

**TOPIC – 14**  
**ACCOUNTING STANDARD - 11**  
**“EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES”**

**TOTAL NO. OF QUESTIONS – 15**

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**SERIES 100 - FOREIGN CURRENCY TRANSACTIONS**

**Q.AS11.RMP.101: (EXAM May 21)**

(a) Classify the following items into Monetary and Non-monetary:

- (i) Share capital;
- (ii) Trade Payables;
- (iii) Cash balance;
- (iv) Property, plant and equipment
- (v) Inventories
- (vi) Investment in Equity shares

(b) Trade payables of CAT Ltd. include amount payable to JBB Ltd., Rs. 10,00,000 recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US \$1 = Rs. 80.00. The exchange rate on balance sheet date (31.03.2020) was US \$1 = Rs. 85.00. You are required to calculate the amount of exchange difference and also explain the accounting treatment needed for this as per AS 11 in the books of CAT Ltd.

**Q.AS11.SM.102**

	Exchange Rate per \$
Goods purchased on 1.1.20X1 for US \$ 15,000	₹75
Exchange rate on 31.3.20X1	₹74
Date of actual payment 7.7.20X1	₹73

You are required to ascertain the loss/gain to be recognized for financial years ended 31st March, 20X1 and 31st March, 20X2 as per AS 11.

**Q.AS11.RMP.103: (RTP Nov22)**

A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2022, when the exchange rate was Rs. 43 per US Dollar. The company had recorded the transaction in the books at the above-mentioned rate. The payment for the import transaction was made on 5th April, 2022 when the exchange rate was Rs. 47 per US Dollar. However, on 31st March, 2022, the rate of exchange was Rs. 48 per US Dollar. The company passed an entry on 31st March, 2022 adjusting the cost of raw materials consumed for the difference between Rs. 47 and Rs. 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct?

Discuss

**Q.AS11.SM.104**

Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.3. 20X1. Trade receivables include amount receivable from Umesh ₹5,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$ 1 = ₹58.50.

Long term loan taken from a U.S. Company, amounting to ₹60,00,000. It was recorded at US \$ 1 = ₹55.60, taking exchange rate prevailing at the date of transaction. US \$ 1 = ₹61.20 was on 31.3. 20X1.

**Q.AS11.SM.105**

Kalim Ltd. borrowed US\$ 4,50,000 on 01/01/2016, which will be repaid as on 31/07/2016. Kalim Ltd. prepares financial statement ending on 31/03/2016. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

01/01/2016 | US\$ = Rs 48.00

31/03/2016 1 US\$ = Rs 49.00

31/07/2016 1 US\$ = Rs 49.50

#### Q.ASII.OM.106

Opportunity Ltd. purchased an equipment costing Rs 24,00,000 on 1.4.2015 and the same was fully financed by foreign currency loan (US Dollars) payable in four annual equal installments. Exchange rates were 1 Dollar = Rs 60.00 and Rs 62.50 as on 1.4.2015 and 31.3.2016 respectively. First installment was paid on 31.3.2016. The entire difference in foreign exchange has been capitalised. You are required to state that how these transactions would be accounted for.



#### Q.ASII.RMP.107: (MTP May18, Nov21)

Om Ltd. purchased an item of property, plant and equipment for US \$ 50 lakh on 01.04.2019 and the same was fully financed by the foreign currency loan [US \$] repayable in five equal installments annually. (Exchange rate at the time of purchase was 1 US \$ = Rs. 60). As on 31.03.2020 the first installment was paid when 1 US \$ fetched ₹ 62.00. The entire loss on exchange was included in cost of goods sold. Om Ltd. normally provides depreciation on an item of property, plant and equipment at 20% on WDV basis and exercised the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment. Calculate the amount of exchange loss, its treatment and depreciation on this item of property, plant and equipment.

