

As 11

1) Types of Currencies :-

- Reporting Currency

↳ Currency in which F/S are maintained.

- Foreign Currency

↳ Any currency other than Reporting Currency

2) Any Transaction in Foreign Currency requires translation into Reporting Currency at Ex. Rate prevailing on the transaction Date (i.e. SPOT Rate)

It is called Initial Recognition of FCT at SPOT Rate

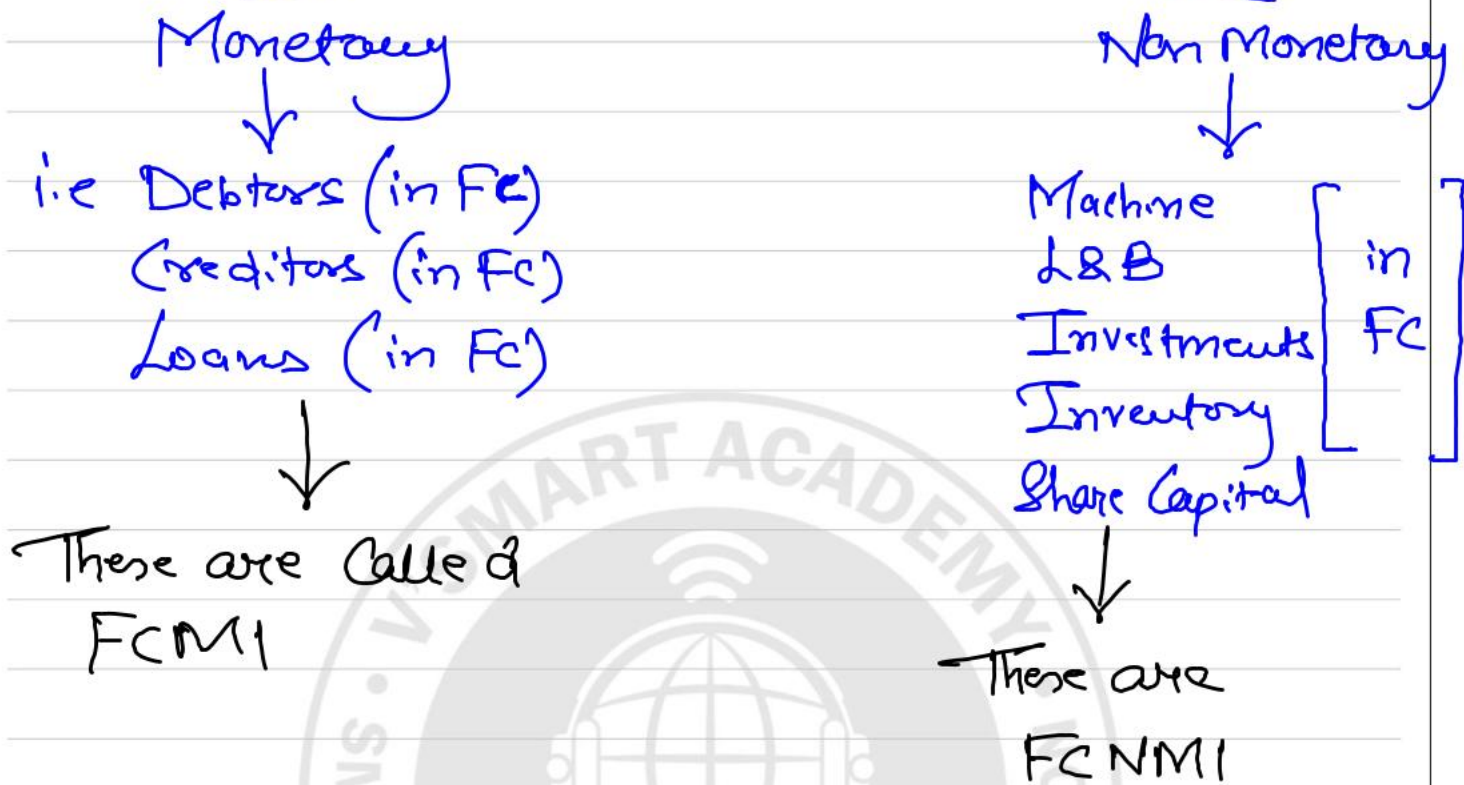
→ First time Recording

3) Subsequent Measurement :- It means

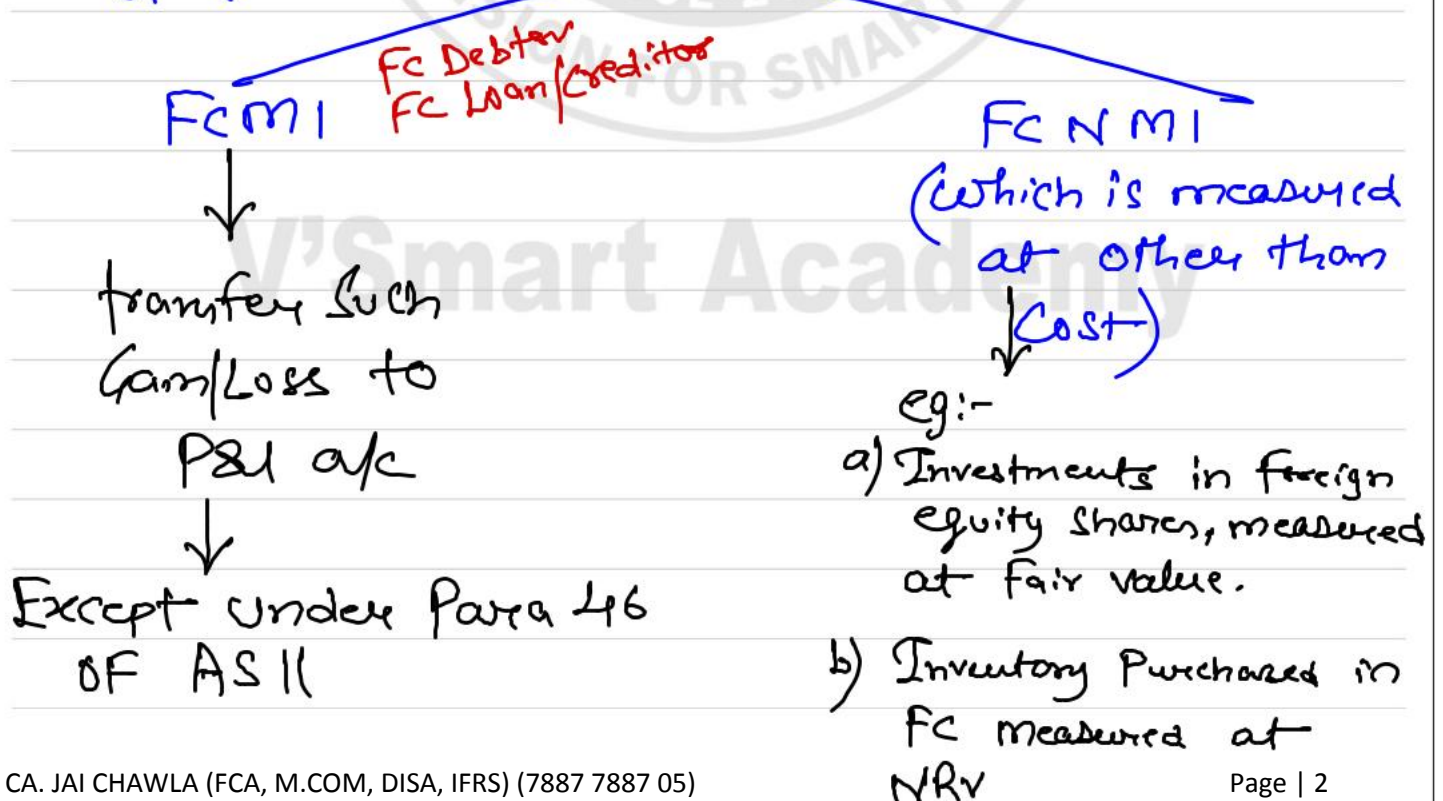
Reevaluation of Foreign Currency monetary Item (FCMI) at B/s Date.

