

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 (≥ 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