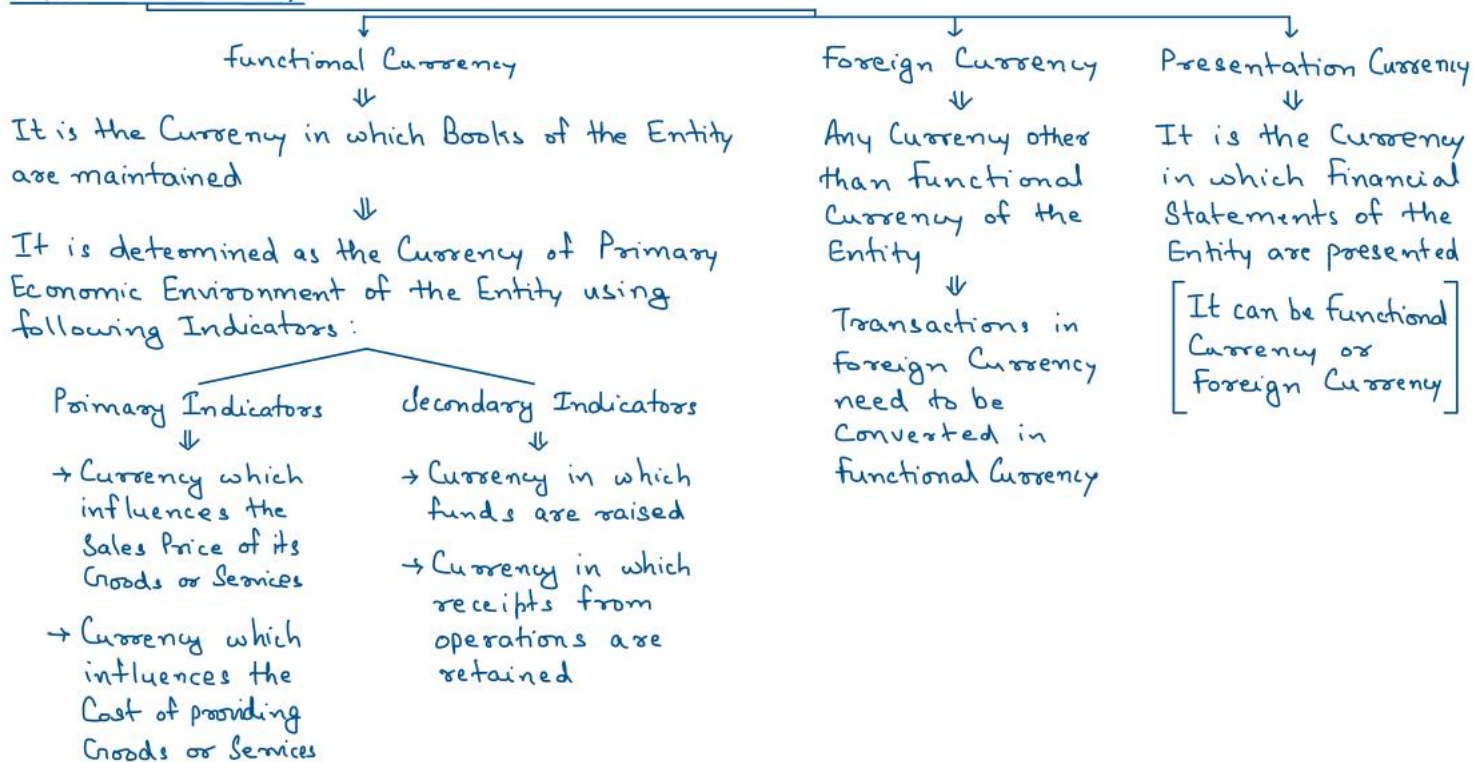


Introduction to Ind AS 21

- This Ind AS prescribes :
 - (i) Accounting for Foreign Currency Transactions.
 - (ii) Translation of financial Statements of Foreign Operation into Presentation Currency of Parent Entity & Intra Group Transactions between Parent Entity & its Foreign Operation
 - (iii) Translation of Financial Statements of Entity into Presentation Currency.