#### Q.ASII.RMP.108 (EXAM May23)

Trower Limited is an Indian importer. It imports goods from True View Limited situated at London. Trower Limited has a payable of £ 50,000 to True view Limited as on 31<sup>st</sup> March, 2023. True View Limited has given Trower Limited has given Trower Limited the following two option:

- (i) Pay immediately with a cash discount of 1% on the payable.
- (ii) Pay after 6 months with interest @ 5% p.a. on the Payable.

The borrowing rate for Trower Limited in rupees is 15% p.a.

The following are the exchange rates:

Date	₹/£
31 <sup>st</sup> March, 2023	97
30 <sup>th</sup> September, 2023	99

You are required to give your opinion to Trower Limited on which of the above two options to be chosen.

### Q.AS11.SM.109

A Ltd. has borrowed USD 10,000 in foreign currency on April 1, 20X1 at 5% p.a. annual interest and acquired a depreciable asset. The exchange rates are as under:

01/04/20X1 | US\$ = ₹ 48.00

31/03/20X2 | US\$ = ₹ 51.00

You are required to pass the journal entries in the following cases:

- (i) Option under Para 46A is not availed.
- (ii) Option under Para 46A is availed.
- (iii) The loan was taken to finance the operations of the entity (and not to procure a depreciable asset). In all cases, assume interest accrued on 31 March 20X2 is paid on the same date.



### Q.AS11.RMP.110: (EXAM Dec21)

(i) PP Ltd. an Indian Company acquired long term finance from WW (p) Ltd, a U.S. company, amounting to Rs. 40,88,952. The transaction was recorded at US \$1 = Rs. 72.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date (31.03.2021) is US \$1 = Rs. 73.60.

(ii) Trade receivable of PP Ltd. include amount receivable from Preksha Ltd. Rs. 20,00,150 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$1 = Rs. 73.40.

The exchange rate on balance sheet date (31.03.2021) is US \$1 = Rs. 73.60. Exchange rate on 1<sup>st</sup> April, 2020 is US \$1 = Rs. 74.00

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS 11 in the books of PP Ltd.

**Q.AS11.RMP.III: (RTP May'25)**

Legal Ltd. is engaged in the manufacturing of rubber. For its plant, it required machineries of latest technology. It usually resorts to Long Term Foreign Currency Borrowings for its fund requirements. On 1st April, 2023, it borrowed US \$1 million from International Funding Agency, USA when exchange rate was 1 \$ = ₹ 63. The funds were used for acquiring machineries, on the same date, to be used in three different plants. The useful life of the machineries is 10 years and their residual value is ₹ 30,00,000.

Earlier also the company used to purchase machineries out of foreign borrowings. The exchange differences arising on such borrowings were charged to profit and loss account and were not capitalized even though the company had an option to capitalize it as per notified AS 11.

Now for this new purchase of machinery, Legal Ltd, is interested to avail the option of capitalizing the same to the cost of asset. Exchange rate on 31st March, 2024 is 1 US \$ = ₹ 62. Assume that on 31st March, 2024, Legal Ltd. is not having any old long term foreign currency borrowings except for the amount borrowed for machinery purchased on 1st April, 2023.

Comment whether Legal Ltd. can capitalize the exchange difference to the cost of asset on 31st March, 2024. If yes, then calculate the depreciation amount on machineries as on 31st March, 2024.

**SOLUTIONS OF ABOVE QUESTIONS OF SERIES 100****SOLUTION Q101**

- (a) Share capital - Non-monetary; Trade Payables - Monetary  
Cash balance - Monetary; Property, plant and equipment - Non monetary  
Inventory - Non monetary, Investment in Equity Shares - Non Monetary

**(b) Amount of Exchange difference and its Accounting Treatment**

	Foreign Currency Rate	Rs.
<b>Trade payables</b>		
Initial recognition US \$ 12,500 (Rs. 10,00,000/80)	1 US \$ = Rs. 80	10,00,000
Rate on Balance sheet date		
Exchange Difference loss US \$ 12,500 x Rs. (85-80)	1 US \$ = Rs. 85	62,500
Treatment: Debit Profit and Loss A/c by Rs. 62,500 and Credit Trade Payables		

Thus, Exchange Difference on trade payables amounting Rs. 62,500 is required to be transferred to Profit and Loss.

