



Date: 23 Feb. 2021

**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

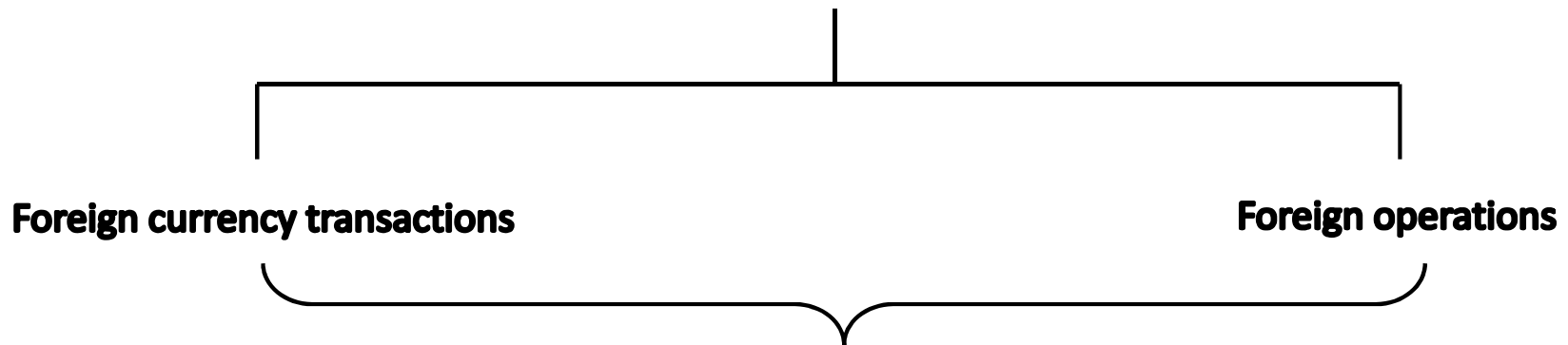
**INTERMEDIATE LEVEL
PAPER 1: ACCOUNTING**

Faculty: CA Sanket Shah



INTRODUCTION

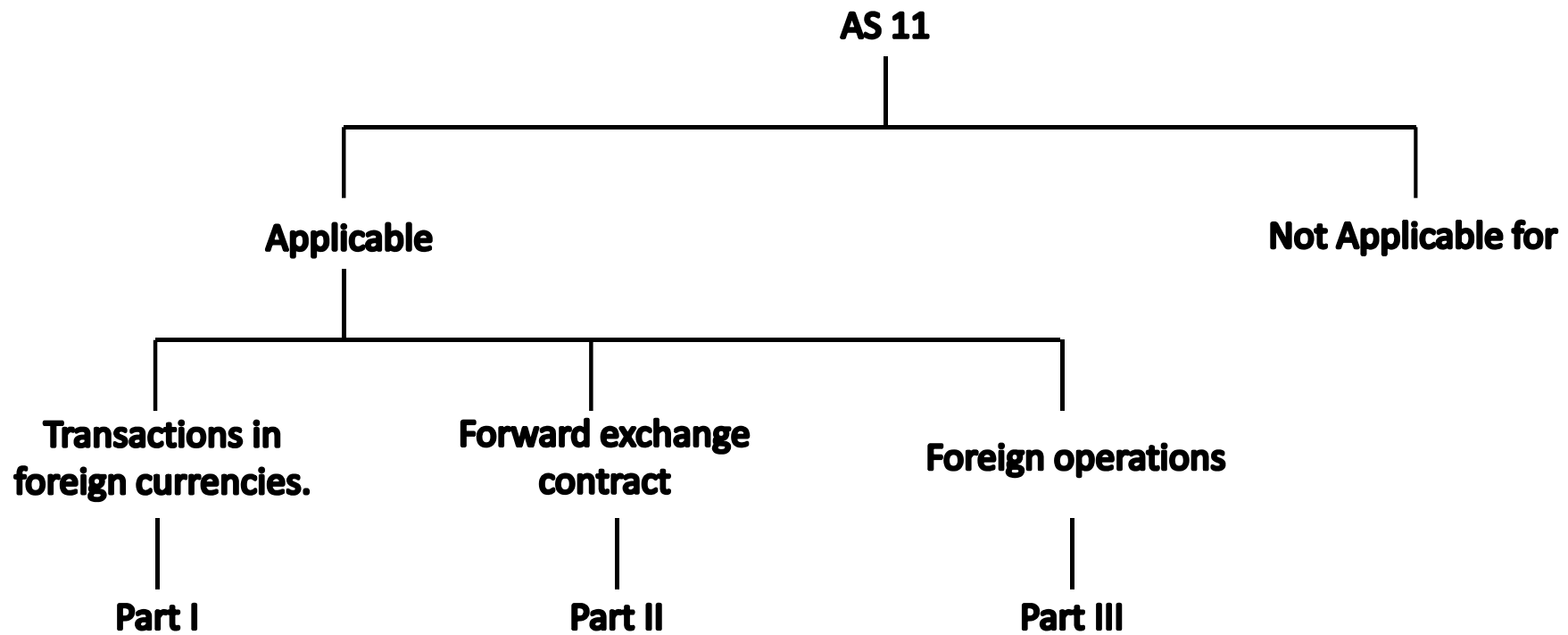
Accounting Treatment



- i) Decide exchange rate to use**
- ii) Effect of changes in exchange rates in the financial statements**