↳ at Closing Rate

4) At B/s Date, identify Assets/Liabilities as Under



5) At Every B/s date, Exchange Gain/Loss should be recognised on subsequent measurement of :-



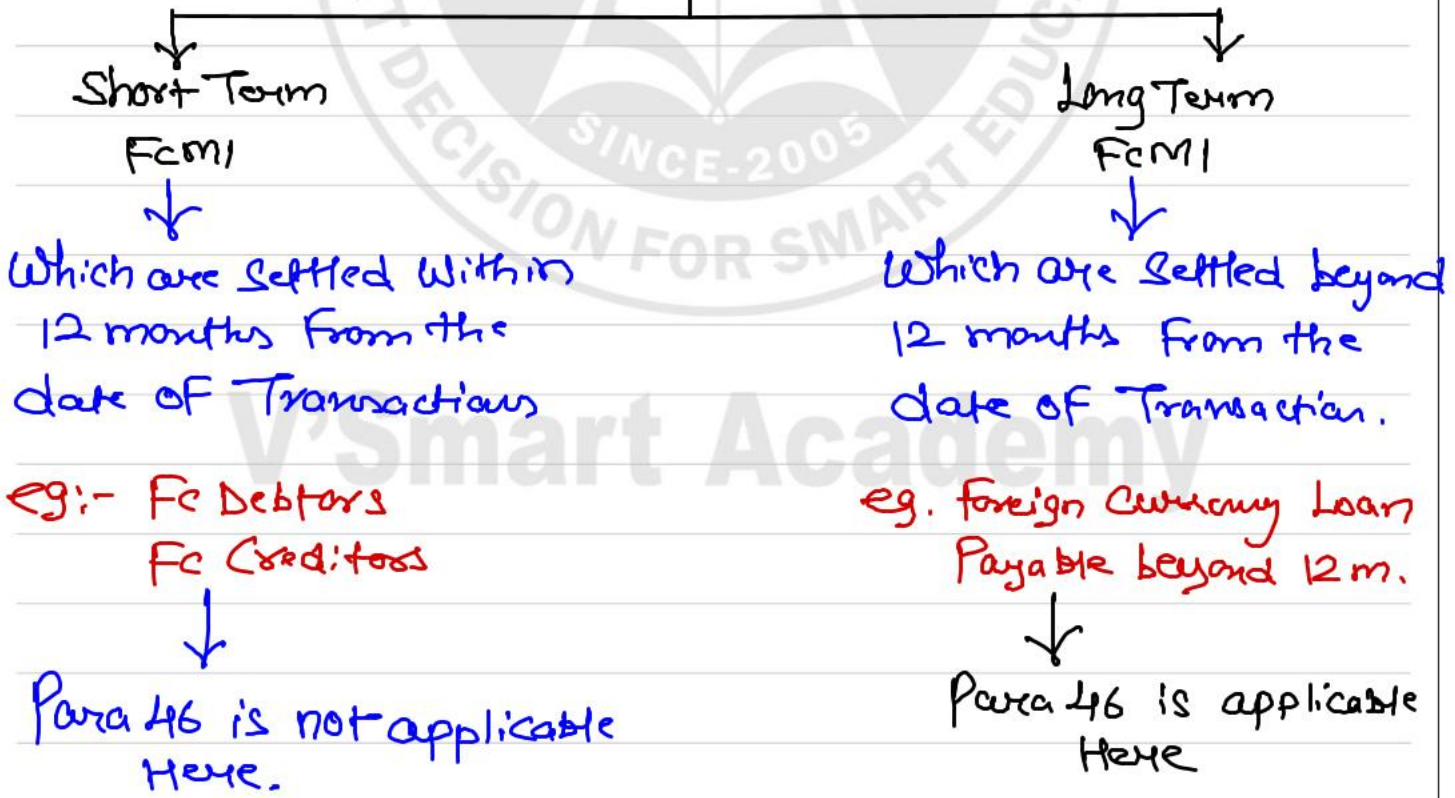
Refer Ex: 3 OF AS TRUMP

Treatment:-

FCNMI which are measured at other than cost are also required translation at New Ex. Rate & difference is transferred to either
→ P&L; or
→ Revaluation reserve if PPE is measured at FV.

6) Para 46 OF AS 11 ⇒ Accounting treatment

Foreign Currency Monetary Items (FCMI)



Para 46 on LTFEMI

↳ LTF Loan

- 1) It is an exception of Charging Ex. Loss / Gain directly to P&L.
- 2) Para 46 is optional But irrevocable.
- 3) As per Para 46, Ex. Gain / Loss on LTFEMI shall be treated as Under :-

LTFEMI is related to purchase of Depreciable Asset.

(FC Loan Liya Asset purchase Karne K liye)

↓
Ex Loss shall be added to the Cost of Asset

Ex. Gain shall be deducted from Cost of Asset

Further Depreciation shall be charged on Revised Value of Asset.