**SOLUTION Q102**

As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.20X1 and corresponding creditors would be recorded at ₹11,25,000 (i.e. \$15,000 × ₹75)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US \$15,000 on 31.3.20X1 will be reported at ₹11,10,000 (i.e. \$15,000 × ₹74) and exchange profit of ₹15,000 (i.e. 11,25,000 - 11,10,000) should be credited to Profit and Loss account in the year ended 31st March, 20X1.

On 7.7.20X1, creditors of \$15,000 is paid at the rate of ₹73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, ₹15,000 (i.e. 11,10,000 - 10,95,000) will be credited to Profit and Loss account in the year ended 31st March, 20X2.

**SOLUTION Q103**

As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Trade payables is a monetary item, hence should be valued at the closing rate i.e., Rs. 48 at 31st March, 2022 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs. 5 (Rs. 48 - Rs. 43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2022 and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of Rs. 1 per US dollar, i.e., the difference between Rs. 48 and Rs. 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

**Answer Q104**

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise. However, at the option of an entity, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortised over the balance period of such long-term asset/ liability, by recognition as income or expense in each of such periods.

Trade receivables	Foreign Currency Rate	₹
Initial recognition US \$8,547 (5,00,000/58.50)	1 US \$ = ₹ 58.50	5,00,000
Rate on Balance sheet date	1 US \$ = ₹ 61.20	
Exchange Difference Gain US \$ 8,547 X (61.20-58.50)		23,077
Treatment: Credit Profit and Loss A/c by ₹23,077		
Long term Loan		
Initial recognition US \$ 1,07,913.67 (60,00,000/55.60)	1 US \$ = ₹ 55.60	60,00,000
Rate on Balance sheet date	1 US \$ = ₹ 61.20	
Exchange Difference Loss US \$ 1,07,913.67 X (61.20 - 55.60)		6,04,317
Treatment: Credit Loan A/c And Debit FCMITD A/c or Profit and Loss A/c by ₹ 6,04,317		

Thus, Exchange Difference on Long term loan amounting ₹6,04,317 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on debtors amounting ₹23,077 is required to be transferred to Profit and Loss A/c.

**SOLUTION Q105****Journal Entries in the Books of Kalim Ltd.**

Date	Particulars	Rs (Dr.)	Rs (Cr.)
Jan. 01, 2016	Bank Account (4,50,000 x 48) Dr.	216,00,000	
	To Foreign Loan Account		216,00,000
Mar. 31, 2016	Foreign Exchange Difference Account Dr.	4,50,000	
	To Foreign Loan Account [4,50,000 x (49-48)]		4,50,000
Jul. 01, 2016	Foreign Exchange Difference Account Dr. [4,50,000 x (49.5-49)]	2,25,000	
	Foreign Loan Account Dr.	220,50,000	
	To Bank Account		2,22,75,000

**SOLUTION Q106**

As per AS 11 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, should be recognised as income or expenses in the period in which they arise. Thus, exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets will be recognised as income or expense.

**Calculation of Exchange Difference:**

Foreign currency loan =	Rs 24,00,000/60 = 40,000 US Dollars
Exchange difference =	40,000 US Dollars × (62.50-60.00) = Rs 1,00,000
(Including exchange loss on payment of first instalment)	

Therefore, entire loss due to exchange differences amounting Rs 1,00,000 should be charged to profit and loss account for the year.

**Note:** The above answer has been given on the basis that the company has not availed the option for capitalisation of exchange difference as per paragraph 46/ 46A of AS 11.

However, as per paragraph 46A of the standard, the exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and should be depreciated over the balance life of the asset. Accordingly, in case Opportunity Ltd. opts for capitalising the exchange difference, then the entire amount of exchange difference of Rs 1,00,000 will be capitalised to 'Equipment account'. This capitalised exchange difference will be depreciated over the useful life of the asset.