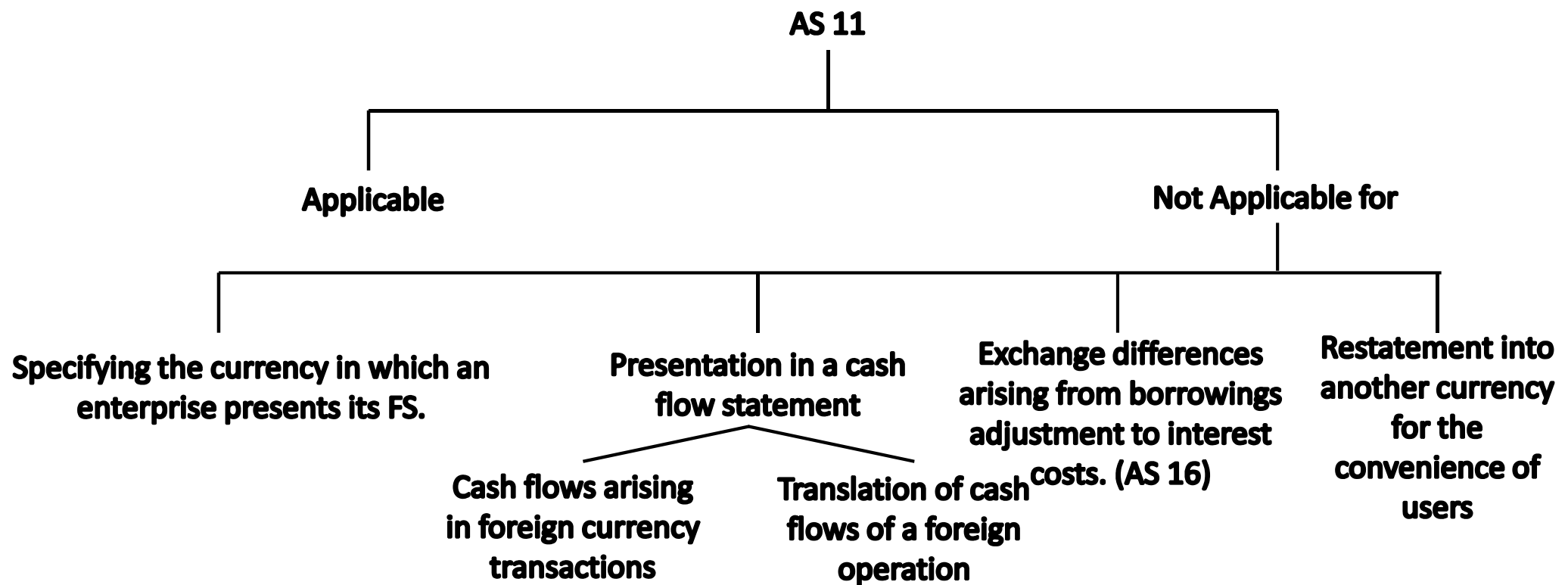


SCOPE OF AS 11



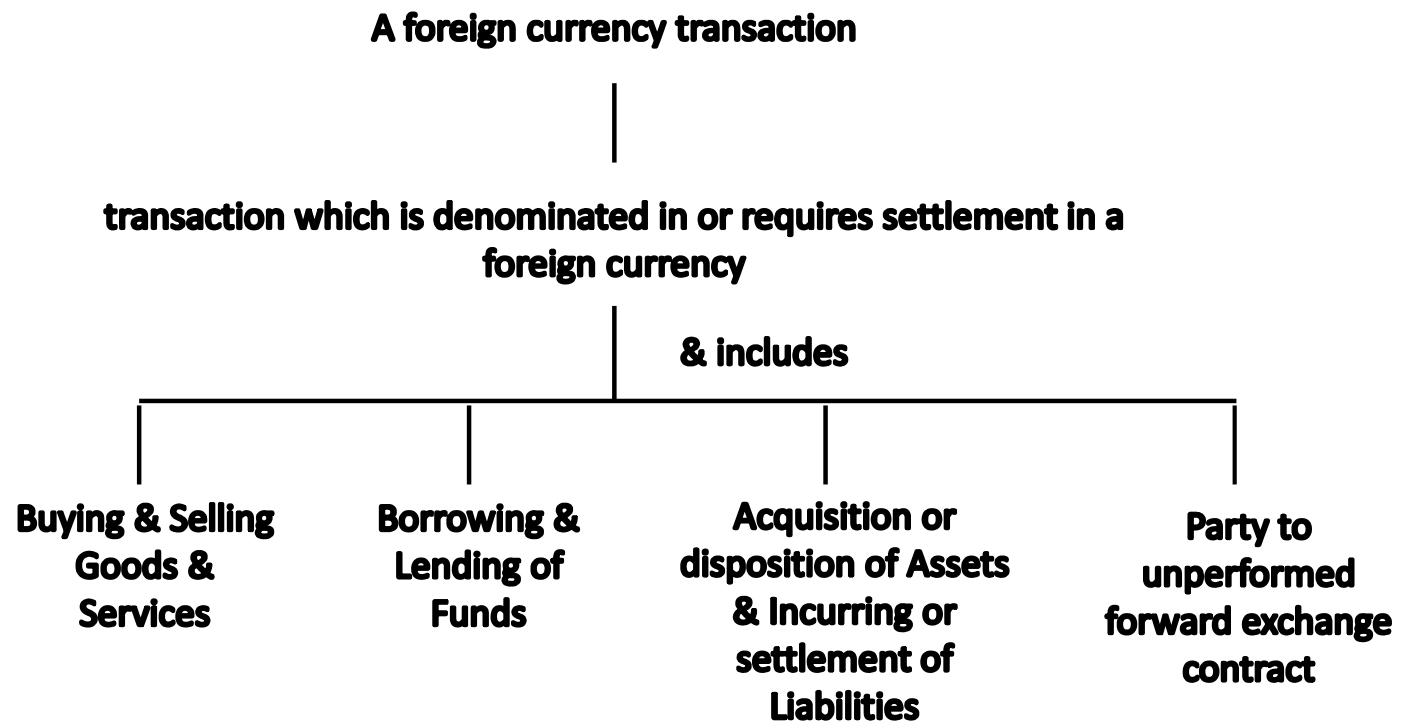


SCOPE OF AS 11



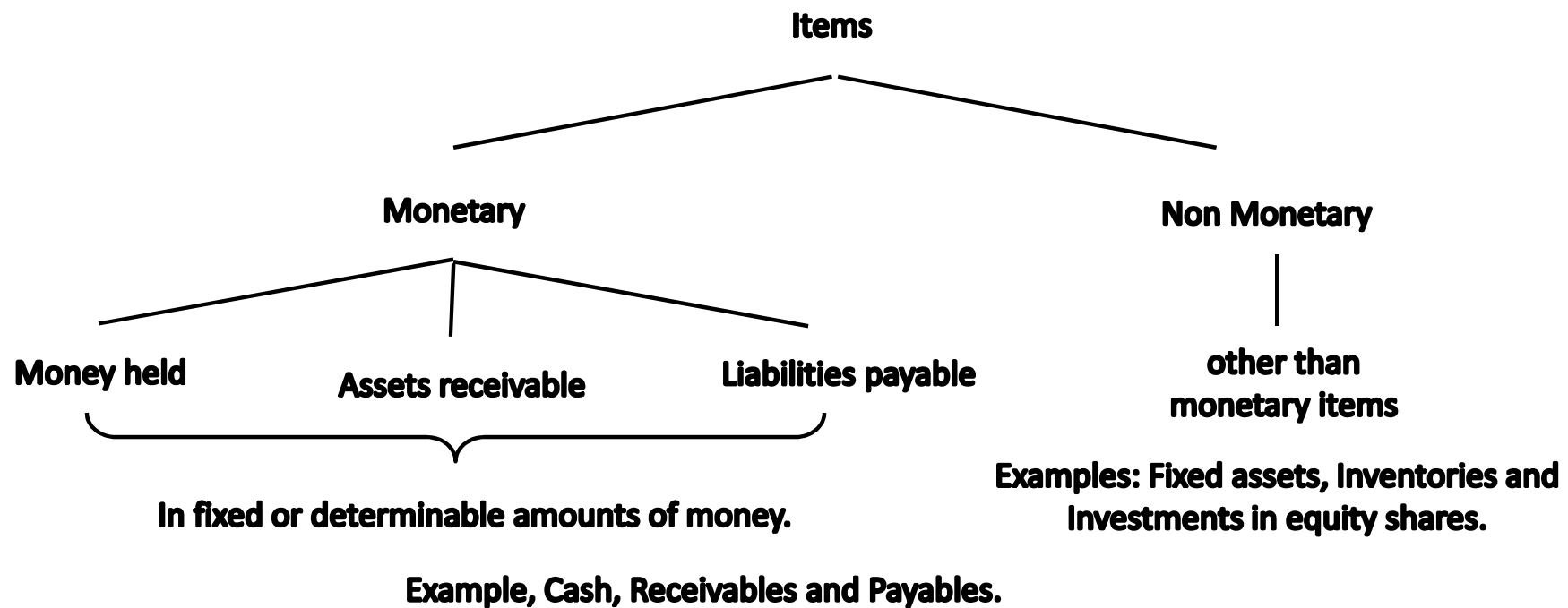


PART I : FOREIGN CURRENCY TRANSACTION





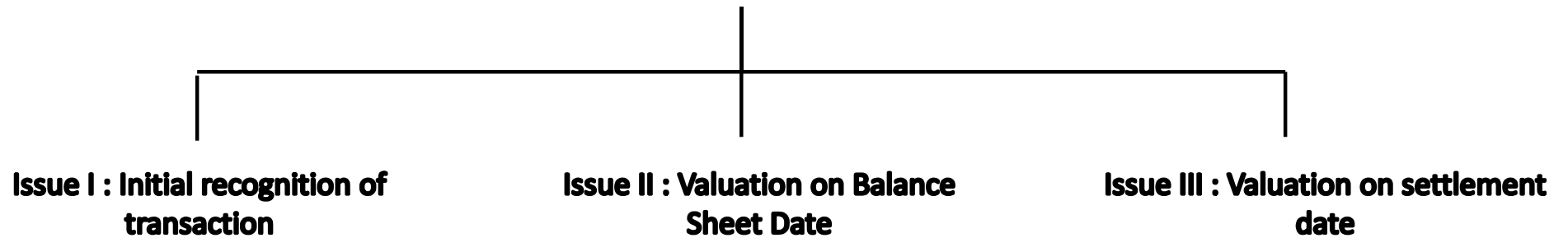
PART I : FOREIGN CURRENCY TRANSACTION





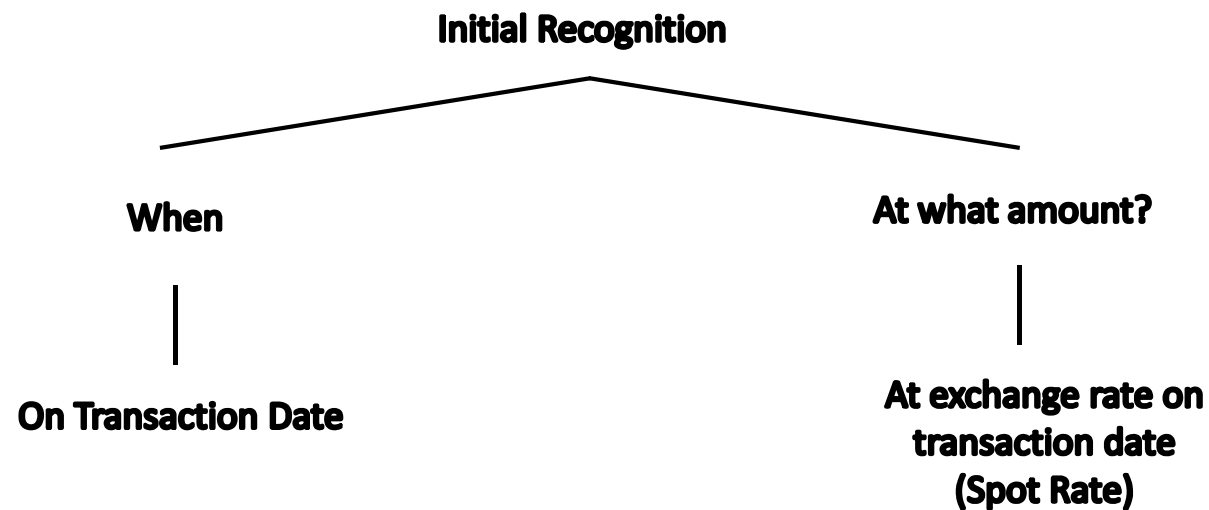
