

3500000

1824485

5324485

(B)

3750000

2212500

5962500

(A-B)

250000

388015

638015