Cost of the asset on the reporting date

Initial cost of Equipment	Rs 24,00,000
Add: Exchange difference	Rs 1,00,000
<b>Total cost on the reporting date</b>	<b>Rs 25,00,000</b>

**SOLUTION Q107**

Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring an item of property, plant and equipment should be adjusted in the carrying amount of the respective item of property, plant and equipment as Om Ltd. has exercised the option and it is long term foreign currency monetary item. Thus, the entire exchange loss due to variation of Rs. 20 lakhs on 31.03.2020 on payment of US \$ 10 lakh, should be added to the carrying amount of an item of property, plant and equipment and not to the cost of goods sold. Further, depreciation on the unamortized depreciable amount should also be provided.

**Calculation of Exchange loss:**

Foreign currency loan (in Rs.) = (50 lakh \$ × Rs. 60) = Rs. 3,000 lakhs

Exchange loss on outstanding loan on 31.03.2020 = Rs. 40 lakh US \$ × (62.00-60.00) = Rs. 80 lakhs.

So, Rs. 80 lakhs should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to Rs. 20 lakhs on account of exchange loss on payment of installment. The total cost of an item of property, plant and equipment to be increased by Rs. 100 lakh. Total depreciation to be provided for the year 2019-2020 = 20% of (Rs. 3,000 lakh + 100 lakh) = Rs. 620 lakhs.

**Solution Q108**

**Option (i) Pay immediately with Cash discount of 1% on the payable**

	₹
Total amount payable as on 31.3.2023 (50,000 × ₹ 97)	48,50,000
Less: Cash discount	(48,500)
	48,01,500
Add: Borrowing cost @ 15% p.a. for 6 months	3,60,112.50

If payment made immediate	51,61,612.50
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**Option (ii) Pay after 6 months with interest @ 5% p.a. on the payable**

	₹
Total amount payable as on 31.3.2023 (50,000 x ₹ 99)	49,50,000
Interest for 6 months @ 5%	1,23,750
If payment made after 6 months	50,73,750

Thus, Option (ii) is beneficial to Trower Limited as the Rupee outflow will be lower by ₹ (51,61,612 - 50,73,750) = ₹ 87,862 in option (ii).

Note: The above answer be presented in the alternative manner given as below:

**Option (i) Pay immediately with Cash discount of 1% on the payable**

Total amount payable on 31.3.2023	50,000
Less: Cash discount (50,000 x 1 / 100)	(500)
49,500 x ₹ 97	48,01,500
Add: Borrowing cost @ 15% p.a. for 6 months	3,60,112.50
If payment made immediate	₹ 51,61,612.50

**Option (ii) Pay after 6 months with interest @ 5% p.a. on the payable**

	₹
Total amount payable on 31.3.2023	50,000
Interest for 6 months @ 5% (50,000 x 5 / 100 x 6 / 12)	1,250
If payment made after 6 months (51,250 x 99)	50,73,750

Thus, Option (ii) is beneficial to Trower Limited as the Rupee outflow will be lower by ₹ (51,61,612 - 50,73,750) = ₹ 87,862 in option (ii).

### Solution Q109

**Journal Entries in the Books of A Ltd.**

**(i) Option under Para 46A is not availed**

Date	Particulars	₹ (Dr.)	₹ (Cr.)
20X1			
Apr. 01	Bank Account (10,000 x 48) Dr.	4,80,000	
	To Foreign Loan Account		4,80,000
Mar 31	Finance Cost (USD 10,000 x 5% x ₹ 51) Dr.	25,500	
	To Bank Account		25,500
Mar 31	Foreign Exchange Difference Account (P/L) Dr.	30,000	
	To Foreign Loan Account [10,000 x (51-48)]		30,000

In this case, since the option under Para 46A is **NOT** availed, the Exchange Loss of ₹ 30,000 is recognised as an expense in the Statement of Profit and Loss for the year ending 31 March 20X2.

