

## CHAPTER - 12

# Ind AS 21: The Effects of Changes in Foreign Exchange Rates

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### Question 1

On 1<sup>st</sup> January, 20X1, 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 30<sup>th</sup> June, 20X1. Rupees strengthened against the \$ in the three months following purchase and by 31<sup>st</sup> March, 20X1 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. P Ltd. follows historical cost method in respect of Plant & Machinery.

Examine the impact of this transaction on the financial statements of P Ltd. for the year ended 31<sup>st</sup> March, 20X1 as per Ind AS.

### Answer

As per Ind AS 21 'The Effects of Changes in Foreign Exchange Rates' the asset and liability would initially be recognised at the rate of exchange in force at the transaction date i.e. 1<sup>st</sup> January, 20X1. Therefore, the amount initially recognised would be ₹ 1,36,00,000 (\$ 2,00,000 x ₹ 68).

The liability is a monetary item so it is retranslated using the rate of exchange in force at 31<sup>st</sup> March, 20X1. This makes the closing liability of ₹ 1,30,00,000 (\$ 2,00,000 x ₹ 65).

The gain on re-translation of ₹ 6,00,000 (₹ 1,36,00,000 - ₹ 1,30,00,000) is recognised in the Statement of profit or loss.

The machine is a non-monetary asset carried at historical cost. Therefore, it continues to be translated using the rate of ₹ 68 to \$ 1.

Depreciation of ₹ 8,50,000 (₹ 1,36,00,000 x  $\frac{1}{4}$  x 3/12) would be charged to profit or loss for the year ended 31<sup>st</sup> March, 20X1.

The closing balance in property, plant and equipment would be ₹ 1,27,50,000 (₹ 1,36,00,000 - ₹ 8,50,000). This would be shown as a non-current asset in the statement of financial position.

### Question 2

On 30<sup>th</sup> January, 20X1, A Ltd. purchased a machinery for \$ 5,000 from USA supplier on credit basis. A Ltd.'s functional currency is Rupees. The exchange rate on the date of transaction is 1\$ = ₹ 60. The fair value of the machinery determined on 31<sup>st</sup> March, 20X1 is \$ 5,500. The exchange rate on 31<sup>st</sup> March, 20X1 is 1\$ = ₹ 65. The payment to overseas supplier done on 31<sup>st</sup> March 20X2 and the exchange rate on 31<sup>st</sup> March 20X2 is 1\$ = ₹ 67. The fair value of the machinery remain unchanged for the year ended on 31<sup>st</sup> March 20X2. Prepare the Journal entries for the year ended on 31<sup>st</sup> March 20X1 and year 20X2 according to Ind AS 21. Tax rate is 30%. A Ltd. follows revaluation method in respect of Plant & Machinery.

### Answer

#### Journal Entries

Purchase of Machinery on credit basis on 30<sup>th</sup> January 20X1:

		₹	₹
Machinery A/c (\$ 5,000 x ₹ 60) Dr.		3,00,000	
To Creditors - Machinery A/c			3,00,000
(Initial transaction will be recorded at exchange rate on the date of transaction)			

Exchange difference arising on translating monetary item on 31<sup>st</sup> March 20X1:

		₹	₹
Profit & Loss A/c [(\$ 5,000 x ₹ 65) - (\$ 5,000 x ₹ 60)] Dr.		25,000	
To Creditors - Machinery A/c			25,000
Machinery A/c Dr.		30,000	
To Revaluation Surplus (OCI)			30,000
[Being Machinery revalued to \$ 5,500; {₹ 60 x (\$ 5,500 - \$ 5,000)}]			
Machinery A/c Dr.		27,500	
To Revaluation Surplus (OCI)			27,500
[Being Machinery measured at the rate on exchange 31-03-20X1 { \$ 5,500 x (₹ 65 - ₹ 60)}]			
Revaluation Surplus (OCI) Dr.		17,250	
To Deferred Tax Liability			17,250
(DTL created @ of 30% of the total OCI amount)			

