

THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

AS
11

1. As per AS 11 assets and liabilities of non-integral foreign operations should be converted at _____ rate.
 - a. Opening
 - b. Average
 - c. Closing
 - d. Transaction
2. The debit or credit balance of "Foreign Currency Monetary Item Translation Difference Account"
 - a. Is shown as "Miscellaneous Expenditure" in the Balance Sheet
 - b. Is shown under "Reserves and Surplus" as a separate line item
 - c. Is shown as "Other Non-current" in the Balance Sheet
 - d. Is shown as "Current Assets" in the Balance Sheet
3. If asset of an integral foreign operation is carried at cost, cost and depreciation of tangible fixed asset is translated at
 - a. Average exchange rate
 - b. Closing exchange rate
 - c. Exchange rate at the date of purchase of asset
 - d. Opening exchange rate
4. Which of the following can be classified as an integral foreign operation?
 - a. Branch office serving as an extension of the head office in terms of operations
 - b. Independent subsidiary of the parent company
 - c. Branch office independent of the head office in terms of operational decisions
 - d. None of the above
5. Which of the following items should be converted to closing rate for the purposes of financial reporting?
 - a. Items of Property, Plant and Equipment
 - b. Inventory
 - c. Trade Payables, Trade Receivables and Foreign Currency Borrowings
 - d. All of the above
6. What will be the treatment of the balance in the foreign currency translation reserve on disposal of the foreign operation?
 - a. Transfer the balance in foreign currency translation reserve to reserves without impacting P/L
 - b. Record the balance in foreign currency translation reserve as income or expense in P/L
 - c. Foreign currency translation reserve will continue; no change will be made to the balance and it will continue to appear as such even after disposal of the foreign operation
 - d. Any method from the above can be adopted
7. As per AS 11 assets and liabilities of integral foreign operations should be converted at which rates?

- a. Opening Rate for all assets and liabilities (monetary and non-monetary)
 - b. Closing Rate for all assets and liabilities (monetary and non-monetary)
 - c. Record transactions at the spot rate, monetary items at closing rate and non-monetary items at the rate on which the transaction was executed.
 - d. Average Rate for all assets and liabilities (monetary and non-monetary)
8. Which of the following statements is false?
- a. AS 11 should be applied in accounting for transactions in foreign currencies
 - b. AS 11 deals with accounting for foreign currency transaction in the nature of forward exchange contracts
 - c. AS 11 specifies the currency in which an enterprise should present its financial statements
 - d. The principal issues in accounting for foreign currency transactions are to decide which exchange rate to use and how to recognize in the financial statements the financial effect of changes in exchange rates
9. Average rate
- a. is the exchange rate at the balance sheet date
 - b. is the mean of the exchange rates in force during a period
 - c. is the ratio for exchange of two currencies
 - d. is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction
10. Closing rate
- a. is the exchange rate at the balance sheet date
 - b. is the mean of the exchange rates in force during a period
 - c. is the ratio for exchange of two currencies
 - d. is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction
11. Exchange rate
- a. is the exchange rate at the balance sheet date.
 - b. is the mean of the exchange rates in force during a period.
 - c. is the ratio for exchange of two currencies.
 - d. is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
12. Currency other than the reporting currency of an enterprise
- a. Non-Reporting currency
 - b. U.S. Dollars
 - c. Foreign Currency
 - d. Indian Rupees
13. Currency used in presenting the financial statements
- a. Reporting currency
 - b. Non-Foreign Currency
 - c. Official Currency
 - d. Indian Rupees
14. Money held and assets and liabilities to be received or paid in fixed or determinable amounts of money

- a. Current items
 - b. Non-monetary items
 - c. Monetary items
 - d. Forward Exchange Contract
15. Which of the following is a foreign currency transaction?
- i. an enterprise buys or sells goods or services whose price is denominated in a foreign currency.
 - ii. an enterprise borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency.
 - iii. an enterprise becomes a party to an unperformed forward exchange contract.
 - a. only (iii)
 - b. all
 - c. only (i)
 - d. only (ii)
16. Which of the following statements is false?
- a. At each balance sheet date, foreign currency monetary items should be reported using the closing rate.
 - b. At each balance sheet date, non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction.
 - c. At each balance sheet date, non-monetary items, which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.
 - d. At each balance sheet date, foreign currency monetary items should be reported using the average rate during the year.

Answers:

1. (c)
2. (b)
3. (c)
4. (a)
5. (c)
6. (b)
7. (c)
8. (c)
9. (b)
10. (a)
11. (c)
12. (c)
13. (a)
14. (c)
15. (b)
16. (d)