

**AS 11****The Effects of Changes in Foreign Exchange rates****Question 1**

Rau Ltd. purchased a plant for US\$ 1,00,000 on 01st February 2020, payable after three months. Company entered into a forward contract for three months @ Rs. 49.15 per dollar. Exchange rate per dollar on 01st Feb. was Rs. 48.85. How will you recognize the profit or loss on forward contract in the books of Rau Ltd.? (MTP 5 Marks, May '20, RTP Nov'21, RTP May'19, Old & New SM)/ (Same concept different figures PYP 2.5 Marks Nov'22)

Answer 1

Forward Rate	Rs. 49.15
Less: Spot Rate	(Rs. 48.85)
Premium on Contract	Rs. 0.30
Contract Amount	US\$ 1,00,000
Total Loss (1,00,000 x 0.30)	Rs. 30,000

Contract period 3 months

Two months falling in the year ended 31st March, 2020; therefore, loss to be recognized $(30,000/3) \times 2 =$ Rs. 20,000. Balance amount of Rs. 10,000 will be recognized in the following financial year.

Question 2

Om Ltd. purchased an item of property, plant and equipment for US \$ 50 lakhs on 01.04.2019 and the same was fully financed by the foreign currency loan [US \$] repayable in five equal instalments annually. (Exchange rate at the time of purchase was 1 US \$ = ₹ 60). As on 31.03.2020 the first instalment 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. (MTP 5 Marks Oct 20, Oct 21)

Answer 2

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 ₹ 20 lakh on 31.03.2020 on payment of US \$ 10 lakhs, 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 ₹) = $(50 \text{ lakhs } \$ \times ₹ 60) = ₹ 3,000 \text{ lakh}$ Exchange loss on outstanding loan on 31.03.2020 = $₹ 40 \text{ lakh } US \$ \times (62.00 - 60.00) = ₹ 80 \text{ lakh}$. So, ₹ 80 lakh should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to ₹ 20 lakh on account of exchange loss on payment of instalment. The total cost of an item of property, plant and equipment to be increased by ₹ 100 lakh. Total depreciation to be provided for the year 2019 - 2020 = 20% of $(₹ 3,000 \text{ Each} + 100 \text{ lakh}) = ₹ 620 \text{ lakh}$.



Question 3

“Explain “monetary item” as per Accounting Standard 11. How are foreign currency monetary items to be recognized at each Balance Sheet date? Classify the following as monetary or non- monetary item:

1. Share Capital
2. Trade Receivables
3. Investments
4. Property Plant & Equipment.

(MTP 5 Marks Nov '21 & April '23)

Answer 3

As per AS 11 ‘The Effects of Changes in Foreign Exchange Rates’, Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

Foreign currency monetary items should be reported using the closing rate at each balance sheet date. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realized from, or required to disburse, a foreign currency monetary item at the balance sheet date. In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realized from or required to disburse, such item at the balance sheet date.

Share capital	Non-monetary
Trade receivables	Monetary
Investments	Non-monetary
Fixed assets	Non-monetary

Question 4

ABC Ltd. borrowed US \$ 5,00,000 on 01/01/2021, which was repaid as on 31/07/2021. ABC Ltd. prepares financial statement ending on 31/03/2021. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

01/01/2021	1 US\$ =	₹ 68.50
31/03/2021	1 US \$ =	₹ 69.50
31/07/2021	1 US \$ =	₹ 70.00

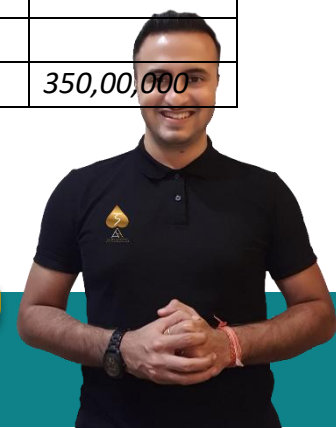
You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

(MTP 5 Marks, Sep '22, PYP May '18, 5 Marks) (Same concept different figures as Old & New SM)

Answer 4

Journal Entries in the Books of ABC Ltd.