Exchange difference arising on translating monetary item and settlement of creditors on 31<sup>st</sup> March 20X2:

		₹	₹
Creditors - Machinery A/c (\$ 5,000 x ₹ 65) Dr.		3,25,000	
Profit & loss A/c [\$ 5,000 x (₹ 67 - ₹ 65)] Dr.		10,000	
To Bank A/c			3,35,000
Machinery A/c [\$ 5,500 x (₹ 67 - ₹ 65)] Dr.		11,000	
To Revaluation Surplus (OCI)			11,000
Revaluation Surplus (OCI) Dr.		3,300	
To Deferred Tax Liability			3,300
(DTL created @ of 30% of the OCI amount)			

**Question 3**

Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1<sup>st</sup> January, 20X1 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 31<sup>st</sup> March, 20X1. USD 30 million is received on 1<sup>st</sup> April, 20X1 in full and final settlement of the purchase consideration.

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. The exchange rates on 1<sup>st</sup> January, 20X1 and 31<sup>st</sup> March, 20X1 are ₹ 72 per USD and ₹ 75 per USD respectively.

Note: Present all amounts in million

**Answer**

This is the case of Revenue recognised at a single point in time with multiple payments. As per the guidance given in Appendix B to Ind AS 21:

A Ltd. will recognise a non-monetary contract liability amounting ₹ 1,440 million, by translating USD 20 million at the exchange rate on 1<sup>st</sup> January, 20X1 i.e. ₹ 72 per USD.

A Ltd. will recognise revenue at 31<sup>st</sup> March, 20X1 (that is, the date on which it transfers the goods to the customer).

A Ltd. determines that the date of the transaction for the revenue relating to the advance consideration of USD 20 million is 1<sup>st</sup> January, 20X1. Applying paragraph 22 of Ind AS 21, A Ltd. determines that the date of the transaction for the remainder of the revenue as 31<sup>st</sup> March, 20X1.

On 31<sup>st</sup> March, 20X1, A Ltd. will:

- derecognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1<sup>st</sup> January, 20X1 i.e. ₹ 72 per USD; and
- recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31<sup>st</sup> March, 20X1 i.e. ₹ 75 per USD.
- The receivable of USD 30 million is a monetary item, so it should be translated using the closing rate until the receivable is settled.

**Question 4**

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 Makers Ltd. is Indian Rupee.

What would be the appropriate accounting treatment for the foreign currency loan in the books of Makers Ltd. for the FY 20X1-20X2? Calculate the initial measurement amount for the loan, finance cost for the year, closing balance and exchange gain/loss.

**Answer**

**Initial carrying amount of loan in books**

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Loan amount received =	60,00,000 FCY
Less: Incremental issue costs =	<u>2,00,000 FCY</u>
	<u>58,00,000 FCY</u>

Ind AS 21, "The Effect of Changes in Foreign Exchange Rates" states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in INR = 58,00,000 FCY x ₹ 2.50/FCY = ₹ 1,45,00,000

Therefore, the loan would initially be recorded at ₹ 1,45,00,000.

**Calculation of amortized cost of loan (in FCY) at the year-end:**

Period	Opening Financial Liability (FCY) (A)	Interest @ 12% (FCY) (B)	Cash Flow (FCY) (C)	Closing Financial Liability (FCY) (A + B - C)
20X1-20X2	58,00,000	6,96,000	6,00,000	58,96,000

The finance cost in FCY is 6,96,000

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

Hence, the finance cost for FY 20X1-20X2 in INR is ₹ 16,84,320 (6,96,000 FCY x ₹ 2.42/FCY)

The actual payment of interest would be recorded at 6,00,000 x 2.75 = ₹ 16,50,000

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance in INR is 58,96,000 FCY x ₹ 2.75/FCY = ₹ 1,62,14,000

The exchange differences that are created by this treatment are recognized in profit and loss.