PART I : FOREIGN CURRENCY TRANSACTION

ACCOUNTING TREATMENT



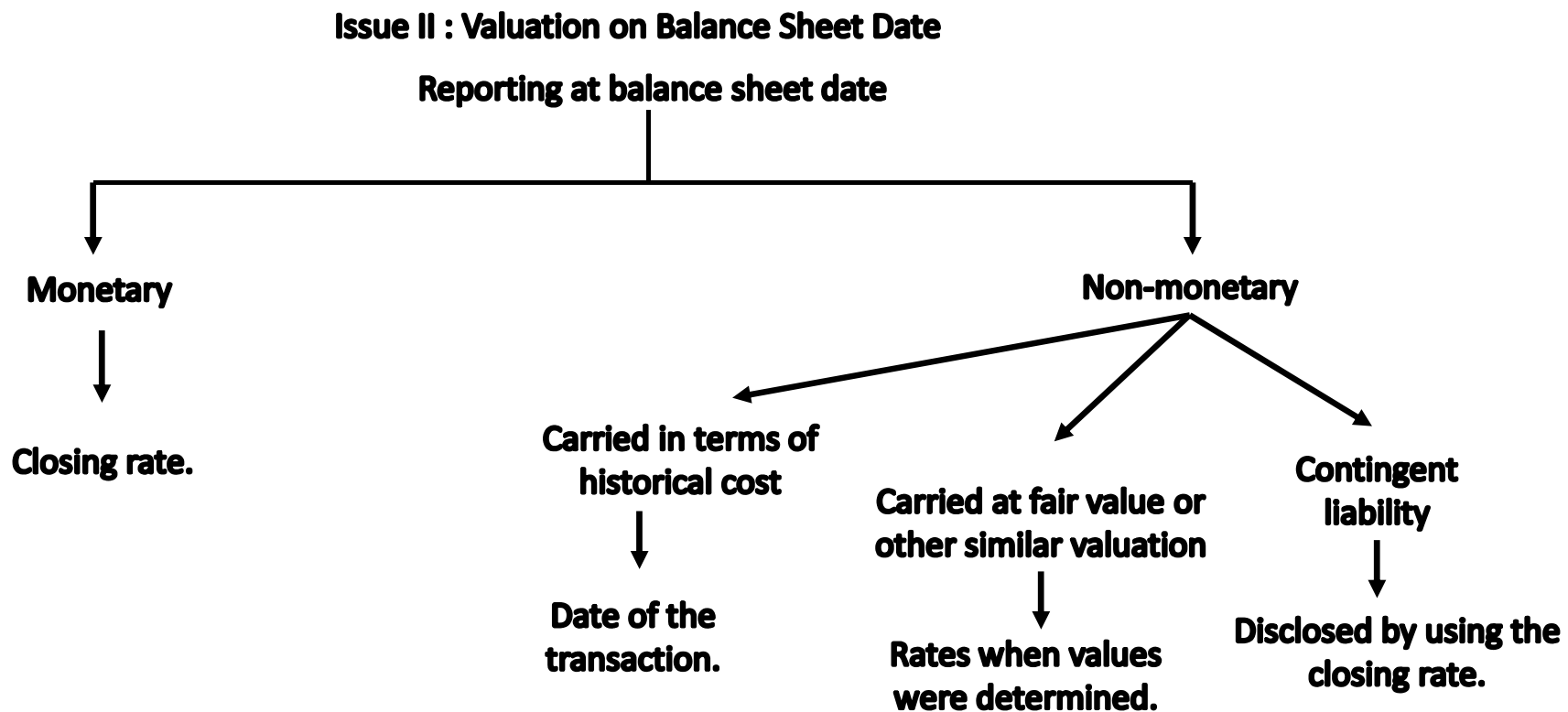


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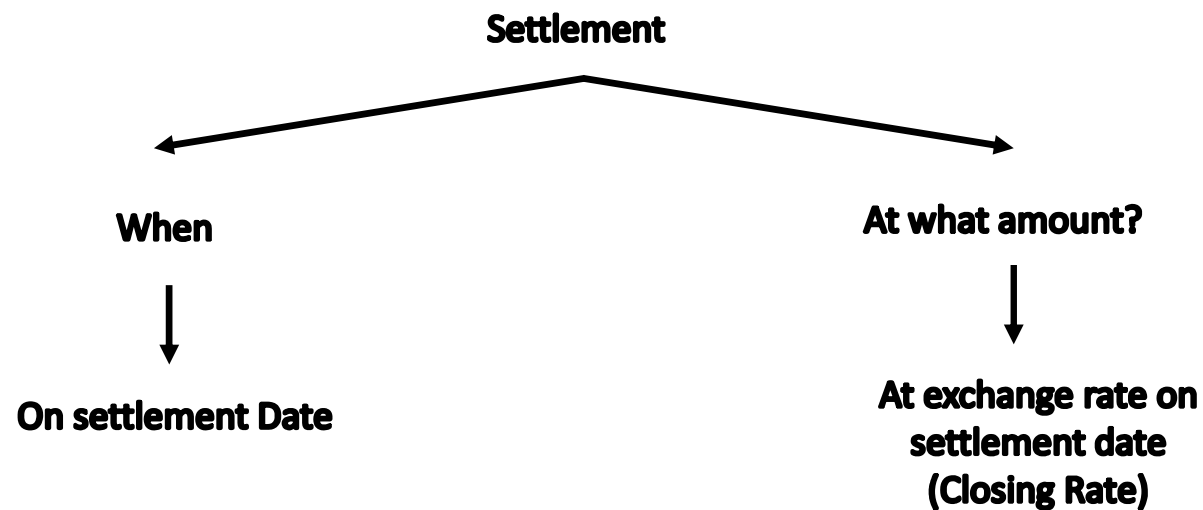
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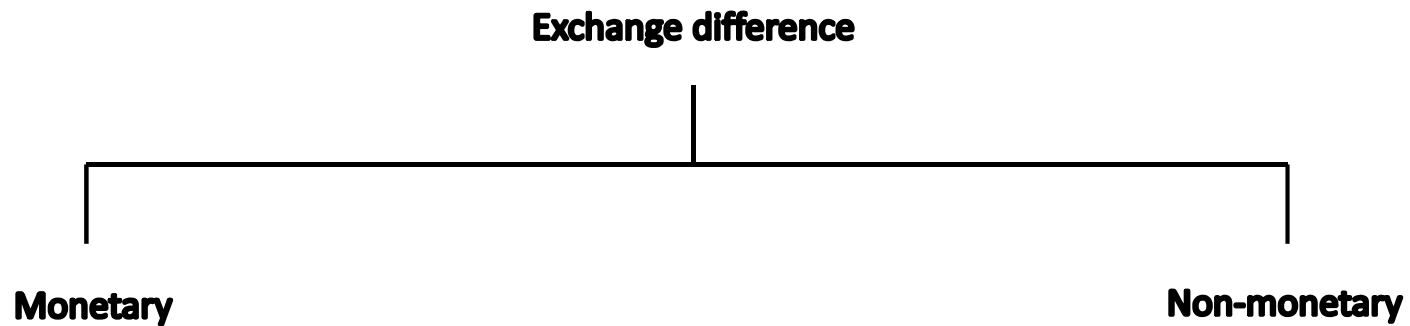
PART I : FOREIGN CURRENCY TRANSACTION