Date	Particulars	₹ (Dr.)	₹ (Cr.)
Jan. 01, 2021	Bank Account (5,00,000 x 68.50) Dr.	342,50,000	
	To Foreign Loan Account		342,50,000
March 31, 2021	Foreign Exchange Difference Account Dr.	5,00,000	
	To Foreign Loan Account [5,00,000 x (69.50-68.50)]		5,00,000
Jul. 31, 2021	Foreign Exchange Difference Account [5,00,000 x (70-69.5)] Dr.	2,50,000	
	Foreign Loan Account Dr.	347,50,000	
	To Bank Account		350,00,000



Question 5

Assets and liabilities and income and expenditure items in respect of 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 revenue. You are required to comment in line with AS 11.

(MTP 5 Marks Oct '22) (RTP May 20, Old & New SM)

Answer 5

Financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures of AS 11 (Revised 2003). 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. 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 realizable value is translated applying exchange rate when realizable 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.

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 (Revised 2003).

Question 6

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

(i) **Share capital; (ii) Trade Payables; (iii) Cash balance; (iv) Property, plant and equipment**

(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.**

(RTP May '21)

Answer 6

(a) **Share capital – Non-monetary; Trade Payables – Monetary**

Cash balance – Monetary; Property, plant and equipment – Non-monetary

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

	Foreign Currency Rate	Rs.
Trade payables		
Initial recognition US \$ 12,500 (Rs.10,00,000/80)	1 US \$ = Rs. 80	10,00,000
Rate on Balance sheet date	1 US \$ = Rs. 85	
Exchange Difference loss US \$ 12,500 x Rs. (85-80)		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.

Share capital	Non-monetary
Trade receivables	Monetary
Investment in equity shares	Non-monetary
Fixed assets	Non-monetary

Question 7

(a) Classify the following items as monetary or non-monetary item: Share Capital, Trade Receivables, Investment in Equity shares & Fixed Assets.

	Exchange Rate per \$
Goods purchased on 1.1.2019 for US \$ 15,000	₹ 75
Exchange rate on 31.3.2019	₹ 74
Date of actual payment 7.7.2019	₹ 73

You are required to ascertain the loss/gain to be recognized for financial years 2018- 19 and 2019-20 as per AS 11. **(RTP Nov 20, Nov 18, Old & New SM)**

Answer 7

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 1.1.2019 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 31.3.2019 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 2018–19. On 7.7.2019, 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 2019–20.

Question 8

(i) Trade receivables as on 31.3.2019 in the books of XYZ Ltd. include an amount receivable from Umesh Rs.5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US \$ 1= Rs.58.50. US \$ 1 = Rs.61.20 on 31.3.2019. Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2019. **(RTP Nov 19)**

(ii) Power Track Ltd. purchased a plant for US\$ 50,000 on 31st October, 2018 payable after 6 months. The company entered into a forward contract for 6 months @Rs.64.25 per Dollar. On 31st October, 2018, the exchange rate was ₹61.50 per Dollar. You are required to recognize the profit or loss on forward contract in the books of the company for the year ended 31st March, 2019. **(RTP Nov 19, May 18)**

Answer 8

(i) 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. Accordingly, exchange difference on trade receivables amounting Rs.23,076 {Rs.5,23,076(US \$ 8547⁰⁰ x Rs.61.20) less Rs. 5,00,000} should be charged to profit & Loss account.



(II) Calculation of profit or loss to be recognized in the books of Power Track Limited

	₹
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	\$ 50,000
Total loss on entering into forward contract = (\$ 50,000 × Rs.2.75)	₹1,37,500
Contract period	6 months
Loss for the period 1 st November, 2018 to 31 st March, 2019 i.e. 5 months falling in the year 2018–2019	5 months
Hence, Loss for 5 months will be $\text{Rs.}1,37,500 \times \frac{5}{6} =$	Rs.1,14,583

Thus, the loss amounting to Rs.1,14,583 for the period is to be recognized in the year ended 31st March, 2019.

