ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS AS-11

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OBJECTIVES

- Know the meaning of Foreign currency transactions
- Understand the Need for conversion
- Explain the Recognition of exchange fluctuation
- Know the Translation of foreign currency transactions
- Solve the practical problems on Foreign currency transactions

INTRODUCTION

- A transaction like sale or purchase of goods involves two parties. Whenever such transaction is entered with another party situated in India, the transaction is in Indian currency, recording of such transaction does not pose any problem. But if the other party is located outside India then the transaction entered might be in foreign currency and then we have to translate this transaction from foreign currency into India currency. This translation is done by applying the foreign exchange rates prevailing at the time of transaction. Accounting Standard No.11 deals with recording and translation of such type of foreign currency transactions.

SCOPE:(Accounting Standard -11)

- The standard should be applied in accounting for transactions entered in foreign currencies.
- This standard also deals with accounting for foreign currency transactions in the nature of forward exchange contracts.
- This standard does not specify the currency of presentation of financial statements. Normally an organization prepares its financial statements in currency of home country.
- The standard does not deal with the restatement of an enterprise's financial statements from its reporting currency into another currency for the convenience for user accustomed to that currency of for similar purpose.
- This standard does not deal with the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency and the transactions of cash flows of a foreign operation.
- This standard does not deal with the exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment interest cost.

DEFINITIONS:

- Average rate is the mean of the exchange rates in force during a period.
- Closing rate is the exchange rate at the Balance Sheet date.
- Exchange Difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates
- Exchange rate is the ratio for exchange of two currencies.
- Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

- Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of mooneye's. Cash, Receivables, Payables etc.
- Non-monetary items are assets and liabilities other than monetary items Fixed Assets, Inventories, Investments etc.
- Reporting currency is the currency used in presenting the financial statements.
- Foreign Currency is a currency other than the reporting currency of an enterprise.

ACCOUNTING PROCEDURE:

- Record the initial transaction entered in foreign currency by converting in Indian Rs. by multiplying the transaction amount with the foreign exchange rate as on the date of transaction.

- Subsequently when the payment is made or is received in the same year it should be recorded at foreign exchange rate on the date of settlement. Any profit or loss arising due to exchange fluctuation should be treated as revenue item, and hence it should be transferred to profit and loss A/c. at the end of the year.

- Any balance payable or receivable to or from a foreign party, at the end of year ,should be adjusted at the closing foreign exchange rate.

- The foreign exchange rate for any payment made or received in the subsequent year should be compared with the closing rate of the earlier year to find the profit or loss on exchange fluctuations

JOURNAL ENTRIES :

Following four types of transactions are required to be translated.

I. Import of goods
II. Export of goods
III. Purchase of Fixed Assets

Import of goods

Sr no.	particulars
1.	**Purchase of goods/ raw materials**
	Purchases A/c Dr.
	To Foreign Supplier A/c
2.	**Payment to foreign supplier**
	Foreign Supplier A/c Dr.
	Foreign Exchange Fluctuation A/c (if loss) Dr.
	To Foreign exchange Fluctuation A/c (if Profit)
	To Bank A/c
3.	Year end adjustments
A.	Adjusting closing balance payable to foreign suppliers (if Loss)
	Foreign Exchange Fluctuation A/c Dr.
	To Foreign Supplier A/c.

	(if Profit)
	Foreign Supplier A/c. Dr
	To Foreign Exchange Fluctuation A/c
B.	**Closing of nominal A/c. (if Profit)**
	Foreign Exchange Fluctuation A/c Dr.
	To Profit & Loss A/c
	(if Loss)
	Profit & Loss A/c Dr
	To Foreign Exchange Fluctuation A/c
4.	**Payment to foreign supplier in the next year**
	Foreign Supplier A/c Dr.
	Foreign Exchange Fluctuation A/c (if loss) Dr.
	To exchange Fluctuation A/c(if profit)
	To Bank A/c

Export of goods

Sr no.	particulars
1.	Foreign Customer A/c Dr.
	To Export Sales A/c
2.	Receiving Payment from Foreign Customer
	Bank A/c. Dr.
	Foreign Exchange Fluctuation A/c. (If Loss) Dr.
	To Foreign Exchange Fluctuation A/c. (If profit)
	To foreign Customer A/c.
3.	Year end adjustments
A.	Adjusting Closing balance receivable from foreign customer
	Foreign customer A/c Dr
	To Foreign Exchange Fluctuation A/c

	(if Profit)
	Foreign Exchange Fluctuation A/c Dr
	To Foreign customer A/c
B.	**Closing of nominal A/c. (if Profit)**
	Foreign Exchange Fluctuation A/c Dr.
	To Profit & Loss A/c
	(if Loss)
	Profit & Loss A/c Dr
	To Foreign Exchange Fluctuation A/c
4.	**Receiving payment from foreign customer in the next Year**
	Bank A/c. Dr.
	Foreign Exchange Fluctuation A/c (if loss) Dr.
	To exchange Fluctuation A/c(if profit)
	To foreign Customer A/c.

Purchase of Fixed Assets

Sr no.	particulars
1.	Fixed Assets A/c Dr.
	To Foreign Supplier A/c.
2.	**Payment To foreign supplier**
	Foreign Supplier A/c Dr.
	Foreign Exchange Fluctuation A/c. (If Loss) Dr.
	To Foreign Exchange Fluctuation A/c. (If profit)
	To Bank A/c.
3.	**Year end adjustments**
A.	**Adjusting closing balance payable to foreign suppliers if Loss**
	Foreign Exchange Fluctuation A/c Dr.
	To Foreign Supplier A/c.

	(if Profit)
	Foreign Supplier A/c. Dr
	To Foreign Exchange Fluctuation A/c
B.	**Providing Depreciation**
	Depreciation A/c. Dr.
	To Fixed Assets A/c.
	Note: Depreciation should be provided on original amount
C.	**Closing of nominal A/c. (if Profit)**
i.	Foreign Exchange Fluctuation A/c Dr.
	To Profit & Loss A/c
	(if Loss)
ii.	Profit & Loss A/c Dr
	To Foreign Exchange Fluctuation A/c

iii	Profit & Loss A/c. Dr.
	To Depreciation A/c
4.	**Payment to foreign supplier in the next year**
	Foreign Supplier A/c Dr.
	Foreign Exchange Fluctuation A/c (if loss) Dr.
	To exchange Fluctuation A/c(if profit)
	To Bank A/c

Thank You