In this case, the exchange difference is ₹ [1,62,14,000 - (1,45,00,000 + 16,84,320 - 16,50,000)] = ₹ 16,79,680

This exchange difference is taken to profit and loss.

### Question 5

Infotech Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of Infotech Inc. (L\$).

The following balances appear in the books of Infotech Global Ltd. at the year-end prior to translation:

	USD	L\$
Property, plant and equipment	50,000	
Receivables	9,35,000	
<b>Total assets</b>	<b>9,85,000</b>	
Issued capital	50,000	30,055
Opening retained earnings	28,000	15,274
Profit & Loss A/c (Profit for the year)	20,000	
Accounts payable	8,40,000	

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Accrued liabilities	47,000	
<b>Total equity and liabilities</b>	<b>9,85,000</b>	

Translate the above balances of Infotech Global Ltd. into L\$ ready for consolidation by Infotech Inc. (Share capital and opening retained earnings have been pre-populated.)

Prepare a working of the cumulative balance of the foreign currency translation reserve.

### Additional information:

Relevant exchange rates are:

Rate at beginning of the year L\$ 1 = USD 1.22

Average rate for the year L\$ 1 = USD 1.175

Rate at end of the year L\$ 1 = USD 1.13

### Answer

#### Translation of the balances for the purpose of consolidation

	USD	Rate	L\$
Property, plant and equipment	50,000	1.13	44,248
Receivables	9,35,000	1.13	8,27,434
<b>Total assets</b>	<b>9,85,000</b>		<b>8,71,682</b>
Issued capital	50,000	-	30,055
Opening retained earnings	28,000	-	15,274
Profit for the year	20,000	1.175	17,021
Accounts payable	8,40,000	1.13	7,43,363
Accrued liabilities	47,000	1.13	41,593
<b>Total equity and liabilities USD</b>	<b>9,85,000</b>		<b>8,47,306</b>
<b>Foreign Currency Translation Reserve (Refer WN-1)</b>			<b>24,376</b>
<b>Total equity and liabilities L\$</b>			<b>8,71,682</b>

### Working Note

#### 1. Cumulative balance of the FCTR

Particulars	Actual translated amount in L\$	Amount (Refer WN-2)	Difference
	A	B	B-A
Issued capital	30,055	44,248	14,193
Opening retained earnings	15,274	24,779	9,505
Profit for the year	17,021	17,699	678
	<b>62,350</b>	<b>86,726</b>	<b>24,376</b>

#### 2. Translated amount if the same conversion rate is applied to following items as applied on other items

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			<b>Translated amount</b>
Issued capital	50,000	1.13	44,248
Opening retained earnings	28,000	1.13	24,779
Profit for the year	20,000	1.13	17,699
	<b>98,000</b>		<b>86,726</b>

**Question 6**

PQR Holdings Limited is based in London and has Pound sterling (“GBP”) as its functional and presentation currency. On 1<sup>st</sup> April, 20X1, PQR Holdings Limited incorporated PQR India Limited as its wholly owned subsidiary in India. PQR India will be engaged in trading of items purchased from PQR Holdings. The shares of PQR India, having a face value of ₹ 10 each amounting to total of ₹ 500 crore, were issued to PQR Holdings in GBP on 1<sup>st</sup> April, 20X1.

PQR India has adopted Ind AS with effect from its incorporation. In accordance with Ind AS, management of PQR India has concluded that its functional currency is Indian Rupee (“INR”). Following is the summarized trial balance of PQR India as on 31<sup>st</sup> March, 20X2, being the reporting date of PQR India and PQR Holdings:

(Note: All amounts in the below mentioned trial balance are ₹ in crore)