LTFEMI is related to other than Depreciable Asset

(eg. FC Loan Liya Land / Inventory etc K liye)

↓
Transfer Ex. Gain / Loss to a Special A/c :-

"Foreign Currency Monetary Item Translation Difference A/c"

FC MIT D A/c

↓
It is Deferred & Amortised over the Life of FC Loan to P&L a/c.

Example :- 1

1/4/25 Loan taken of \$25000 for 5 years to purchase Machine.

$$1/4/25 \Rightarrow \$1 = 83.25$$

$$\text{Dep.} = 10\%$$

$$31/3/26 \Rightarrow \$1 = 84.10$$

apply Para 4b.

Solution

1/4/25 Bank a/c Dr. 2081250
 To FC Loan a/c 2081250
(Initial Recog. @ SPOT Rate)

1/4/25 Machine a/c Dr. 2081250
 To Bank 2081250

31/3/26 Ex. Loss a/c Dr. 21250
 To FC Loan a/c 21250
(Subsequent measurement @ (Closg Rate))
 ↳ OF LTFmt
 (\$25000 × 0.85)

31/3/26 Machine a/c Dr. 21250
 To Ex. Loss a/c 21250

$$\text{Dep @ } 10\% \text{ on } (2081250 + 21250) = 210250$$

Ex:-2 FC Loan taken of \$40,000 on 1/4/25 to purchase Land. Loan Term = 10 yrs. Loan will be repaid equally every year.

$$\begin{array}{l} 1/4/25 \Rightarrow \$1 = 80 \\ 31/3/26 \Rightarrow \$1 = 81.50 \end{array} \left. \vphantom{\begin{array}{l} 1/4/25 \\ 31/3/26 \end{array}} \right\} 1.50$$

$$31/3/27 \Rightarrow \$1 = 80.25$$

Apply Para 46.

Solution:-

Date	Loan opng.	Ex. Rate	Loan in £	
1/4/25	\$40,000	80	32,00,000	Initial Receipt.

1/4/25 Bank a/c Dr. 32,00,000
 To FC Loan a/c 32,00,000

1/4/25 Land a/c Dr. 32,00,000
 To Bank a/c 32,00,000

31/3/26 Ex. Loss a/c Dr. 60,000
 To FC Loan 60,000

31/3/26 FC Loan a/c Dr. 326000
 To Bank a/c 326000

$$(\$40000 \times 81.5)$$

31/3/26 FC MIT Diff a/c Dr. 60000
 To Ex. Loss a/c 60000

31/3/26 P&L a/c Dr. 6000
 To FC MIT Diff. 6000

Un-amortised Balance in FC MIT Diff a/c is 54000 (Dr. Balance) should be shown on Res Head in B/s

Next year Opng. als loan \Rightarrow $\$36000 \times 81.5$
 \Rightarrow $\pounds 2934000$

31/3/27 Subsequent measurement @ 80.25
 $\$36000 \times (81.5 - 80.25) = 45000$
 Gain.

FC Loan a/c Dr. 45000
 To Ex. Gain 45000

Ex. Gain a/c Dr. 45000
 To FC MIT Diff. 45000

FC Loan a/c Dr. 321000
 To Bank 321000
 ($\$4000 \times 80.25$)

Balance of FC MIT Diff \Rightarrow 54000 Dr. - 45000 Cr. = 9000 Dr.

Amortised in 2nd yr. $\Rightarrow \frac{9000}{9} = 1000/-$

31/3/27 P&I a/c Dr. 1000
 To Fc MIT Diff 1000

3rd Fc MIT \Rightarrow 8000 Dr.

Ex Loss \Rightarrow 20000
 28000 \div 8

Grant. (-) 3500 P&I Dr.

4th Fc MIT 24500 Dr.
 Diff

Ex Gain 30000
 5500 Cr.
 \div 7

Amortise 786 P&I Cr.

5th Balance 4714 Cr.

Ex Loss 22000
 17286 \div 6

Note:-

If Repayment of some Loan & Remeasurement of FcmI is on the same date :-

↓
apply Remeasurement on Entire of Loan before Payment First

↓
then Repay the Loan with Clog Rate of same date

How to Charge Depreciation on Asset purchased out of LT-FC loan & applying para 46.