Issue III : Valuation on settlement date



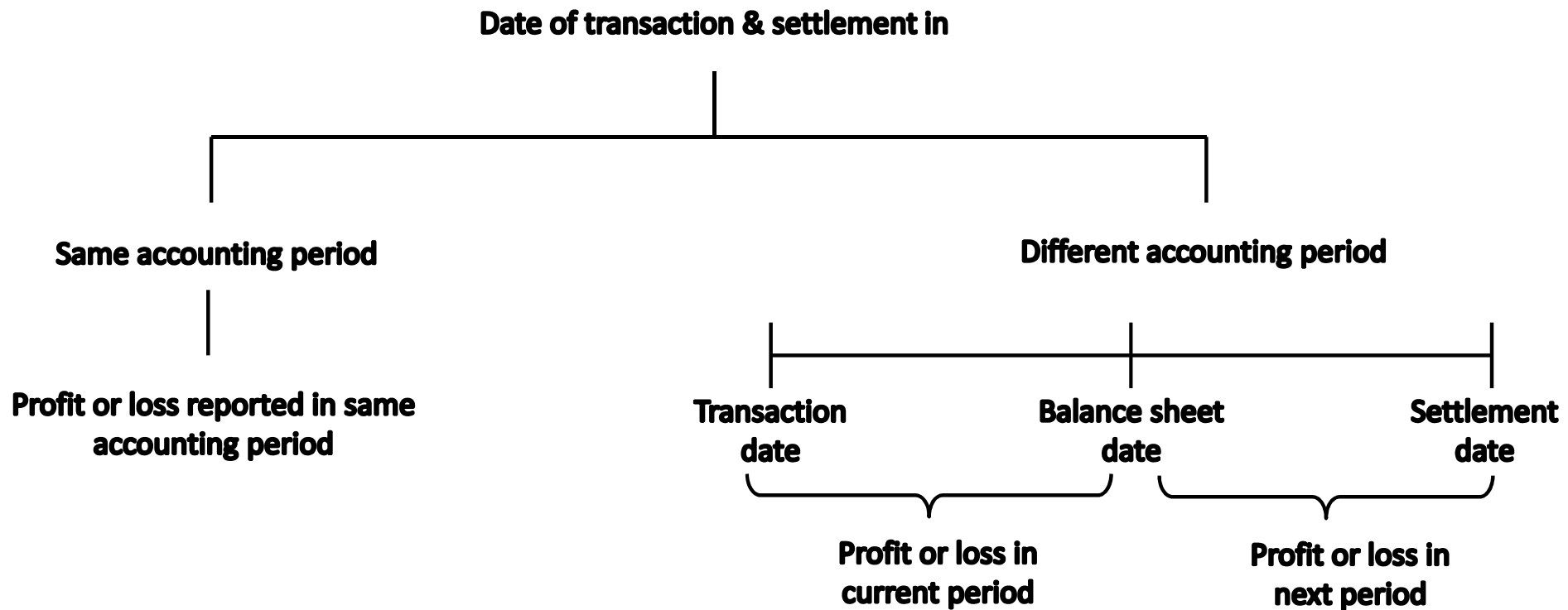


PART I : FOREIGN CURRENCY TRANSACTION





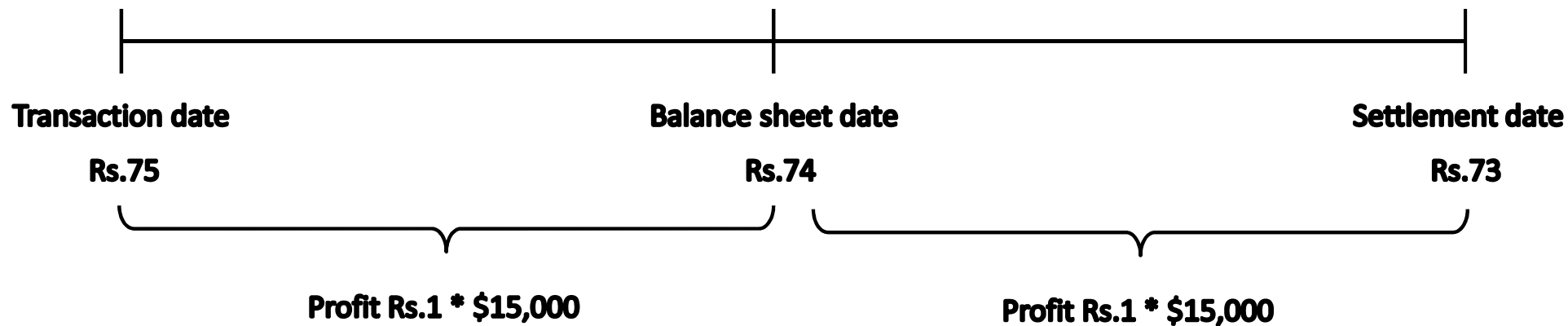
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PART I : FOREIGN CURRENCY TRANSACTION