Types of Currency :



Accounting for Foreign Currency Transactions

- Foreign Currency Transaction means any transaction that will be settled in Foreign Currency which includes :
 - Purchase or Sale of Goods, PPE, etc. in Foreign Currency
 - Borrowing or Investing Amounts in Foreign Currency

Initial Recognition of Foreign Currency Transaction :-

It is initially recorded by converting into functional Currency at the Exchange Rate on Transaction Date.

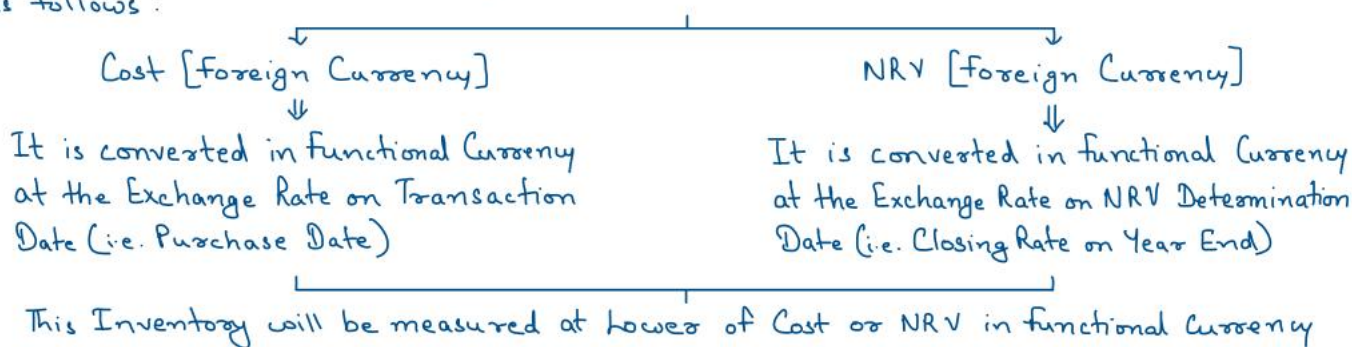
Example 1 :-

On 1st January, A Ltd. [Indian Company] purchased a PPE from USA for \$ 1,000 on credit. A Ltd.'s functional Currency is ₹. Exchange Rate on date of transaction is 1\$ = ₹ 80
 Pass Journal Entry to recognise this transaction initially.

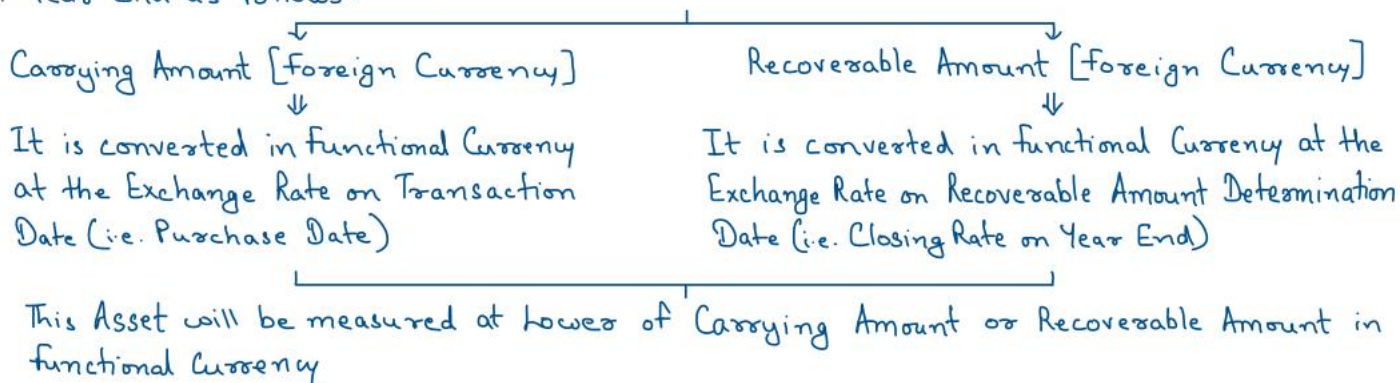
(i) On Items of Amortisation Table in case of Loan or Investment in Foreign Currency (Monetary Item) as follows:

	Year	Opening Balance	Interest @ Discounting Rate	Actual Payment	Exchange Gain/Loss	Closing Balance
Foreign Currency	✓	xx	xx	xx		xx
Convert it in Functional Currency	✓	At Exchange Rate on Opening Date	At Average Exchange Rate for the Year	At Exchange Rate on Payment Date	Balancing figure	At Exchange Rate on Balance Sheet Date [i.e. Closing Rate at Year End]

(ii) Inventory purchased in Foreign Currency (Non Monetary Item) is measured at Year End as follows:



(iii) Asset subject to Impairment Loss purchased in Foreign Currency (Non Monetary Item) is measured at Year End as follows:



[If Carrying Amount > Recoverable Amount, then Difference will be Impairment Loss as per Ind AS 36]

Foreign Operation

(1) Meaning of Foreign Operation & its Functional Currency :-

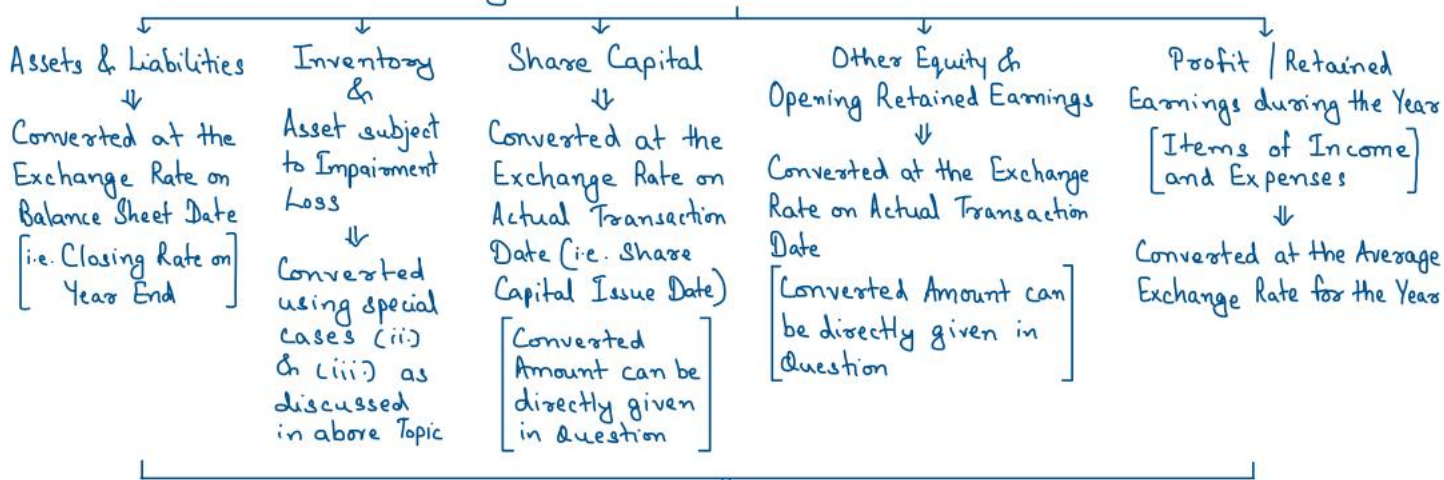
- Foreign Operation means Subsidiary, Associate, Joint Venture or Branch of the Entity in any other country.
- Functional Currency of Foreign Operation will be same as of Parent Entity if all the following conditions are fulfilled:



* If any of the above condition is not fulfilled, Foreign Operation has to determine its functional Currency by applying Primary & Secondary Indicators

(2) Translation of financial Statements of Foreign Operation into Presentation Currency of Parent Entity [For Consolidation Purpose] :-

- Since Foreign Operation prepares its Financial Statements in its functional Currency. Hence, Foreign Operation is required to translate its Financial Statements into Currency in which Parent Entity is preparing its financial Statements so that Consolidation can be done.
- Financial Statements of foreign Operation are translated as follows :



