INDAS 21 - EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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Basics

- **Types of Currencies**
  - Foreign
  - Functional
  - Presentation
- **Functional Currency**
  - Currency of Primary Economic Environment in which entity Primarily Generates & Expands Cash

Foreign Currency Transactions (Convert from Foreign to Functional)

- **All Transactions Other than Net Investment in Foreign Operation (F.O.)**
  - **Initial Recognition**
    - of all F.C. Transactions
    - at SPOT Rate
  - **Subsequent Measurement**
    - FCMI & Non Monetary items Measured at FVTPL
      - Closing Rate or Ex. rate on the date of measurement
      - Ex. Gain/Loss
      - P&L
    - Non Monetary items Measured at FV Though OCI or other than P&L eg. PPE revalued upward
      - Ex. Rate on the date of Measurement
      - Ex. Gain/Loss
      - OCI
- **Net Investment in F.O.**
  - If There is a Long Term Monetary item which is Payable / Receivable to/from F.O. For which settlement is neither Planned nor Likely to Occur in Foreseable Future
    - SFS of F.O.
      - Ex. G/L on Subsequent Measurement transfer to P&L a/c
    - CFS of Parent
      - This ex. G/L on Translation into Functional Currency of Parent - Transfer to OCI Until the Disposal of F.O. or on the Date when Settlement is Planned

Translation of FS into Presentation Currency (Convert from Functional to Presentation)

- **Case -1**
  - Functional Currency is Not a Currency of Hyper-Inflationary Economy
    - All A&L
      - Closing Rate
    - Revenue Items
      - Actual if Possible Otherwise Avg. Rate
    - Ex. Difference (CTD)
      - OCI
- **Case -2**
  - Functional Currency is a Currency of Hyper-Inflationary Economy
    - All Items at Closing Rate of most recent FS Presented

Foreign Operations

- **Consolidation of Foreign Subsidiary with Parent & Translation**
  - **Step - 1**
    - Calculate Goodwill/GBP NCI & Make all Workings in the functional Currency of F.O.
  - **Step - 2**
    - Translation of all Assets including Goodwill & all Liab. including NCI into Presentation Currency at Closing Rate
    - Revenue Items at Avg. Rate
  - **Step - 3**
    - Cumulative Translation Difference (CTD)
      - Bifurcate into
        - OCI (Parent's Share)
        - NCI (NCI's Share)
- **Disposal of F.O.**
  - **Without Loss of Control**
    - Parent's Share of CTD (already shown in OCI) shall be Proportionately Transfer to NCI
      - OCI a/c Dr. To NCI a/c (if CTD is having Cr. bal.)
  - **With Loss of Control**
    - Parent's share of CTD (appearing in its OCI) shall be transfer to Conso. P&L
    - What to do with NCI's CTD Share?
      - Since NCI is to be Fully De-recognised therefore CTD which is already included in NCI Shall also be De-recognised

Indicators to Identify Functional Currency

- Currency that Influence Selling Price of G/S &Whose Competitive Forces & Regulations Determines SP
- Currency that Influence Cost of G/S (for eg. Material/ Labour & Directly Attributable Cost)

Primary Indicators

- Currency in which funds from Financing Activities are Generated
- Currency in which Receipts from Operating Activities are Retained

Secondary Indicators

An Entity can apply one or more Indicators to Identify Functional Currency.

Change in Functional Currency

- Translate All Assets/Liabilities/Equity/ Exp./Incomes Into new Functional Currency based on Exchange Rate on the date of Change
- No Exchange Difference will arise since all Items are Translated into Same Rate