**(ii) Option under Para 46A is availed**

Date	Particulars	₹ (Dr.)	₹ (Cr.)
20X1			
Apr. 01	Bank Account (10,000 x 48) Dr.	4,80,000	
	To Foreign Loan Account		4,80,000
Mar 31	Finance Cost (USD 10,000 x 5% x ₹ 51) Dr.	25,500	
	To Bank Account		25,500
Mar 31	Foreign Exchange Difference Account (P/L) Dr.	30,000	
	To Foreign Loan Account [10,000 x (51-48)]		30,000
Mar 31	Property Plant & Equipment A/c Dr.	30,000	
	To Foreign Exchange Difference A/c		30,000

In this case, since the option under Para 46A is availed, the Exchange Loss of ₹ 30,000 is capitalized in the cost of Property, Plant and Equipment, which will indirectly get recognized in the Profit & Loss A/c by way of increased depreciation over the remaining useful life of the asset.

**(iii) Option under Para 46A is availed**

Date	Particulars	₹ (Dr.)	₹ (Cr.)
20X1			
Apr. 01	Bank Account (10,000 x 48) Dr.	4,80,000	
	To Foreign Loan Account		4,80,000
Mar 31	Finance Cost (USD 10,000 x 5% x ₹ 51) Dr.	25,500	
	To Bank Account		25,500
Mar 31	Foreign Exchange Difference Account (P/L) Dr.	30,000	
	To Foreign Loan Account [10,000 x (51-48)]		30,000
Mar 31	Foreign Currency Monetary Item Translation Difference A/c (FCMITDA) Dr.	30,000	
	To Foreign Exchange Difference A/c		30,000

In this case, since the option under Para 46A is availed, the Exchange Loss of ₹ 30,000 is accumulated in the FCMITD A/c, which will be subsequently spread over and debited to P&L A/c over the tenure of the loan.

**Solution Q110****(i) Long term Finance**

	Foreign Currency Rate	Rs.
Initial recognition US \$ 56,791 (40,88,952/72)	1 US \$ = Rs. 72	40,88,952
Rate on Balance sheet date	1 US \$ = Rs. 73.60	
Exchange Difference Loss [US \$ 56,791 x (73.60 - 72)]		90,866 (Rounded off)

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

However, at the option of an entity, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset/ liability, by recognition as income or expense in each of such periods.

Treatment needed in this case: PP Ltd. can either Debit Foreign Currency Monetary Item Translation Difference (FCMITD) A/c or Debit Profit and Loss A/c by Rs. 90,866 and Credit Loan A/c

## (ii) Trade Receivables

	Foreign Currency Rate	Rs.
Initial recognition US \$ 27,250 (20,00,150/ 73.40)	1 US \$ = Rs. 73.40	20,00,150
Rate on Balance sheet date	1 US \$ = Rs. 73.60	
Exchange Difference Gain [US \$ 27,250 X (73.60-73.40)]		5,450

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences on trade receivables amounting Rs. 5,450 is required to be transferred to Profit and Loss A/c.  
Treatment needed in this case: Credit Profit and loss account by Rs. 5,450.

**Solution Q111**

As per paragraph 46A of AS 11, 'The Effects of Changes in Foreign Exchange Rates', in respect of accounting periods commencing on or after 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 or not (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.

Accordingly, though Legal Ltd. had not earlier exercised the option, yet it can avail the option to capitalize the exchange difference to the cost of machinery by virtue of para 46A of AS 11. Further, since Legal Ltd. has no earlier long term foreign currency borrowings, it is not required to apply capitalization option to earlier borrowing also.