Question 9

Kumar Ltd. borrowed US \$ 3,00,000 on 31-12-2020 which will repaid as on 30-06-2021. Kumar Ltd. prepares its financial statements ending on 31-03-2021. Rate of exchange between reporting currency (Rupee) and foreign currency (US\$) on different dates are as under:

31-12-2020	1 US \$ = ₹ 44.00
31-03-2021	1 US \$ = ₹ 44.50
30-06-2021	1 US \$ = ₹ 44.75

- Calculate Borrowings in reporting currency to be recognized in the books on above mentioned dates and also show journal entries for the same.
- if borrowings were repaid on 28-2-2021 on which date exchange rate was 1 US \$ = ₹ 44.20 then what entry should be passed? (RTP May '22)

Answer 9

- As per AS 11 'The Effect of Changes in Foreign Exchange Rates', a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Moreover, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.12.2020 borrowings will be recorded at ₹ 1,32,00,000 (i.e., ₹ 3,00,000 × ₹ 44.00). On 31.3.2021 borrowings (monetary items) will be recorded at ₹ 1,33,50,000 (i.e. \$ 3,00,000 × ₹ 44.50).

Journal of Kumar Ltd.

Date	Particular		Dr. (₹)	Cr. (₹)
31-12-2020	Bank A/c	Dr.	1,32,00,000	
	To Foreign Loan Account			1,32,00,000
31-03-2021	Foreign Exchange A/c Difference Account	Dr.	1,50,000	
	To Foreign Loan Account			1,50,000
30-06-2021	Foreign Loan Account A/c	Dr.	1,33,50,000	





	Foreign Exchange Difference Account A/c		75,000	
	To Bank A/c			1,34,25,0000

In case borrowings were repaid before Balance Sheet Date, then the entry would be as follows:

Date	Particular		Dr. (₹)	Cr. (₹)
28-02-2021	Foreign Loan Account A/c	Dr.	1,32,00,000	1,32,60,000
	Foreign Exchange Difference Account A/c	Dr.	60,000	
	To Bank A/c			

Working Notes:

- The exchange difference of ₹ 1,50,000 is arising because the transaction has been reported at different rate (₹ 44.50 = 1 US \$) from the rate initially recorded (i.e., ₹ 44 = 1 US \$) from the rate initially recorded (i.e., ₹ 44 = 1 US \$)
- The exchange difference of ₹ 75,000 is arising because the transaction has been settled at an exchange rate (₹ 44.75 = 1 US\$) different from the rate at which reported in the last financial statements (₹ 44.50 = 1 US\$).
- The exchange difference of ₹ 60,000 is arising because the transaction has been settled at a different rate (i.e., ₹ 44.20 = 1 US \$) than the rate at which initially recorded (1 US \$ = ₹ 44.00)

Question 10

A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2022, when the exchange rate was ₹ 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 ₹ 47 per US Dollar. However, on 31st March, 2022, the rate of exchange was ₹ 48 per US Dollar. The company passed an entry on 31st March, 2022 adjusting the cost of raw materials consumed for the difference between ₹ 47 and ₹ 43 per US Dollar. In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss (RTP Nov'22)

Answer 10

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., ₹ 48 at 31st March, 2022 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of ₹ 5 (₹ 48-₹ 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 ₹ 1 per US dollar, i.e., the difference between ₹ 48 and ₹ 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

Question 11

ABC Builders Limited had borrowed a sum of US \$ 15,00,000 at the beginning of financial year 2020- 21 for its residential project at London Interbank Offered Rate (LIBOR) + 4 %. The interest is payable at the end of the Financial Year. At the time of availing the loan, the exchange rate was ₹ 72 per US \$ and the rate as



on 31st March, 2021 was ₹ 76 per US \$. If ABC Builders Limited borrowed the loan in Indian Rupee equivalent, the pricing of loan would have been 9.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2021 as per applicable Accounting Standards. (Applicable LIBOR is 1%). (RTP May 23)

Answer

1. Interest for the period 2020–21 = US \$ 15 lakhs x 5% x ₹ 76 per US \$ = ₹ 57 lakhs
2. Increase in the liability towards the principal amount = US \$ 15 lakhs x ₹ (76 – 72) = ₹ 60 lakhs
3. Interest that would have resulted if the loan was taken in Indian currency = US \$ 15 lakhs x ₹ 72 x 9.5% = ₹ 102.60 lakhs
4. Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 102.60 lakhs less ₹ 57 lakhs = ₹ 45.60 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 45.60 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 102.60 lakhs being the aggregate of interest of ₹ 57 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 45.60 lakhs.

