As 11

1) Types of Cwerencies :-

- Reporting Cwerency
  ↳ Cwerency in which F/S are maintained.

- Foreign currency
  ↳ Any currency other than Reporting Cwerency

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

It is called Initial Recognition of FCT at SPOT Rate

↳ First time Recording

3) Subsequent Measument :- It means Revaluation of Foreign Cwerency monetary Item (FCMI) at B/s Date.
↳ at Closing Rate

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

- Monetary
  - i.e Debtors (in FC)
    Creditors (in FC)
    Loans (in FC)
  - These are Called FCM1
- Non Monetary
  - Machine
    L&B
    Investments
    Inventory
    Share Capital
    ] in FC
  - These are FCNM1

5) At Every B/s date, Exchange Gain/Loss Should be recognised on Subsequent measurement OF :-

- FCM1 (FC Debtor, FC Loan/Creditor)
  - transfer such Gain/Loss to P&L a/c
  - Except under Para 46 OF AS 11
- FCNM1 (which is measured at other than Cost)

eg:-

a) Investments in foreign equity shares, measured at fair value.

b) Inventory Purchased in FC measured at NRV

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)

Short Term FCMI

↓

Which are settled within 12 months from the date of Transactions

eg:- Fc Debtors
Fc Creditors

↓

Para 46 is not applicable Here.

Long Term FCMI

↓

Which are settled beyond 12 months from the date of Transaction.

eg. Foreign Currency Loan Payable beyond 12 m.

↓

Para 46 is applicable Here

Para 46 on LTFCMI

→ LT Fc 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 LTFCMI shall be treated as Under :-

LTFCMI 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.

LTFCMI 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"

FCMITD 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. Dep. = 10%.

1/4/25 ⇒ $1 = 83.25

31/3/26 ⇒ $1 = 84.10

apply Para 46.

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 @ Closing Rate)		
	↳ OF LT FCM		
	($25000 × 0.85)		
31/3/26	Machine a/c Dr.	21250	
	To Ex. Loss a/c		21250

Dep @ 10% 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.

1/4/25 ⇒ $1 = 80
31/3/26 ⇒ $1 = 81.50 } 1.50

31/3/27 ⇒ $1 = 80.25

Apply para 46.

Solution:-

Date	Loan opng.	Ex. Rate	Loan in ₹	
1/4/25	$40,000	80	32,00,000	Initial Recgn.

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
	($4000 × 81.5)		

31|3|26 FC MIT Diff a/c Dr. 60,000
To Ex. Loss a/c 60,000

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 R&S Head in B/S

Next year Opng. a/s Loan ⇒ $36000 x 81.5
⇒ £ 2934,00

31|3|27 Subsequent Measurement @ 80.25
$36000 x (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 x 80.25)

Balance of FC MIT Diff ⇒ 54000 − 45000 = 9000
Dr. Cr. Dr.

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

31/3/27 P&L a/c Dr. 1000
To FCMIT Diff 1000

3rd FCMIT $\Rightarrow$ 8000 Dr.
Ex Loss $\Rightarrow$ 20000
28000 ÷ 8
Amort. (-) 3500 P&L Dr.
4th FCMIT 24500 Dr.
Diff
Ex Gain 30000
5500 Cr.
÷ 7
Amortise 786 P&L Cr.
5th Balance 4714 Cr.
Ex Loss 22000
17286 ÷ 6

Note :-

If Repayment of Some Loan & Remeasurement of FCMI is on the Same date :-

- apply Remeasurement on Entire O/s Loan before Payment First
- then Repay the loan with Closg Rate of Same date

How to Charge Depreciation on Asset purchased out of LT fc Loan & applying para 46.

Cost of Machine (Loan Amt x Spot Rate)	XXX
(+/-) Ex. Loss / (Gain)	XXX
Revised Carrying Amt. of Machine	XXX
Depreciation on above Revised Value (SLM or WDV method)	XXX

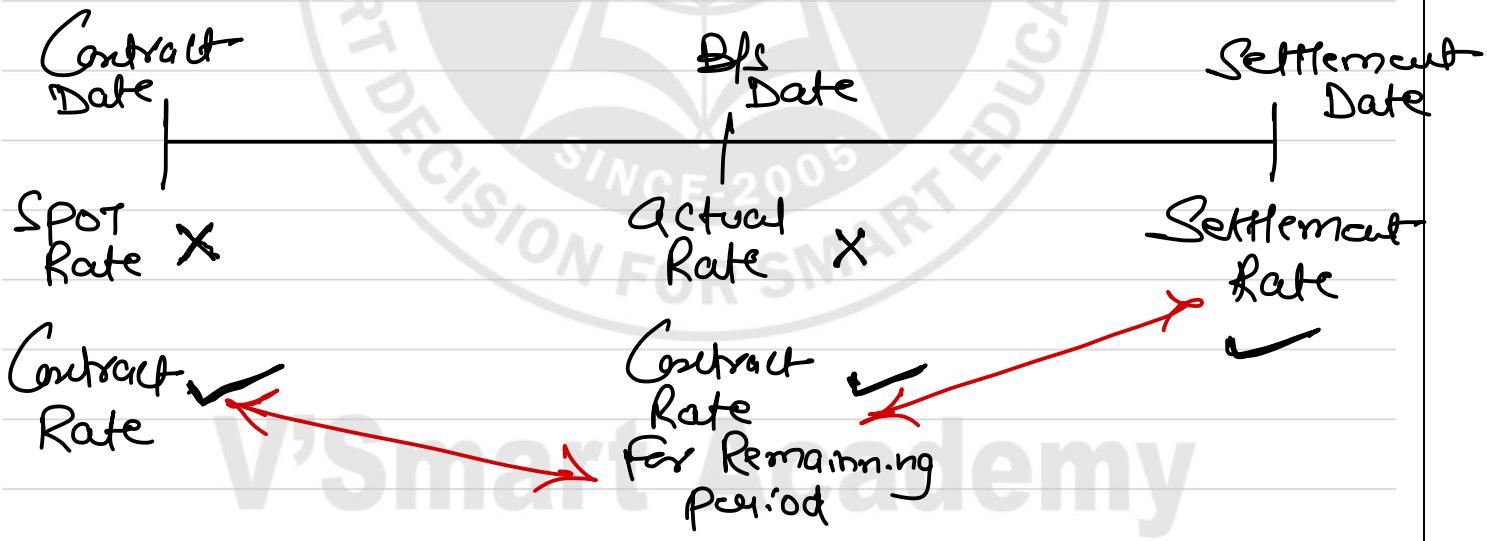
Forward Exchange Contracts (FEC)

1) Two Types of FEC :-

Speculation (सट्टा) | 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, Gain/Loss is Calculated & transfer to P&L as Under :-

FC Value × (Contract Rate on − Contract Rate on

Contract Date B/S date)

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

FC value × (Contract Rate as B/S date − Settlement Rate)

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

FC Debtor
FC Creditor
FC Loans

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

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.