Exchange difference to be capitalized and depreciation amount

₹

Cost of the asset in \$		1 million
Exchange rate on 1st April, 2023		₹ 63 = 1\$
Cost of the asset in ₹	(1 million x ₹ 63)	63 million
Less: Exchange differences as on 31st March, 2024 (63-62) x \$ 1 million	(Gain)	(1 million)
		62 million
Less: Depreciation for 2023-2024	(62 million - 3 million) / 10 years	(5.90 million)
		56.10 million

**SERIES 200 - FOREIGN OPERATIONS (BRANCHES)****Q.ASII.SM.201**

Assets and liabilities and income and expenditure items in respect of foreign branches (integral foreign operations) are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to the statement of profit and loss. Comment.

**Q.ASII.SM.202**

A business having the Head Office in Kolkata has a branch in UK. The following is the trial balance of Branch as at 31.03.20X4:

Account Name	Amount in £		
	Dr.	Cr.	
Property, Plant and Equipment (Purchased on 01.04.20X1)	5,000	20,000	
Debtors	1,600		
Opening Stock	400		
Goods received from Head Office Account (Recorded in HO books as ₹4,02,000)	6,100		
Sales			
Purchases	10,000		
Wages	1,000		
Salaries	1,200		
Cash	3,200		7,400
Remittances to Head Office (Recorded in HO books as ₹1,91,000)	2,900		4,000
Head Office Account (Recorded in HO books as ₹4,90,000)			
Creditors			

- Closing stock at branch is £ 700 on 31.03.20X4.
- Depreciation @ 10% p.a. is to be charged on Property, plant and equipment.
- Prepare the trial balance after been converted in Indian Rupees.

Exchange rates of Pounds on different dates are as follow: 01.04.20X1- ₹61; 01.04.20X3- ₹63 & 31.03.20X4 - ₹67

## SOLUTIONS OF ABOVE QUESTIONS OF SERIES 200

### SOLUTION Q201

The financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in AS 11. The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself.

Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. For practical reasons, a rate that approximates the actual rate at the date of transaction is often used, for example, an average rate for a week or a month may be used for all transactions in each foreign currency during the period. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realisable value is translated applying exchange rate when realisable value is determined which is generally closing rate.

Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account. Exchange difference arising on the translation of the financial statement of foreign operation may have tax effect which should be dealt as per AS 22 'Accounting for Taxes on Income'.

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11.

### SOLUTION Q202

Trial Balance of the Foreign Branch converted into Indian Rupees as on March 31, 20X4

Particulars	£ (Dr.)	£ (Cr.)	Conversion Basis	₹ (Dr.)	₹ (Cr.)
Property, plant and equipment	5,000		Transaction Date Rate	3,05,000	
Debtors	1,600		Closing Rate	1,07,200	
Opening Stock	400		Opening Rate	25,200	
Goods Received from HO	6,100		Actuals	4,02,000	
Sales		20,000	Average Rate		13,00,000
Purchases	10,000		Average Rate	6,50,000	
Wages	1,000		Average Rate	65,000	
Salaries	1,200		Average Rate	78,000	
Cash	3,200		Closing Rate	2,14,400	
Remittance to HO	2,900		Actuals	1,91,000	
HO Account		7,400	Actuals		4,90,000
Creditors		4,000	Closing Rate		2,68,000
Exchange Rate Difference			Balancing Figure	20,200	
	<b>31,400</b>	<b>31,400</b>		<b>20,58,000</b>	<b>20,58,000</b>
Closing Stock	700		Closing Rate	46,900	
Depreciation	500		Fixed Asset Rate	30,500	

**SERIES 300 - FORWARD EXCHANGE CONTRACTS****Q.AS11.SM.301**

Mr. A bought a forward contract for three months of US\$ 1,00,000 on 1st December at 1 US\$ = Rs 47.10 when exchange rate was US\$ 1 = Rs 47.02. On 31st December when he closed his books exchange rate was US\$ 1 = Rs 47.15. On 31st January, he decided to sell the contract at Rs 47.18 per dollar. Show how the profits from contract will be recognised in the books.

**Q.AS11.RMP.302 (RTP May19, MTP March20)**

Rau Ltd. purchased a plant for US\$ 1,00,000 on 01st February 20X1, payable after three months. Company entered into a forward contract for three months @ ₹49.15 per dollar. Exchange rate per dollar on 01st Feb. was ₹48.85. How will you recognise the profit or loss on forward contract in the books of Rau Ltd.?