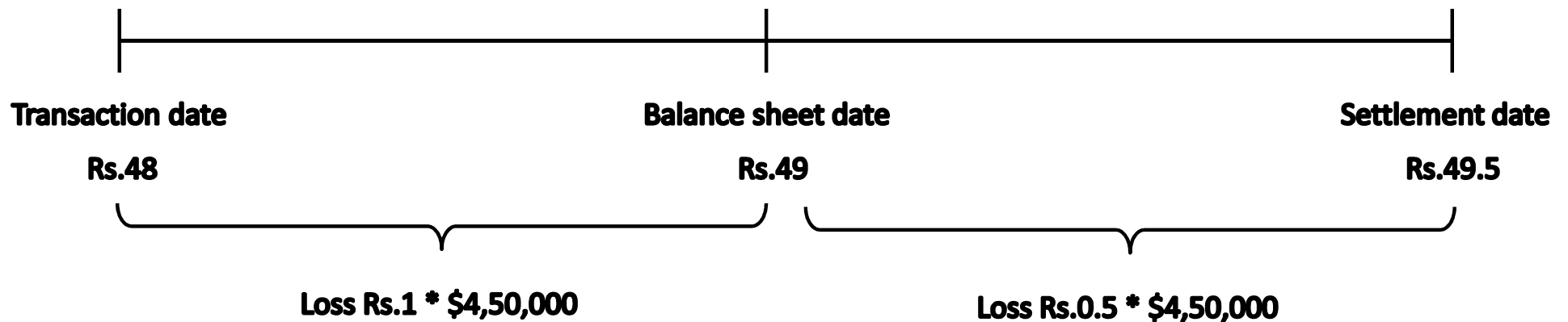
Solution 2





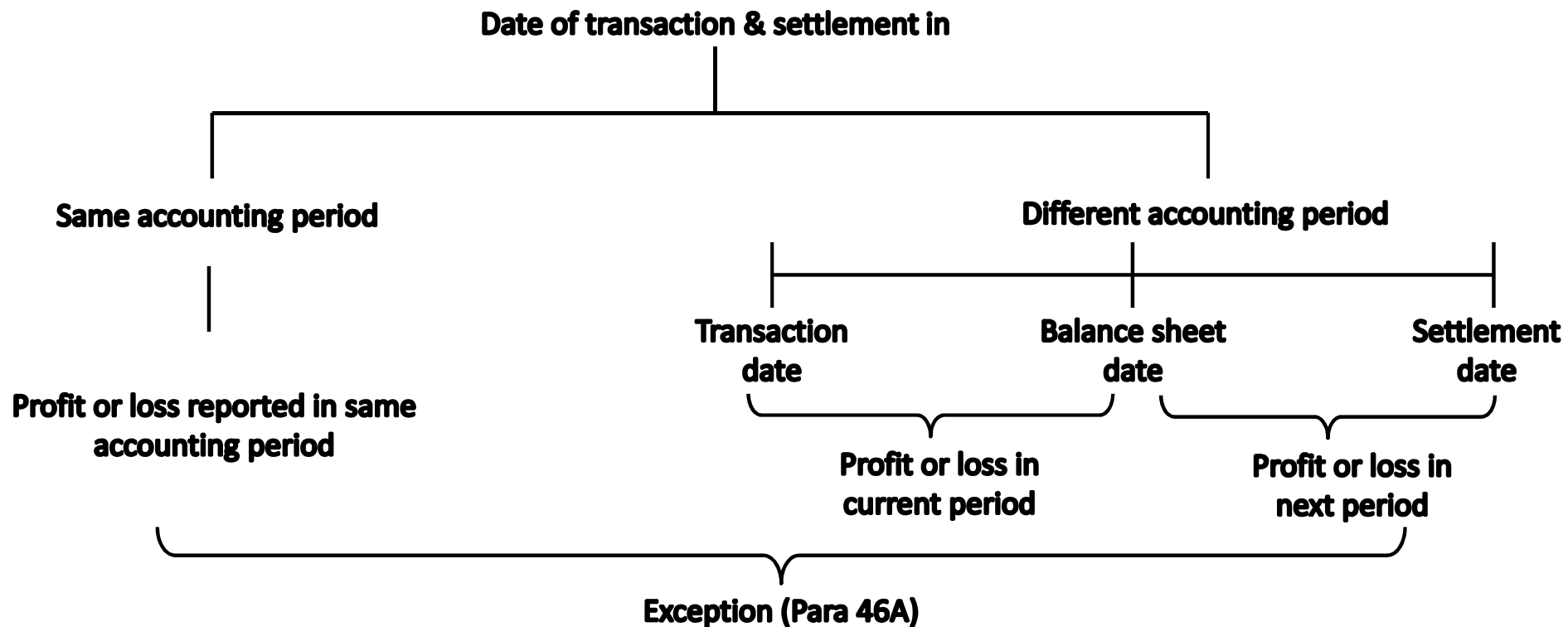
PART I : FOREIGN CURRENCY TRANSACTION

Solution 3





PART I : FOREIGN CURRENCY TRANSACTION

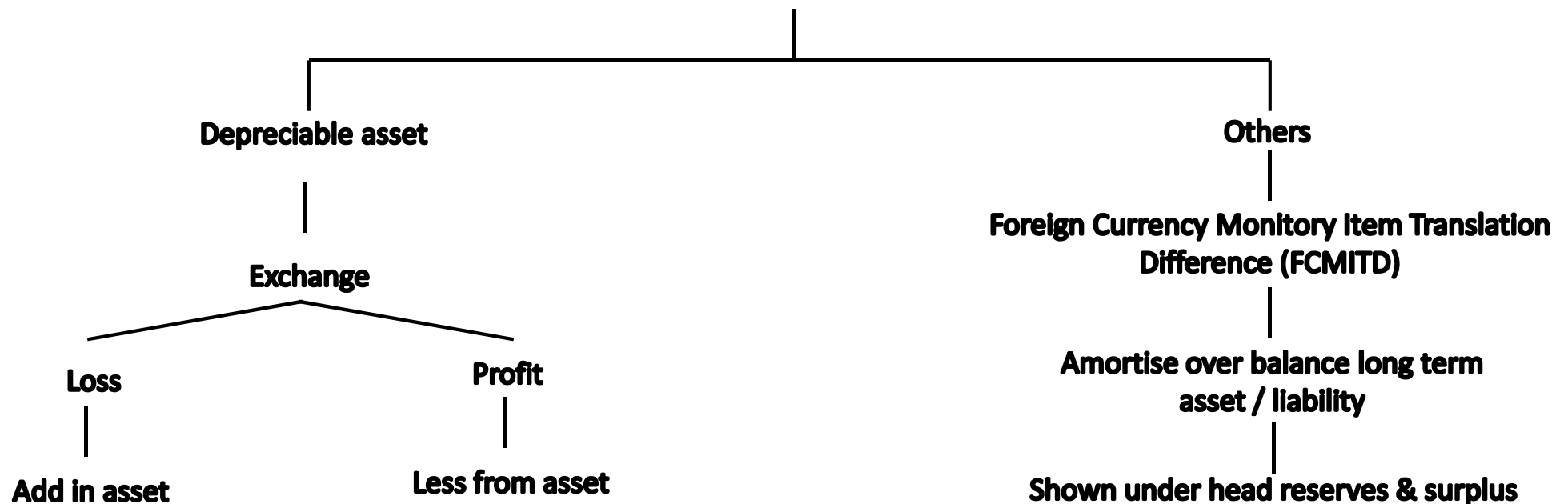




PART I : FOREIGN CURRENCY TRANSACTION

Exception

Long term foreign currency monetary items related to





PART I : FOREIGN CURRENCY TRANSACTION

Example 1

Asset is purchased for \$4 when exchange rate \$1 = Rs.50

At the end of	Exchange rate
Year 1	\$1 = Rs.55
Year 2	\$1 = Rs.58

Life of the asset 5 years



PART I : FOREIGN CURRENCY TRANSACTION

Solution

Year	Particulars	Dr.	Cr.
0	Asset A/c (\$4*50) Dr. To Loan	200	200
1	Asset A/c (\$4*5) Dr. To Loan	20	20
1	Depreciation A/c (220/5) Dr. To Asset	44	44



PART I : FOREIGN CURRENCY TRANSACTION

Solution

Year	Particulars	Dr.	Cr.
2	Asset A/c (\$4*Rs.3) Dr. To Loan	12	12
2	Depreciation A/c (220-44+12/4) Dr. To Asset	47	47



PART I : FOREIGN CURRENCY TRANSACTION

Example 2

Loan is borrowed for \$4 when exchange rate \$1 = Rs.50

At the end of	Exchange rate
Year 1	\$1 = Rs.55
Year 2	\$1 = Rs.58

Loan is repaid after 5 years



PART I : FOREIGN CURRENCY TRANSACTION

Solution

Year	Particulars	Dr.	Cr.
0	Cash A/c (\$4*50) Dr. To Loan	200	200
1	FCMITD A/c (\$4*5) Dr. To Loan	20	20
1	P&L A/c (20/5) Dr. To FCMITD	4	4



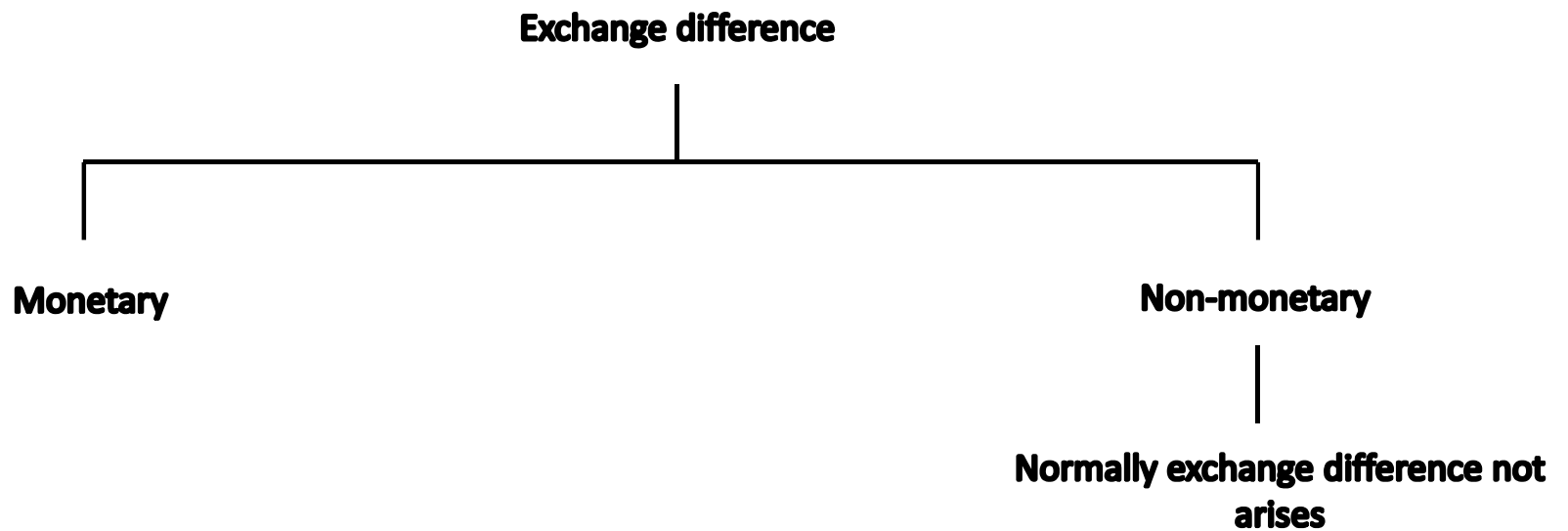
PART I : FOREIGN CURRENCY TRANSACTION

Solution

Year	Particulars	Dr.	Cr.
2	FCMITD A/c (\$4*Rs.3) Dr. To Loan	12	12
2	P&L A/c (20-4+12/4) Dr. To FCMITD	7	7



PART I : FOREIGN CURRENCY TRANSACTION





PART II : FORWARD EXCHANGE CONTRACT (FEC)

