Accounting Standard 11:

Effect of changes in Exchange Rates

1. This AS is mandatory in Nature. All companies and non-companies are required to follow this AS through auditors and CA who attest financial statements.
   Companies: who is responsible ➔ Auditor
   Non-Companies: who is responsible ➔ CA who attest financial statements.

2. Foreign Exchange means currency other than local/domestic.
   For Example: £; ¥; $; ¢; etc.
   This currency is not used as offical currency of economy (In India local currency is `, hence other than `, all other currency are Foreign Exchange).

3. Foreign Exchange is used for
   (a) Foreign Exchange Transactions
   (b) Foreign Operation

4. Foreign Exchange transactions should be converted into local exchange using spot rate. We can also use approximate rate for such conversion.
   (i) <u>Initial Recognition:</u> It means all transactions should be reported at spot rate.
   (ii) <u>Subsequent Recognition:</u> It means, after all transactions have been recognised, then Foreign Exchange Monetary Items should be converted using closing rate. Foreign Exchange Monetary Items are also called Foreign Currency Monetary Items (FCMI).
   - Any item is classified as FCMI if such item qualifies **all** the following conditions:
     - Item is assets or liabilities AND
     - Items are recoverable/payable for a fixed amount under contract AND
     - Items is recoverable in Foreign Currency.

   For example: Foreign Debtors, Foreign Loans, Foreign Creditors, etc.

   - Whenever subsequent recognition is done, then any difference between book value and revised closing value is shown as "Exchange Difference"

NEW AMENDMENT

   - In Accounting Standard , applicable for companies, new paragraph 46 & 46A have been inserted, where Exchange difference on long term FCMI is recognised in
     (i) Fixed assets (If FCMI is related to fixed assets)
     (ii) FCMI Translation Difference A/c (Other cases)

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FCMI Translation Difference A/c is shown as assets and amortised over period till 31/3/2020. It heps companies to reduce losses due to currency.

5. Foreign Operation

It means business are being run in foreign country. Such business can be

(i) Integral Operation or

(ii) Non-Integral Operation.

Integral Means extension of our own local business, where as Non-Integral means any business having no connection with local operation.

6. Rules for conversion of Trial Balance from Foreign Currency to Indian currency in case of Integral Foreign operation (IFO)

Items of Trial Balance		**Rate**
Fixed Assets, Accumulated Depreciation, Depreciation, Investment	:	Transaction date rate
Debtor, Creditor, Loan, B/R, B/P (Long term/ Short term)	:	Closing Rate
Income & Expenses	:	Actual rate on date of transaction or Average rate
Balance related to Head Office	:	Refer Indian Balances

Any differences in converting Trial Balance will be called Exchange Difference (which is always transfer to P&L A/c)

Para 46 & 46A does not apply.

7. Rules for conversion Trial Balance from Foreign Currency of Indian currency in case of Non-Integral Foreign Operation (NIFO)

Items of Trial Balance		**Rate**
All Assets and Liabilities	:	Closing Date Rate
All Income and Expenses	:	Actual rate on date of transaction or Average rate

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Any difference is transferred to Foreign Currency Translation Reserve A/c which will be shown in P& L A/c.

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