**Q.AS11.RMP.303: (EXAM Nov22)**

- (i) Jared Limited purchased a Machine for US \$ 20,000 on 31st December, 2021 payable after four months. It entered into a forward contract for four months @ ₹ 78.85 per US \$. On 31st December, 2021 the exchange rate was ₹ 77.50 per US \$.  
How will you recognize the Profit or Loss on Forward Contract for the year ended 31st March, 2022 in the books of Jared Limited?
- (ii) Trade Payables of Jared Limited includes amount due to Sterling Limited ₹ 9,75,000 recorded at the prevailing exchange rate on the date of purchase; transaction recorded at US \$ 1 = ₹ 75.00. The exchange rate on Balance Sheet date (31st March, 2022) was US \$ 1 = ₹ 79.00 The payment was made on 1st May, 2022 when the exchange rate was US \$ 1 = ₹ 78.30.  
You are required to calculate the amount of exchange difference on 31st March, 2022 and 1st May, 2022 and also explain the accounting treatment needed in the above case as per AS 11 in the books of Jared Limited.

## SOLUTIONS OF ABOVE QUESTIONS OF SERIES 300

### SOLUTION Q301

Since the forward contract was for speculation purpose the premium on contract i.e. the difference between the spot rate and contract rate will not be recorded in the books. Only when the contract is sold the difference between the contract rate and sale rate will be recorded in the Profit & Loss Account.

Sale Rate	Rs 47.18
Less: Contract Rate	(Rs 47.10)
Premium on Contract	<u>Rs 0.08</u>
Contract Amount	US\$ 1,00,000
<b>Total Profit (1,00,000 x 0.08)</b>	<b>Rs 8,000</b>

### SOLUTION Q302

Forward Rate	₹49.15
Less: Spot Rate	<u>(₹48.85)</u>
Premium on Contract	₹0.30
Contract Amount	<u>US\$ 1,00,000</u>
<b>Total Loss (1,00,000 x 0.30)</b>	<b>₹30,000</b>

Contract period 3 months (2 months falling in the year ended 31st March, 20X1)

Loss to be recognised  $(30,000/3) \times 2 = ₹20,000$  in the year ended 31st March, 20X1. Rest ₹10,000 will be recognised in the following year.

In recording a forward exchange contract intended for trading or speculation purposes, the premium or discount on the contract is ignored and at each balance sheet date, the value of the contract is marked to its current market value and the gain or loss on the contract is recognised.

### Solution Q303

(i)

	₹
Forward Rate	78.85
Less: Spot Rate	(77.50)
Premium on Contract	1.35
Contract Amount	US\$ 20,000
<b>Total Loss (20,000 x 1.35)</b>	<b>₹ 27,000</b>

Contract period 4 months (3 months falling in the year ended 31st March, 2022)

Loss to be recognized  $(₹27,000 \times 3/4) = ₹ 20,250$  in the year ended 31st March, 2022.

(ii) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

Trade payables	Foreign Currency Rate	Amount ₹
Initial recognition US \$13,000 (9,75,000/75)	1 US \$ = ₹ 75	
Exchange Rate on Balance sheet date	1 US \$ = ₹ 79	
Exchange Difference Loss US \$ 13,000 X (79-75)		52,000
Exchange Rate on Settlement date	1 US \$ = ₹ 78.30	

Exchange Difference Profit US \$ 13,000x(79-78.30)	9,100
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For the year ended 31st March, 2022 exchange difference loss amounting ₹ 52,000 will be charged to statement of Profit & Loss A/c.

However, there is exchange difference gain of ₹ 13,000 x (79-78.30) = 9,100 on 1st May, 2022. Thus, gain of ₹ 9,100 will be credited to statement of Profit & Loss A/c for the year ended 31st March, 2023.



Student Notes:-