FEC



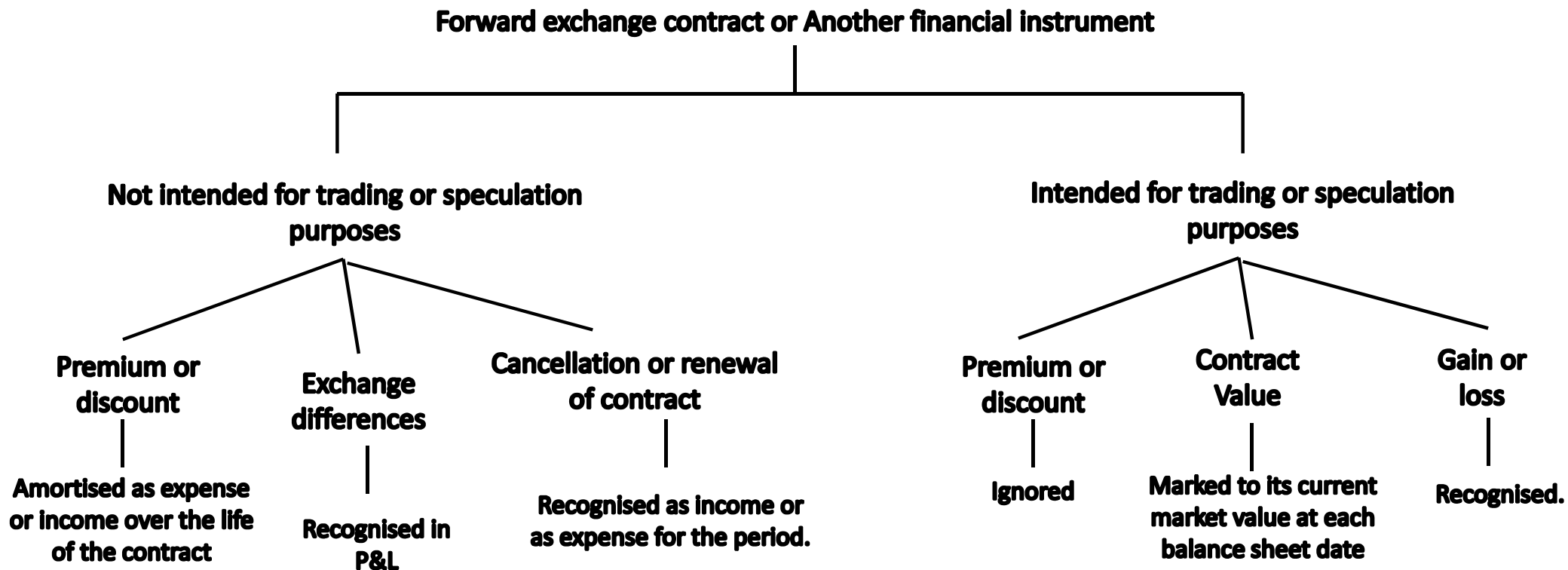
Agreement to exchange different currencies at a forward rate



Is specified exchange rate for exchange of two currencies at specified future date.



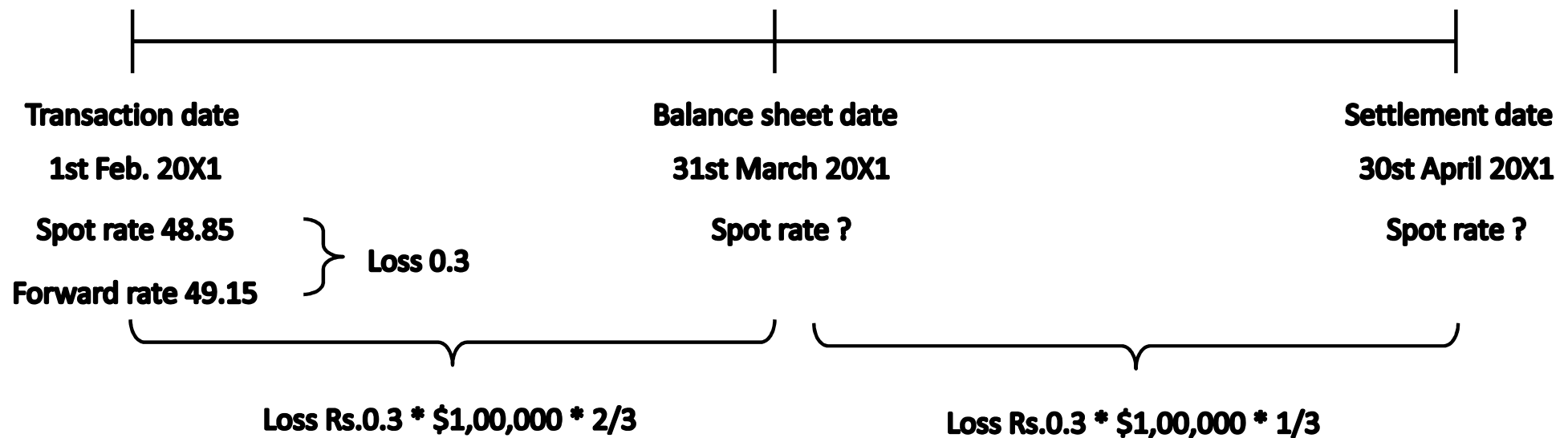
PART II : FORWARD EXCHANGE CONTRACT (FEC)





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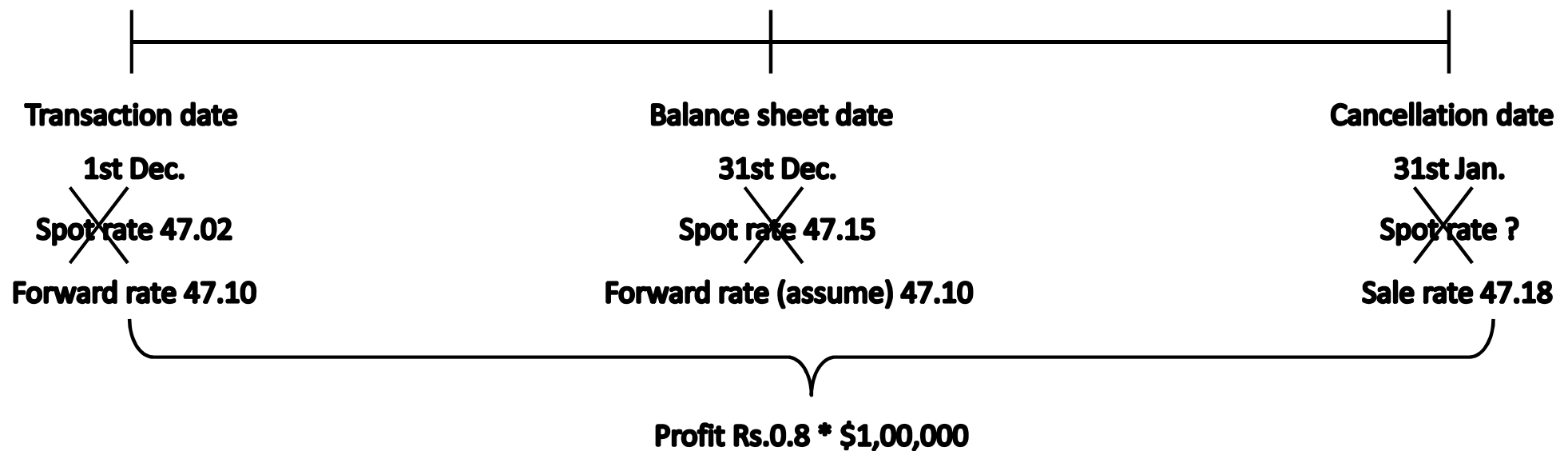
Solution 4





PART II : FORWARD EXCHANGE CONTRACT (FEC)