Cost of Machine ————— XXX
(Loan Amt x Spot Rate)

(+/-) Ex. Loss / (Gain) ————— XXX

Revised Carrying Amt. of Machine ————— XXX

Depreciation on above Revised — XXX
Value (SLM or WDV method)

Forward Exchange Contracts (FEC)

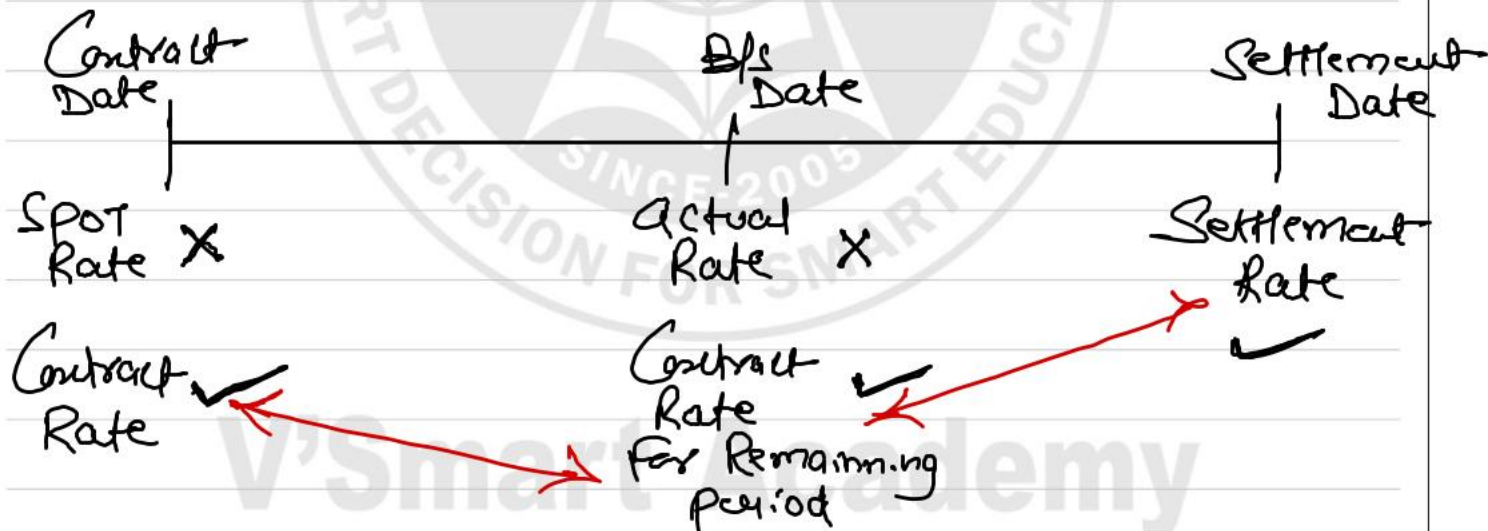
1) Two Types of FEC :-

Speculation
(भट्टा)

Hedging

2) Speculation :- It is a Contract to buy/sell Foreign Currency without physical delivery & settlement in net cash.

Accounting Treatment :-



👉 On Contract Date, Do Nothing.

👉 On B/S date, Gam/Loss is calculated & transferred to P&L as Under :-

$$FC \text{ Value} \times \left(\text{Contract Rate on } - \text{Contract Rate on } \right)$$

👉 On Settlement Date, again Gam/Loss to be Calculated & transfer to P&L as Under:-

$$FC \text{ Value} \times \left(\begin{array}{c} \text{Contract Rate} \\ \text{on B/s} \\ \text{date} \end{array} - \begin{array}{c} \text{Settlement} \\ \text{Rate} \end{array} \right)$$

Refer Ex. 7 OF AS Trump (Pg. no. 14.12)

2) Hedging Contract :- It is a Contract to reduce the risk of Exchange Loss on any **FCMI**

Under this Contract, SPOT Rate is Compared with Forward Rate.

↓
FC Debtor
FC Creditor
FC Loans

Forward Rate is the Contract Rate at which Foreign Currency (\$, €, £) will be purchased or sold



SPOT Rate ✓

Vs.

Forward Rate ✓

Forward Premium (Loss)

(or)

Forward Discount (Gain)

* Forward Premium/Discount should be Deferred & Amortised over the Contract period in the P&L A/c.



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