

## Ind AS 21 - Foreign Exchange

### Examples of Non monetary items

PPE, Intangible Assets, ROU Assets, Investment Property, Inventories, Goodwill, Amount prepaid for goods/services.

### Examples of monetary items (Fixed on Determinable Amount of money)

1. Receivables and payables.
2. Loans
3. lease liabilities
4. most debt securities.
5. Pensions and other Employee Benefits to be paid in cash.
6. Provisions that are to be settled in cash.
7. Cash dividend that are recognised as liability

Initial Recognition → Translated using E.R. on date of trans. (on Avg. weekly, monthly)

### Subs. Recognition

Monetary item → Translated using closing E.R. at reporting date. (diff. in P/L)

Non monetary item → Cost model - NO Translation

Revaluation model - Translated using E.R. on date Fair Value determined.

### Intra Group Transactions (CFS)

Intra Group Balances (e.g. Receivable/Payables) are eliminated on Consolidation but related Foreign Exchange gain/loss will not get eliminated because Group has net exposure to foreign currency.

In CFS, Exchange gain/loss recognised in P/L.

However it is taken to OCE if balances forms part of NET INVESTMENT in F.O.

### Net Investment in F.O

A monetary item receivable/payable to F.O. may form part of net Investment in F.O.

It settlement is neither planned nor likely to occur in foreseeable future -  
 ↳ include long term receivables or loans, but do not include TR on TP.

In SFS/IFS - E.D. recognized in P/L

CFS - E.D. " " OCE if forms part of Net Inv in F.O.

Translation of F.O. from Prep. of Group FIS (CFS)

- 1) Asset/Liab → E.R. at reporting date.
- 2) Income/Exp → E.R. at date of trans. (Avg.)
- 3) Cash Flow → E.R. at date of trans. (Avg.)

Translation diff. in FCTR (OCE), reclassified to P/L on disposal.

Use of Presentation Currency other than Functional Currency.

→ same method.

Note: E.D. attributed to NCE recognized as part of NCE.

Disposal on Partial Disposal of Foreign operation

↳ Through sale, liquidation or repayment of share capital.

Foreign Operation - Subsidiary

Disposal but control not lost *Partial Disposal*

FCTR <Proportionately>

To NCE

Disposal and control lost *Full Disposal*

FCTR <Entire FCTR to P/L>

To P/L

Foreign Operation - Associate / JV

Relationship still exist *Partial Disposal*

FCTR <Proportionately>

To P/L

Relationship don't exist & Instt. becomes FA *Full Disposal*

FCTR <Entire FCTR to P/L>

To P/L

NOTE

A write down of CA of F.O. does not constitute a partial disposal.

Accordingly, No part of OCE balance is reclassified to P/L.

## Change in F.C. (Not a change in A/C Policy)

All items (Asset / Liab / Income / Exp / Cash Flow) translated using E.R. on the date of change in F.C.

Note: Previously recognised OCI not recycled to P/L (because not a disposal)

## Change in Functional Currency (Not a change in A/C Policy)

### How to determine Functional Currency?

An Entity measures its Assets, Liabilities, Income & Expenses in its Functional Currency.

In determining its Functional Currency, Entity emphasises the currency that determines the pricing of transaction rather than currency in which those transactions are denominated.

#### 1. Primary Indicators

a) Currency that mainly influence sales price for its goods and services, AND

currency of the country whose competitive forces and regulation mainly determines sales price.

b) Currency that mainly influence labour, material and other cost of providing goods and services.

#### 2. Secondary Indicators

a) Currency in which funds from financing activities are generated. (i.e. issuing debt and equity instruments).

b) Currency in which receipts from operating activities are usually retained.

Note when above indicators are mixed and Functional Currency is not obvious, the management will be required to use its judgement to determine Functional Currency (Mgt. has to give priority to Primary Indicators)

If an entity is a F.O., additional factors should be considered to determine whether its Functional Currency is the same as that of the reporting entity of which it is a Subsidiary, Branch, Associate or J.V.

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a) whether activities of F.O. carried out as an extension of Reporting rather than carried out with a significant degree of Autonomy.

b) whether transactions with reporting entity are a high or a low proportion of F.O. activities.

c) whether cash flow from activities of F.O. directly affect the cash flows of the reporting entity and are readily available for remittance to it.

d) whether cash flow from activities of F.O. are sufficient to service existing and normally expected debt obligation without funds being made available by the reporting entity.

These factors demonstrate whether entity is INTEGRAL (Extension) to the reporting entity or not.

If Integral, then Functional Currency of F.O. will be same as of Reporting Entity.

### Goodwill / Fair Value Adjustment

Any Goodwill and any Fair Value Adj to the C.A. of Assets & Liabilities arising on F.O. acquisition are treated as Assets and Liabilities of F.O.

Hence, they are expressed in F.C. of F.O. and translated using closing rate.

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