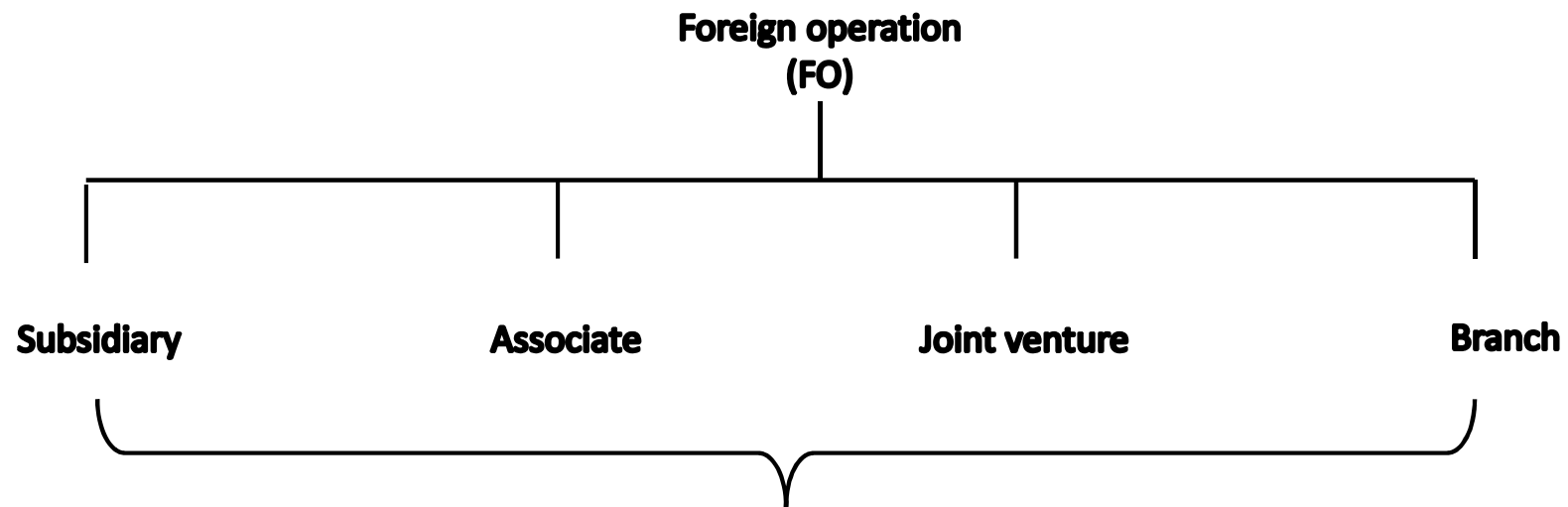
Solution 5



Note : Marked to its current market value at each balance sheet date



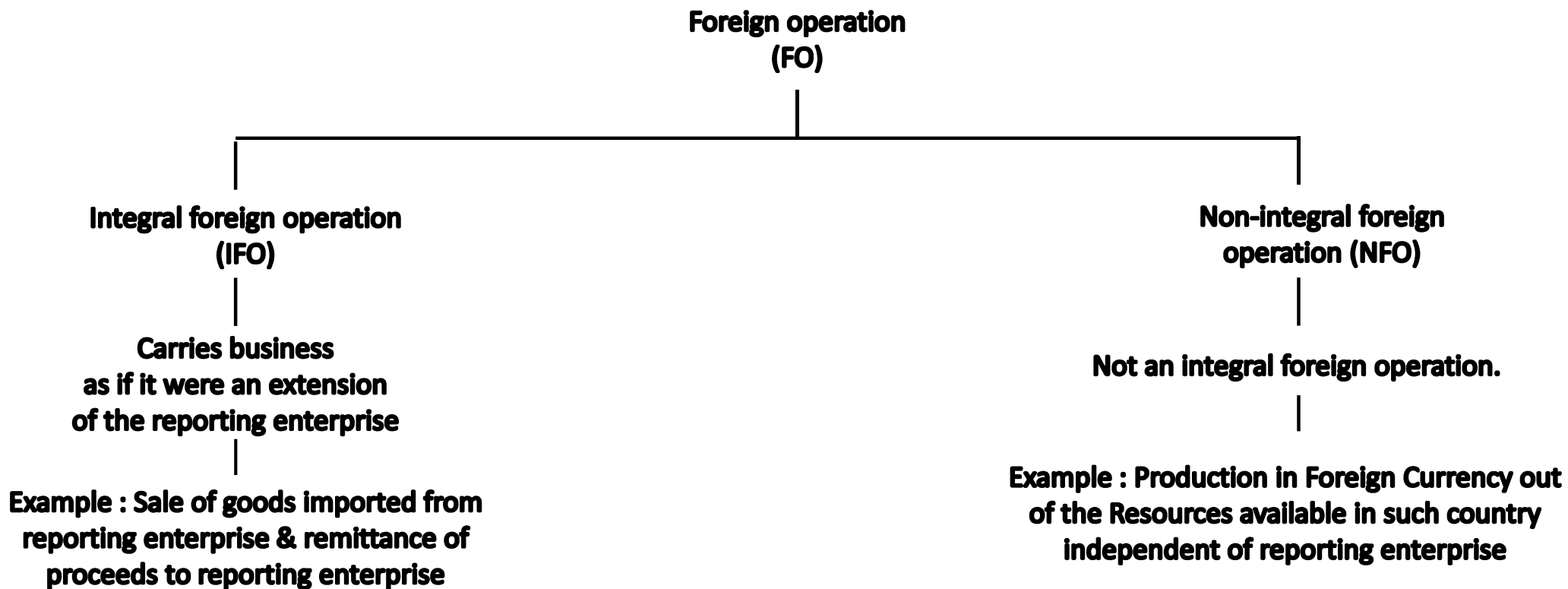
PART III : FOREIGN OPERATION



**The activities of which are based or conducted in a country
other than the country of the reporting enterprise.**



PART III : FOREIGN OPERATION





PART III : FOREIGN OPERATION

INDICATORS OF NON INTEGRAL FOREIGN OPERATION

- a) Control on operation, activities carried independently.**
- b) Transaction with reporting enterprises : Not high proportion of Foreign Operations activities.**
- c) Independent Finance raised.**
- d) Foreign Operation Sales : In currencies other than Reporting Currency**
- e) Expenses by Foreign Operations : Paid in Local Currency.**
- f) Independent Cash Flows.**
- g) Selling Price of Foreign Operations : Not affected by changes in exchange rate of reporting currency of Foreign Operations**
- h) Active Sales Market for Foreign Operation Product**



PART III : FOREIGN OPERATION

TRANSLATION of INTEGRAL FOREIGN OPERATION (IFO)

Item	Exchange rate
Nominal accounts	Average rates
Monetary items Cash, debtors, creditors	Closing rates
Nonmonetary items FA, share capital, long term liabilities	Date of purchase/ issue



PART III : FOREIGN OPERATION

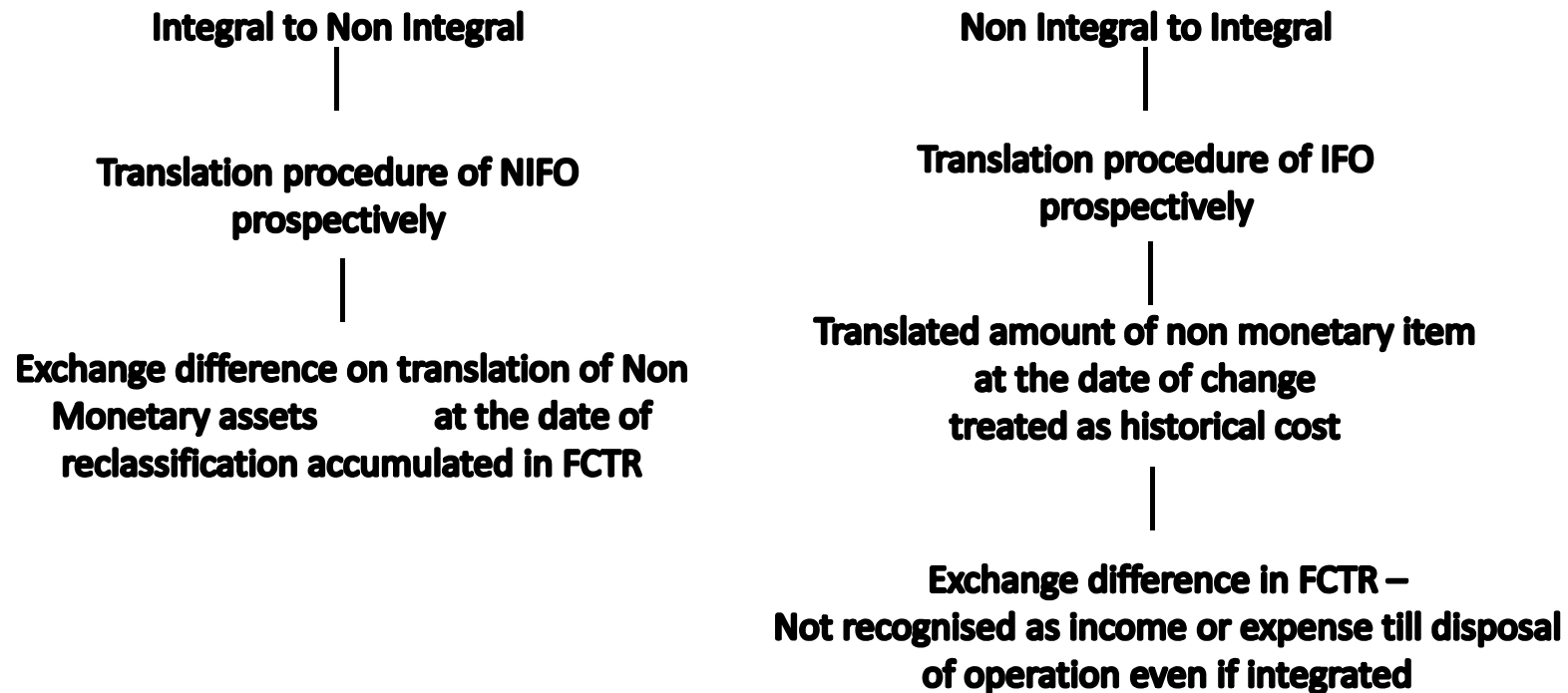
NON INTEGRAL FOREIGN OPERATION (NIFO)