<b>S. No.</b>	<b>Particulars</b>	<b>Debit Balances</b>	<b>Credit Balances</b>
1.	Share capital	-	500.0
2.	Securities premium reserve on issue of equity shares	-	150.0
3.	Retained earnings	-	110.0
4.	Long-term borrowings	-	30.0
5.	Deferred tax liability	-	10.0
6.	Income tax payable	-	25.0
7.	Import duty payable	-	5.0
8.	Employee benefits payable	-	7.5
9.	Sundry trade payables	-	2.5
10.	Property, plant and equipment (net of depreciation)	550.0	-
11.	Computer software (net of amortisation)	70.0	-
12.	Inventories	200.0	-
13.	Cash and bank balance	5.0	-
14.	Sundry trade receivables	17.0	-
15.	Allowance for doubtful trade receivables	-	2.0
	<b>Total</b>	<b>842.0</b>	<b>842.0</b>

Additional information relating to property, plant and equipment, and computer software:

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Line item	Date of acquisition
Property, plant and equipment	30 <sup>th</sup> April, 20X1
Computer software	5 <sup>th</sup> May, 20X1

PQR India has adopted the following accounting policy in relation to shareholders' funds to translate equity:

Share capital	To be translated using historical exchange rate
Securities premium	To be translated using historical exchange rate
Retained earnings	To be translated using average exchange rate

Since the presentation currency of PQR Holdings is GBP, PQR India is required to translate its trial balance from INR to GBP. Following table provides relevant foreign exchange rates:

Closing spot rate as on 1 <sup>st</sup> April, 20X1	1 INR = 0.0123 GBP
Closing spot rate as on 30 <sup>th</sup> April, 20X1	1 INR = 0.0120 GBP
Closing spot rate as on 5 <sup>th</sup> May, 20X1	1 INR = 0.0119 GBP
Closing spot rate on 15 <sup>th</sup> March, 20X2	1 INR = 0.0108 GBP
Closing spot rate as on 31 <sup>st</sup> March, 20X2	1 INR = 0.0109 GBP
Average exchange rate for the year ended 31 <sup>st</sup> March, 20X2	1 INR = 0.0116 GBP

As the accountant of PQR India, you are required to do following for its separate financial statements:

- (a) Explain the principle of monetary and non-monetary items. Based on this principle, bifurcate the line items of the trial balance into monetary and non-monetary items.
- (b) Translate the trial balance of PQR India from INR to GBP.

Note: Present all amounts in crore

### Answer

- (a) Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Para 15 of Ind AS 21 states that the essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item.

Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

On the basis of above principles, the line items of trial balance should be bifurcated as follows:

Particulars	Monetary item/Non-monetary item
Share Capital	Non-monetary item
Securities Premium reserve on issue of equity shares	Non-monetary item

Retained earnings	Non-monetary item
Long-term borrowings	Monetary item
Deferred tax liability	Non-monetary item
Income tax payable	Monetary item
Import duty payable	Monetary item
Employee benefits payable	Monetary item
Sundry trade payables	Monetary item
Property, plant and equipment (net of depreciation)	Non-monetary item
Computer software (net of amortization)	Non-monetary item
Inventories	Non-monetary item
Cash and bank balance	Monetary item
Sundry trade receivables	Monetary item
Allowance for doubtful trade receivables	Monetary item

As per para 38 of Ind AS 21, an entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

**(b) Translation of the balances for the purpose of consolidation**

Particulars	INR in crore	Rate (GBP)	Amount in GBP
Property, plant and equipment (net of depreciation)	550.0	0.0109	5.995
Computer software (net of amortization)	70.0	0.0109	0.763
Inventories	200.0	0.0109	2.18
Cash and bank balance	5.0	0.0109	0.0545
Sundry trade receivables net of allowance for doubtful trade receivables (17.0 - 2.0)	15.0	0.0109	0.1635
<b>Total Assets</b>	<b>840.0</b>		<b>9.156</b>
Share Capital	500.0	0.0123	6.15
Securities Premium reserve	150.0	0.0123	1.845
Retained earnings	110.0	0.0116	1.276
Long-term borrowings	30.0	0.0109	0.327
Deferred tax liability	10.0	0.0109	0.109
Income tax payable	25.0	0.0109	0.2725
Import duty payable	5.0	0.0109	0.0545
Employee benefits payable	7.5	0.0109	0.08175

Sundry trade payables	2.5	0.0109	0.02725
Foreign Currency Translation reserve recognised in OCI (balancing figure)			(0.987)
<b>Total Equity and liabilities</b>	<b>840.0</b>		<b>9.156</b>

**Question 7**

Parent P acquired 90% 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.