Hence, ₹ 102.60 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 “Borrowing Costs” and the remaining ₹ 14.4 lakhs (60 – 45.60) would be considered as the exchange difference to be accounted for as per AS 11 “The Effects of Changes in Foreign Exchange Rates”.

Question 12

Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.03.2020

- (i) Debtors include amount due from Mr. S ₹ 9,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$1 = ₹ 72.00 US \$ 1=₹73.50 on 31st March,2020 US \$ 1= ₹72.50 on 1st April,2019.
- (ii) Long term loan taken on 1st April, 2019 from a U.S. company amounting to ₹ 75,00,000. ₹5,00,000 was repaid on 31st December, 2019, recorded at US \$ 1 = ₹ 70.50. interest has been paid as and when debited by the US company. US \$1= ₹ 73.50 on 31st March,2020 US \$1=1₹ 72.50 on 1st April, 2019.

(PYP 5 Marks Jan ‘21) (Same concepts different figures Old & New SM)

Answer 12

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 e or expense in each of such periods.

	Foreign Currency Rate	₹
Debtors		
Initial recognition US \$12,500 (9,00,000/72)	1 US \$ = ₹72	9,00,000





Rate on Balance sheet date	1 US \$ = ₹ 73.50	
Exchange Difference Gain US \$ 12,500 X (73.50- 72)		18,750
Treatment: Credit Profit and Loss A/c by ₹ 18,750		
Long term Loan		
Initial recognition US \$ 1,03,448.28 (75,00,000/72.50)	1 US \$ = ₹ 73.50	75,00,000
Rate on Balance sheet date	1 US \$ = ₹ 73.50	
Exchange Difference Loss after adjustment of exchange gain on repayment of ₹ 5,00,000		
₹ 67,987.48 [82,171.88 (US \$ 96,356.08 X ₹ 73.5 Less ₹70,00,000) less profit 14,184.40		
[US \$ 7,092.2 (5,00,000/70.5) X ₹ 2] \ NET LOSS Treatment: Credit Loan A/c and Debit FCMITD A/C or Profit and Loss A/c by ₹ 67,987.48		67,987.48 *

Thus, Exchange Difference on Long term loan amounting ₹ 67,987.48 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 ₹ 18,750 is required to be transferred to Profit and Loss A/c.

NOTE 1: *Exchange Difference Loss (net of adjustment of exchange gain on repayment of ₹ 5,00,000) has been calculated in the above solution. Alternative considering otherwise also possible.

NOTE 2: Date of sales transaction of ₹ 9 lakhs have not been given in the question and hence it has been assumed that the transaction took place during the year ended 31 March 2020.

Question 13

Karan Enterprises having its Head office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31-3-2019:

Particulars	Amount (\$) Dr.	Amount (\$) Cr.
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received form Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	28,350

- Fixed assets were purchased on 1st April, 2019
- Depreciation at 10% p.a. is to be charged on fixed assets on straight line method,
- Closing inventory at branch is \$ 700 as on 31-3-2019.
- Goods received form Head Office (HO) were recorded at Rs. 1,85,500 in HO books.
- Remittances to HO were recorded at Rs. 1,62,000 in HO books.
- HO account is recorded in HO books at Rs. 2,84,500.
- Exchange rates of US Dollar at different dates can be taken as: 1-4-2015 Rs. 63;
1-4-2018 Rs. 65 and
31-3-2019 Rs. 67.



Prepare the trial balance after been converted into Indian rupees in accordance with AS-11.

(PYP Nov.'19,5 Marks)

Answer 13

Trial Balance of Foreign Branch (converted into Indian Rupees) as on March 31, 2019

Particulars	\$ (Dr.)	\$ (Cr.)	Conversion Basis	Rate	₹ (Dr.)	₹ (Cr.)
Fixed Assets	8,000		Transaction Date			
			Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received			Actuals		1,85,500	
from HO	2,800					
Sales		24,050	Average Rate	66	15,87,300	
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate						
Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

Question 14

ABC Ltd. an Indian Company obtained long term loan from WWW private Ltd., a U.S. company amounting to Rs.30,00,000. It was recorded at US \$1 = Rs.60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet data (31.03.2018) was US \$1 = Rs. 62.00.