Item	Exchange rate
Nominal accounts	Average rates
Monetary items Cash, debtors, creditors	Closing rates
Nonmonetary items FA, share capital, long term liabilities	Closing rates

FCTR => (Foreign Currency Translation Reserve)

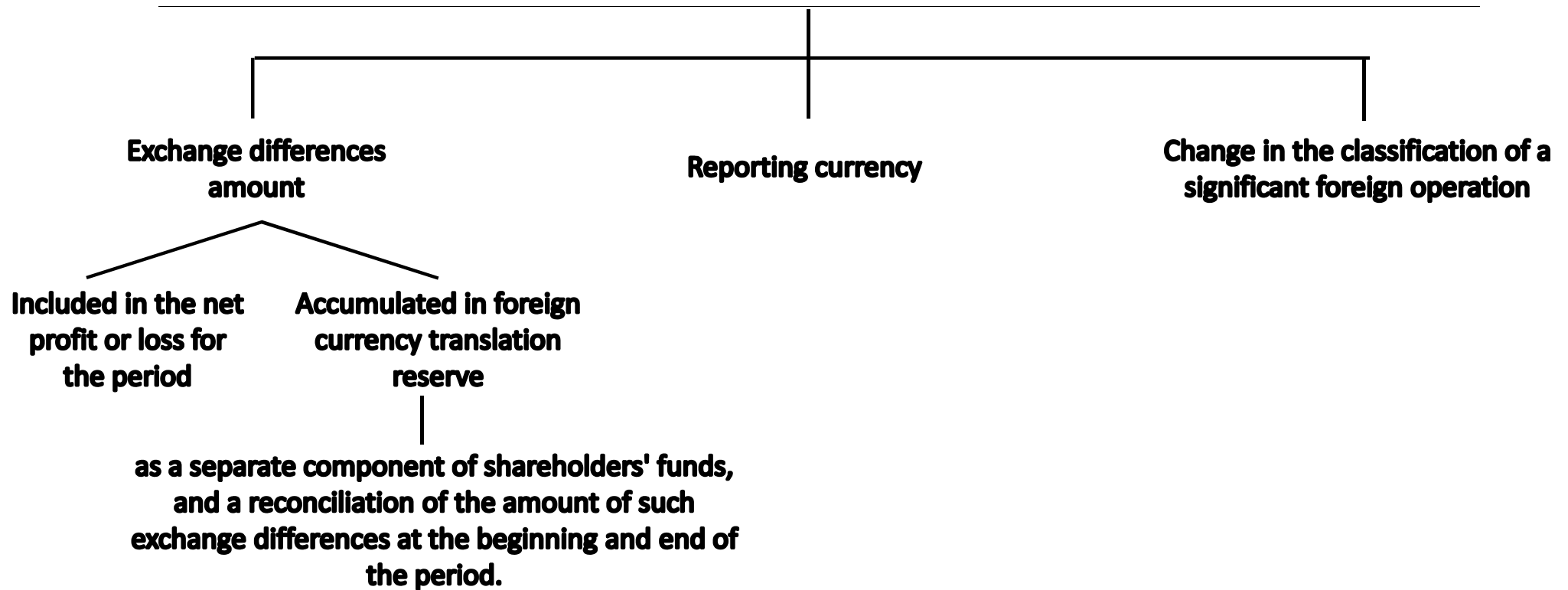


PART III : FOREIGN OPERATION



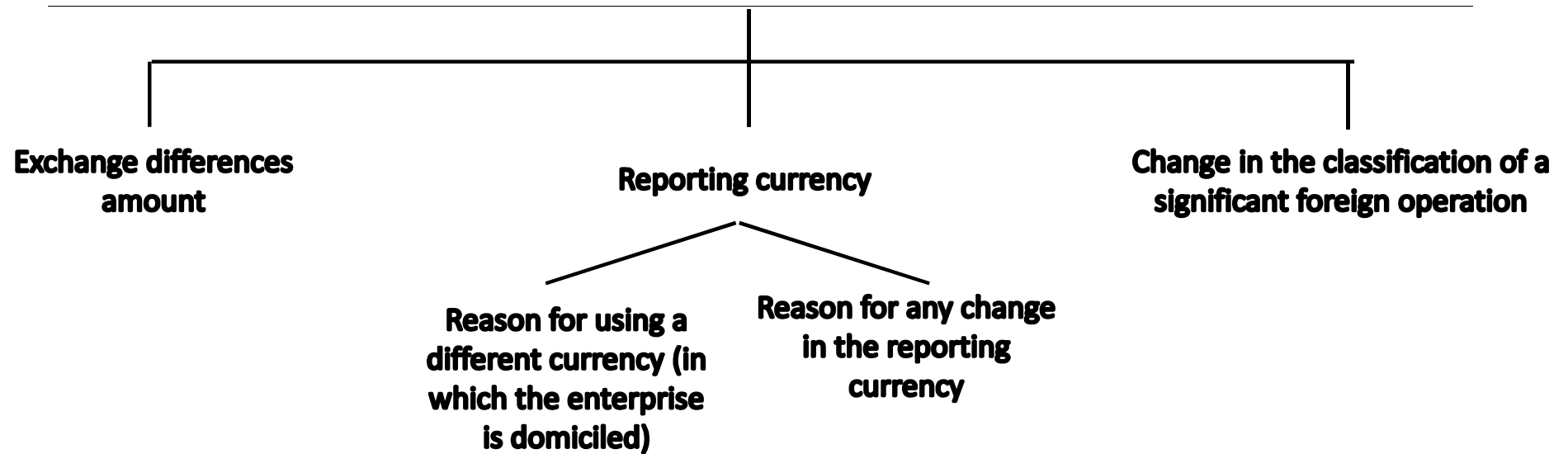


DISCLOSURE



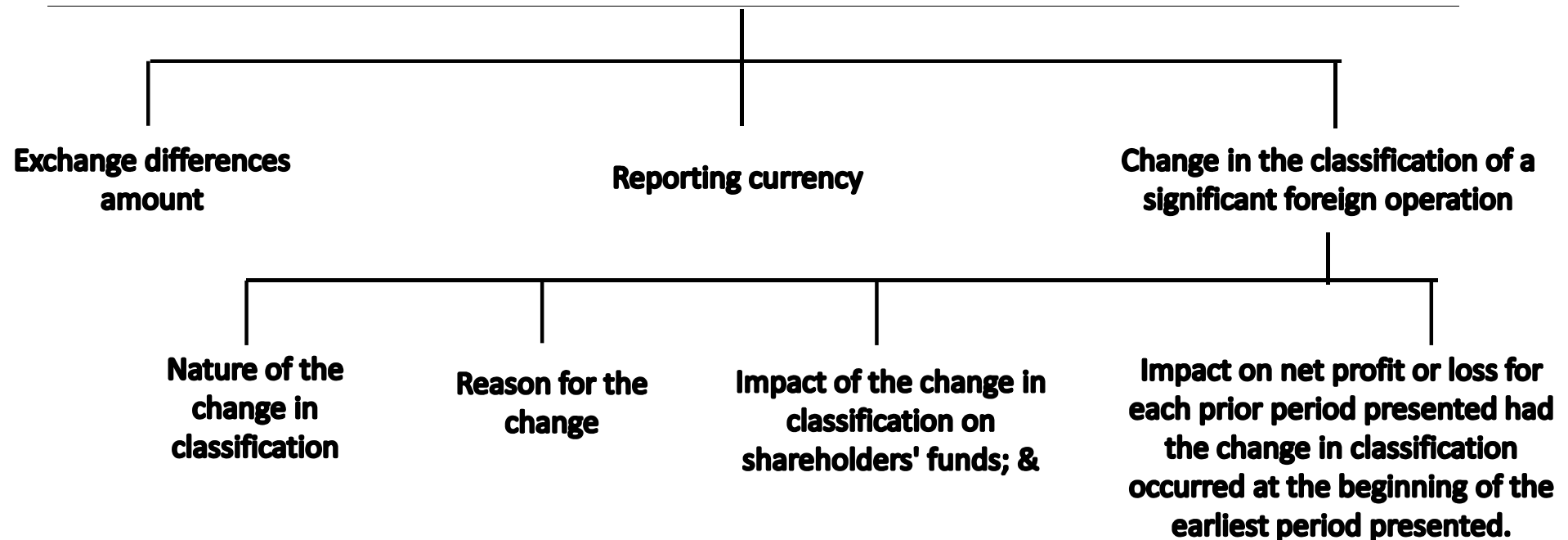


DISCLOSURE





DISCLOSURE





THANK YOU