Note: Present all amounts in lakh

**Answer**

P's gain on disposal in its consolidated financial statements would be calculated in following manner:

	₹ in Lakhs
Sale proceeds	1,500
Net assets of S	(1,000)
NCI derecognised	100
Foreign currency translation reserve	180
<b>Gain on disposal</b>	<b>780</b>

**Question 8**

Global Limited, an Indian company acquired on 30<sup>th</sup> September, 20X1, 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is Rupees and its financial year end is 31<sup>st</sup> March, 20X2.

- (i) The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30<sup>th</sup> September, 20X1.

The exchange rates as at 30<sup>th</sup> September, 20X1 was ₹ 82/EURO and at 31<sup>st</sup> March, 20X2 was ₹ 84/EURO.

What is the value at which the goodwill has to be recognised in the financial statements of Global Limited as on 31<sup>st</sup> March, 20X2?

- (ii) Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended 31<sup>st</sup> March, 20X2. The exchange rate on the date of purchase by Global Limited was ₹ 83/EURO and on 31<sup>st</sup> March, 20X2 was ₹ 84/EURO. The entire goods purchased from Mark Limited are unsold as on 31<sup>st</sup> March, 20X2. Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements.

Note: Present all amounts in million

**Answer**

- (i) Para 47 of Ind AS 21 requires that goodwill arose on business combination shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42. In this case the amount of goodwill will be as follows:

Net identifiable asset	Dr.	23 million	
Goodwill (bal. fig.)	Dr.	1.4 million	
To Bank			17.5 million
To NCI (23 million x 30%)			6.9 million

Thus, goodwill on reporting date would be 1.4 million EURO x ₹ 84 = ₹ 117.6 million

(ii)

Particulars	EURO in million
Sale price of inventory	4.20
Cost of inventory	2.40
Unrealised Profit [a]	1.80

Exchange rate as on date of purchase of Inventory [b] = ₹ 83/Euro

Unrealized profit to be eliminated [a x b] = Euro 1.80 million x 83  
= ₹ 149.40 million

As per para 39 of Ind AS 21 “income and expenses for each statement of profit and loss presented (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions”.

In the given case, purchase of inventory is an expense item shown in the statement profit and loss account. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated on the event of consolidation.

**Question 9**

Parent P has USD as its functional currency and Subsidiary S has Euro as its functional currency. P, whose reporting date is 31<sup>st</sup> March, lends USD 100 to S on 30<sup>th</sup> September, 20X1. S converted the loan amount received into Euro on receipt.

	USD	=	EURO
Exchange rate at 30 <sup>th</sup> September, 20X1	1	=	1.5
Exchange rate at 31 <sup>st</sup> March, 20X2	1	=	2.0

Pass Journal entries in the books of ‘S’ and ‘P’ according to Ind AS 21. Also explain the treatment at the time of consolidation.

**Answer**

**Entries in the books of account of S**

Date	Particulars	Debit (EURO)	Credit (EURO)
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30 <sup>th</sup> September, 20X1	Bank A/c To Intra-group payable (To recognize intra-group loan)	Dr.  150	150
31 <sup>st</sup> March, 20X2	Exchange loss A/c To Intra-group payable (To recognize exchange loss on intra-group loan)	Dr.  50	50

In S's second entry, the liability is remeasured at 31<sup>st</sup> March, 20X2 and a translation loss is recorded.