Trade receivable includes amount receivable from Prakash Ltd., Rs. 10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$1 = Rs. 59.00. The exchange rate on balance sheet data (31.03.2018) was US \$1 = Rs. 62.00.

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 ABC Ltd.

(PYP Nov.'18, 5 Marks) (Same concept different figures -PYP Dec'21 5 Marks, MTP 5 Marks Apr'23)

Answer 14

Amount of Exchange difference and its Accounting Treatment

Long term Loan	Foreign Currency Rate	Rs.
(i)Initial recognition US \$50,000 Rs. (30,00,000/60)	1 US \$ = Rs. 60	30,00,000
Rate on Balance sheet date	1 US \$ = Rs. 62	
Exchange Difference Loss Us \$ 50,000 X Rs. (62 - 60)		1,00,000
Treatment: Credit Loan A/c and Debit FCMITD A/c or Profit and Loss A/c by Rs. 1,00,000		
Trade receivables		
(ii) Initial recognition US \$ 16,949.152* (Rs. 10,00,000/59)	1 US \$ = Rs. 59	10,00,000



Rate on Balance sheet date	1 Us \$ = Rs. 62	
Exchange Difference Gain US \$ 16,949.152* x Rs. (62-59)		50,847.456*
Treatment: Credit Profit and Loss A/c by ₹ 50,847.456* And Debit Trade Receivables		

Thus, Exchange Difference on Long term loan amounting Rs. 1,00,000 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on trade receivables amounting Rs. 50,847.456 is required to be transferred to Profit and Loss A/c.

Question 15

AXE Limited purchased fixed assets costing \$ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ f 62.50 per dollar. The exchange rate per dollar was as follows:

On 1st January, 2018 Rs. 60.75 per dollar

On 31st March, 2018 Rs. 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11. (PYP Nov.'18, 5 Marks, RTP May 20)

Answer 15

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

Forward Rate	Rs.62.50
Less: Spot Rate	(Rs. 60.75)
Premium on Contract	Rs. 1.75
Contract Amount	US\$5,00,000
Total Loss (5,00,000 x 1.75)	₹ 8,75,000

Contract period 5 months 3 months falling in the year 2017-18; therefore, loss to be recognized in 2017-18 $(8,75,000/5) \times 3 = \text{Rs. } 5,25,000$. Rest Rs. 3,50,000 will be recognized in the following year 2018-19.

Question 16

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. (PYP 2.5 Marks Nov '22)

Answer 16

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

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.

Question 17

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 31st March, 2023. True View Limited has given Trower Limited the following two options:

- Pay immediately with a cash discount of 1% on the payable.
- 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	₹
31st March, 2023	97
30th September, 2023	99

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

(PYP 5 Marks May '23)

Answer 17

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

	₹
Total amount payable as on 31.3.2023 (50,000 x ₹ 97)	48,50,000
Less: Cash discount	(48,500)
	48,01,500
Add: Borrowing cost @ 15% p.a. for 6 months If payment made immediate	3,60,112
	51,61,612

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

- 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
	48,01,500
49,500 x ₹ 97	3,60,112
Add: Borrowing cost @ 15% p.a. for 6 months If payment made immediate	₹ 51,61,612

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)	51,250
	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).

Question 18

Explain "monetary item" as per Accounting Standard 11.

How are foreign currency monetary items to be recognized at each Balance Sheet date? Classify the following as monetary or non-monetary item:

Share Capital. Trade Receivables. Investments.

Fixed Assets.

(Nov '23)

Answer 18

As per AS 11, Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

Foreign currency monetary items should be reported using the closing rate at each balance sheet date. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realized from, or required to disburse, a foreign currency monetary item at the balance sheet date.

In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realized from or required to disburse, such item at the balance sheet date.

Classification of items as monetary or non-monetary item:

Share capital	Non-monetary
Trade receivables	Monetary
Investments	Non-monetary Fixed
Assets (PPE)	Non-monetary