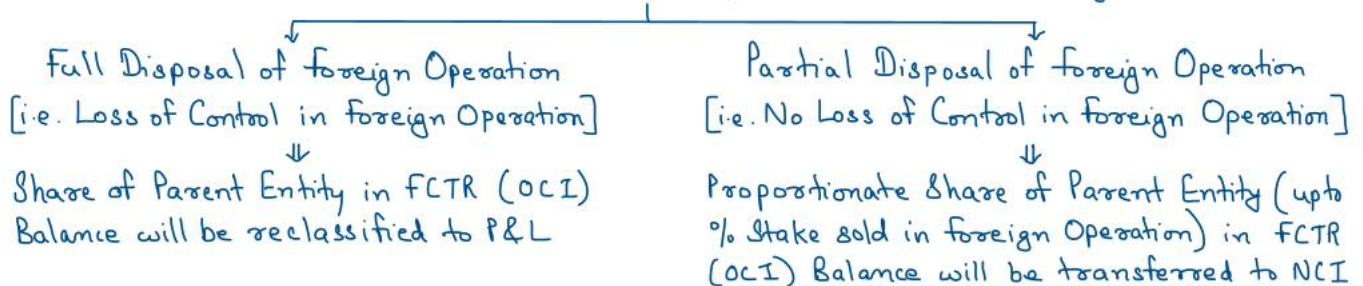
↓

Difference Amount will be recognised as Foreign Currency Translation Reserve (FCTR) in OCI

Note :-

- (i) While preparing CFS
 → Share of Parent Entity in FCTR (OCI) will be shown in Consolidated Other Equity.
 → Share of NCI in FCTR (OCI) will be added to NCI.

(ii) Treatment of FCTR (OCI) Balance on disposal (sale) of that Foreign Operation



- (iii) Goodwill arising on acquisition of foreign Operation is calculated in functional Currency of foreign Operation & then Translated at the Exchange Rate on Balance Sheet Date [i.e. Closing Rate at Year End]

(3) Intra Group Transactions [Transaction between Parent Entity & its Foreign Operation] :-

- Intra Group Transactions can be:
 - Sale | Purchase of Goods between Parent Entity & its Foreign Operation, or
 - Loan transaction between Parent Entity & its Foreign Operation
- In Case of Intra Group Transaction between Parent Entity & its Subsidiary (Foreign Operation), then such Intra Group Transaction will be eliminated in CFS as per Ind AS 110.
 - ↓
 - But Exchange Gain | Loss arising on such transaction will not be eliminated in CFS because Group has real exposure to foreign Currency.
- Exchange Gain | Loss arising on items in Intra Group Transactions will be recorded in CFS through same head [P&L | OCI] as in SFS
 - ↓
 - But In Case of Intra Group Loan Transaction for which settlement is not planned in foreseeable future
 - ↓
 - Exchange Gain Loss arising on such transaction will be recorded
 - In SFS
 - ↓
 - P&L
 - (Since it is a Monetary Item)
 - In CFS
 - ↓
 - OCI & will be reclassified to P&L on disposal of such Foreign Operation
- If there is any Unrealised Profit on Intra Group Transaction, it will be eliminated in CFS as per Ind AS 110 by converting Profit (Foreign Currency) at the Exchange Rate on Intra Group Transaction Date.

Translation of financial Statements of Entity into Presentation Currency

Books of Accounts of an Entity are maintained in functional Currency But Entity is required to submit its financial Statements in Another Currency [i.e. Presentation Currency].

↓
In this Case, Entity is required to translate its financial Statements into such Presentation Currency

↓
Apply Same Procedure as in case of Translation of financial Statements of foreign Operation into Presentation Currency of Parent Entity

Change in functional Currency

If due to facts & circumstances, functional Currency of Entity changes; All Items of financial Statements of Entity are converted to New functional Currency at the Exchange Rate on functional Currency Change Date [No Exchange Gain | Loss will arise]