### Entries in the books of account of P

Date	Particulars	Debit (USD)	Credit (USD)
30 <sup>th</sup> September, 20X1	Intra group receivable To Cash (To recognize intra-group loan on issue)	Dr.  100	100

On consolidation at 31<sup>st</sup> March, 20X2, the receivable and payable (in respect of Intra-group receivable and payable) will be eliminated. However, an exchange loss equivalent to EURO 50 for the year ended 31<sup>st</sup> March, 20X2 will remain on consolidation. This is appropriate because S will need to obtain USD in order to repay the liability. Therefore, the group has a foreign currency exposure. The exchange loss will be taken to consolidated profit or loss, unless the loan forms part of P's net investment in S in which case it will be transferred to other comprehensive income at the time of consolidation.

### Question 10

M Ltd 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 of G Ltd is very high and hence to cater to its shortfall, G Ltd also purchases the bottles from other companies. Purchases are made at the competitive prices.

M Ltd sold pharmaceutical bottles to G Ltd for Euro 12 lacs on 1<sup>st</sup> February, 20X1. 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. 31<sup>st</sup> March, 20X1, all these bottles were lying as closing stock and payable with G Ltd.

Euro is the functional currency of G Ltd. while Indian Rupee is the functional currency of M Ltd.

Following additional information is available:

Exchange rate on 1<sup>st</sup> February, 20X1 1 Euro = ₹ 83

Exchange rate on 31<sup>st</sup> March, 20X1 1 Euro = ₹ 85

Provide the accounting treatment for the above in books of M Ltd. and G Ltd. Also show its impact on consolidated financial statements. Support your answer by Journal entries, wherever necessary. Assume NRV of closing stock to be same as the cost.

Note: Present all amounts in lacs

### Answer

**Accounting treatment in the books of M Ltd (Functional Currency INR)**

M Ltd will recognize sales of ₹ 996 lacs ( 12 lacs Euro x 83)

Profit on sale of inventory = 996 lacs - 830 lacs = ₹ 166 lacs

On balance sheet date receivable from G Ltd. will be translated at closing rate i.e. 1 Euro = ₹ 85. Therefore, unrealised forex gain will be recorded in standalone profit and loss of ₹ 24 lacs. [i.e. (85 - 83) x 12 Lacs]

**Journal Entries**

Date	Particulars	₹ in Lacs	₹ in Lacs
1.2.20X1	G Ltd. A/c <span style="float:right">Dr.</span> To Sales (Being revenue recorded on initial recognition)	996	996
31.3.20X1	G Ltd. A/c <span style="float:right">Dr.</span> To Foreign exchange difference (unrealised) (Being foreign exchange difference recorded at year end)	24	24

**Accounting treatment in the books of G Ltd (Functional currency EURO)**

G Ltd will recognize inventory on 1<sup>st</sup> February, 20X1 of Euro 12 lacs which will also be its closing stock at year end.

**Journal Entry**

Date		in Euros	in Euros
1.2.20X1	Purchase A/c <span style="float:right">Dr.</span> To M Ltd. (Being purchased recorded at the date of transaction)	12 lacs	12 lacs

**Accounting treatment in the consolidated financial statements**

Receivable and payable in respect of above mentioned sale/purchase between M Ltd and G Ltd will get eliminated.

The closing stock of G Ltd will be recorded at lower of cost or NRV.

	Euro in lacs	Rate	₹ in lacs
Cost	12	83	996
NRV (Assumed Same)	12	85	1020

Since cost is less than NRV, no write off in the value of inventory is required.

The amount of closing stock of ₹ 996 lacs includes two components:

- Cost of inventory for ₹ 830 lacs; and
- Profit element of ₹ 166 lacs; and

At the time of consolidation, the second element amounting to ₹ 166 lacs will be eliminated from the closing stock.

**Journal Entry**

**Ind AS 21: The Effects of Changes in Foreign Exchange Rates**

		₹ in Lacs	₹ in Lacs
Consolidated P&L A/c	Dr.	166	
To Inventory			166
(Being profit element of intragroup transaction eliminated)			