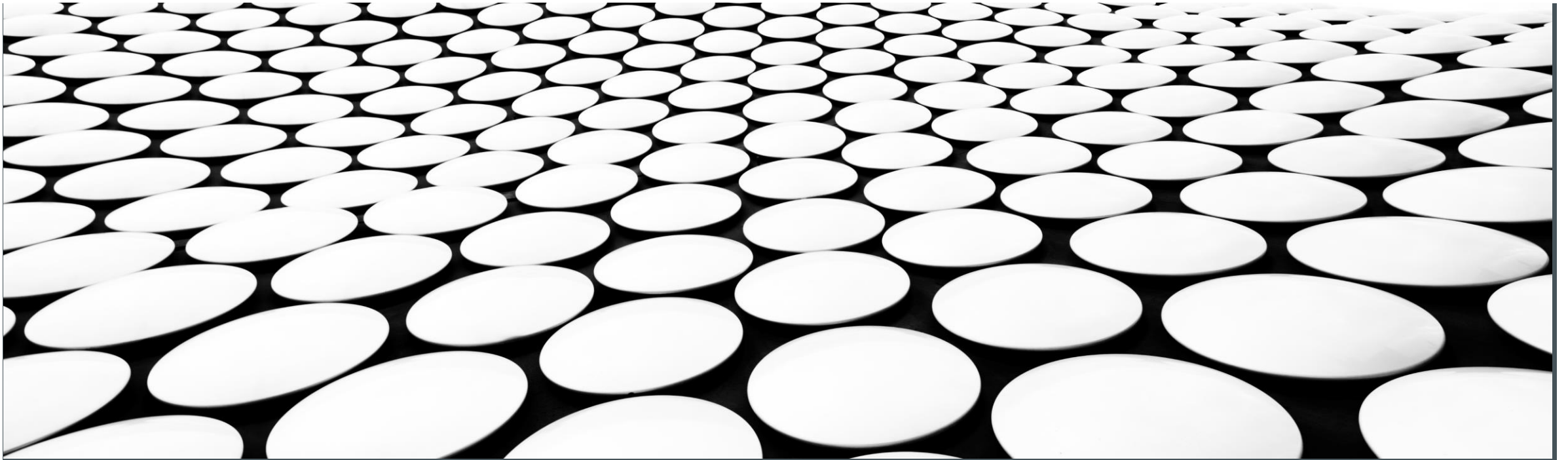

INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

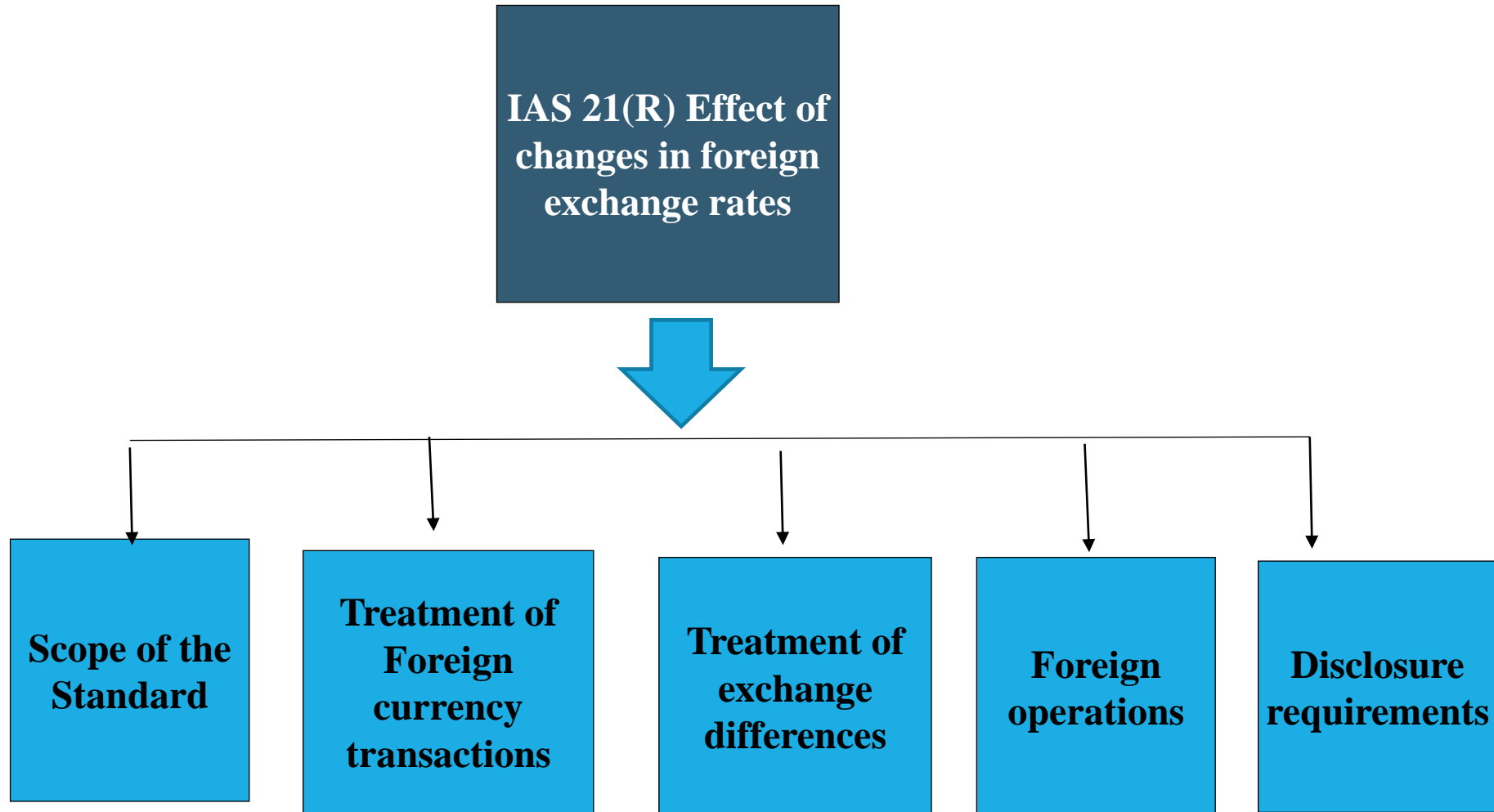
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INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

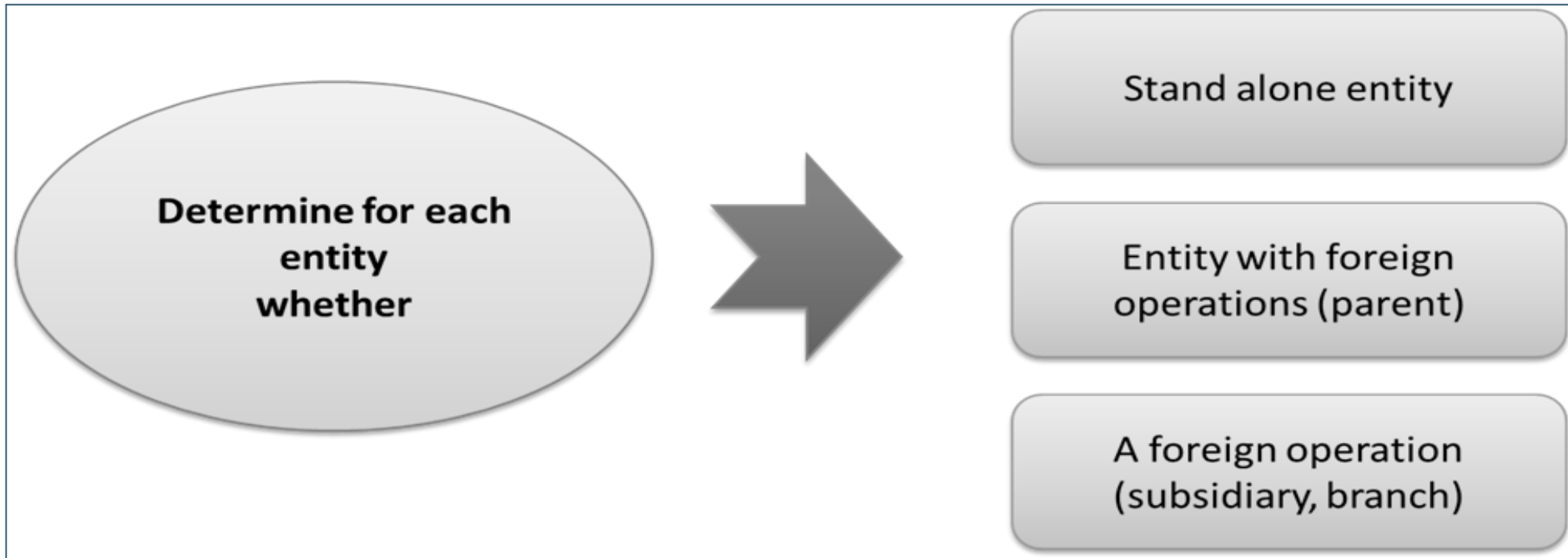
EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21



EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

SCOPE

Prescribes how to include foreign currency transactions and foreign operations in financial statements of an entity and how to translate financial statements into a presentation currency



EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

Treatment of Foreign Currency Transactions

- A foreign currency transaction is recorded initially in functional currency by applying the foreign currency amount, the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
- For practical reasons average weekly or monthly rate is used which is closest to the actual rate at the transaction date

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

Treatment of Foreign Currency Transactions

At each statement of financial position date

- foreign currency monetary items are translated using the closing rate
- non-monetary items that are measured in terms of historical costs in a foreign currency are translated using exchange rate at the date of the transaction – approximate or average rate may be applicable for inventories and
- non-monetary items are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Income statement

Income statement items may be translated using an average rate

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Exchange Differences – Monetary items

On settlement of monetary items or on translating monetary items at rates different from those at initial recognition are recognized in profit or loss.

Exchange differences arising on a monetary item that forms part of an entity's net investment in foreign operations are recognized as a separate component of equity in the financial statements that include the foreign operation and the reporting entity.

(e.g. financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted using the equity method)

Such exchange differences are recognized in profit or loss on disposal of net investment.

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

Exchange Differences – Non-Monetary items

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income.

Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

Tax effects of all Exchange Difference

- Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects and
- IAS 12 Income Taxes will be applicable to these tax effects.

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

Foreign operations

- ❑ When translating a foreign operation for inclusion in the reporting entity's financial statements (i.e. translation into presentation currency):
 - assets and liabilities are translated at the closing rate,
 - income and expenses are translated at exchange rates at the date of transaction
 - all resulting exchange differences are recognized as separate component of equity

- ❑ On disposal of foreign operation all exchange differences deferred in separate component of equity related to that operation, are recognized in profit or loss.

- ❑ Goodwill and fair value adjustments arising out of acquisition of foreign operation should be treated as assets and liabilities of foreign operation and expressed in functional currency of foreign operation – and translation would be at closing rate.

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

Disposal or partial disposal of Foreign operations

- ❑ On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss as a reclassification adjustment, when the gain or loss on disposal is recognised (refer *IAS 1 Presentation of Financial Statements*)

- ❑ On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of exchange differences recognised in other comprehensive income.

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

Disclosure Requirements

- ❑ An entity shall disclose:
 - a) The amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with IFRS 9.
 - b) Net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period; and
 - c) Net exchange differences recognised directly in equity and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

- ❑ When the presentation currency is different from the functional currency, the fact shall be disclosed, together with disclosure of the functional currency and the reason for using a different presentation currency.

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES – IAS 21

Disclosure Requirements

- ❑ When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements are not met, it shall:
 - a) Clearly identify the information as supplementary information to distinguish it from the information that complies with Indian Accounting Standards
 - b) Disclose the currency in which the supplementary information is displayed and
 - c) Disclose the entity's functional currency and the method of translation used to determine the supplementary information.



THANK YOU!