

## Invitation for Comments

### **Accounting for Foreign Exchange Gains and Losses arising on Translation of Long Term Monetary Items**

In March 2009, Ministry of Corporate Affairs (MCA), added paragraph 46 to the existing notified AS 11, *The Effects of Changes in Foreign Exchange Rates*, giving an option to companies to follow accounting treatment laid down in that paragraph. However, that option was available, as per that paragraph, only upto 31<sup>st</sup> March 2011. Thus, that option is presently not available after 1<sup>st</sup> April 2011.

The National Advisory Committee on Accounting Standards (NACAS) has asked for the recommendations of the Institute of Chartered Accountants of India whether after the aforesaid date the foreign exchange gains and losses arising on translation of long term monetary items should be immediately recognised in the statement of profit and loss or an option similar to paragraph 46 should be given to the companies.

The matter was considered by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) at its last meeting. The ASB noted that para 29A of the Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, which has been approved by the Council of the ICAI and also by the NACAS and there after has been placed by the MCA on its website, permits that the unrealised exchange differences arising on long-term monetary assets and long-term-term monetary liabilities denominated in a foreign currency to be recognised directly in equity and accumulated in a separate component of equity. The amount so accumulated shall be transferred to profit or loss over the period of maturity of such long -term monetary items in an appropriate manner. Further para D13A of the Ind AS 101, First Time Adoption of Indian Accounting Standards permits the said option to be exercised retrospectively or prospectively. The ASB also noted that the revised Schedule VI which the MCA has notified to be effective from 1<sup>st</sup> April, 2011 does not require capitalization of foreign exchange gains and losses unlike the existing Schedule VI. The extension, if granted, on the lines of paragraph 46 would mean that there would be difference between the treatment of revised Schedule VI and the treatment which would be there in AS 11.

The ASB, accordingly, was of the view that a new paragraph 47 may be added which would provide an option on the lines of paragraph 29A of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, which has been placed by the MCA on its website.

#### **The following is the text of the draft proposed paragraph:**

“ 47 In respect of accounting periods commencing on or after April 1, 2011, at the option of the enterprise, 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, 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 or expense in each of such periods, with the exception of exchange differences dealt with in accordance with paragraph 15. This option once exercised will be irrevocable, and applied to all such foreign currency monetary items. For the purposes of exercise of this option, an asset or liability shall be designated as a long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of 12 months or more at the date of origination of the asset or liability. If the option stated in this paragraph is exercised, disclosure shall be made of the fact of such exercise of such option and of the amount remaining to be amortized in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortized.”

The Board would particularly welcome answers to the questions set out below:

- (i) Whether an option on the lines of paragraph 29A of Ind AS 21 should be incorporated in AS 11 as paragraph 47?
- (ii) Whether this paragraph should be applicable retrospectively or prospectively?
- (iii) Any other aspect on which you would like to comment?

***Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than May 31, 2011. Comments can also be sent by e-mail at [edcommentsasb@icai.org](mailto:edcommentsasb@icai.org) or [asb@icai.org](mailto:asb@icai.org).***