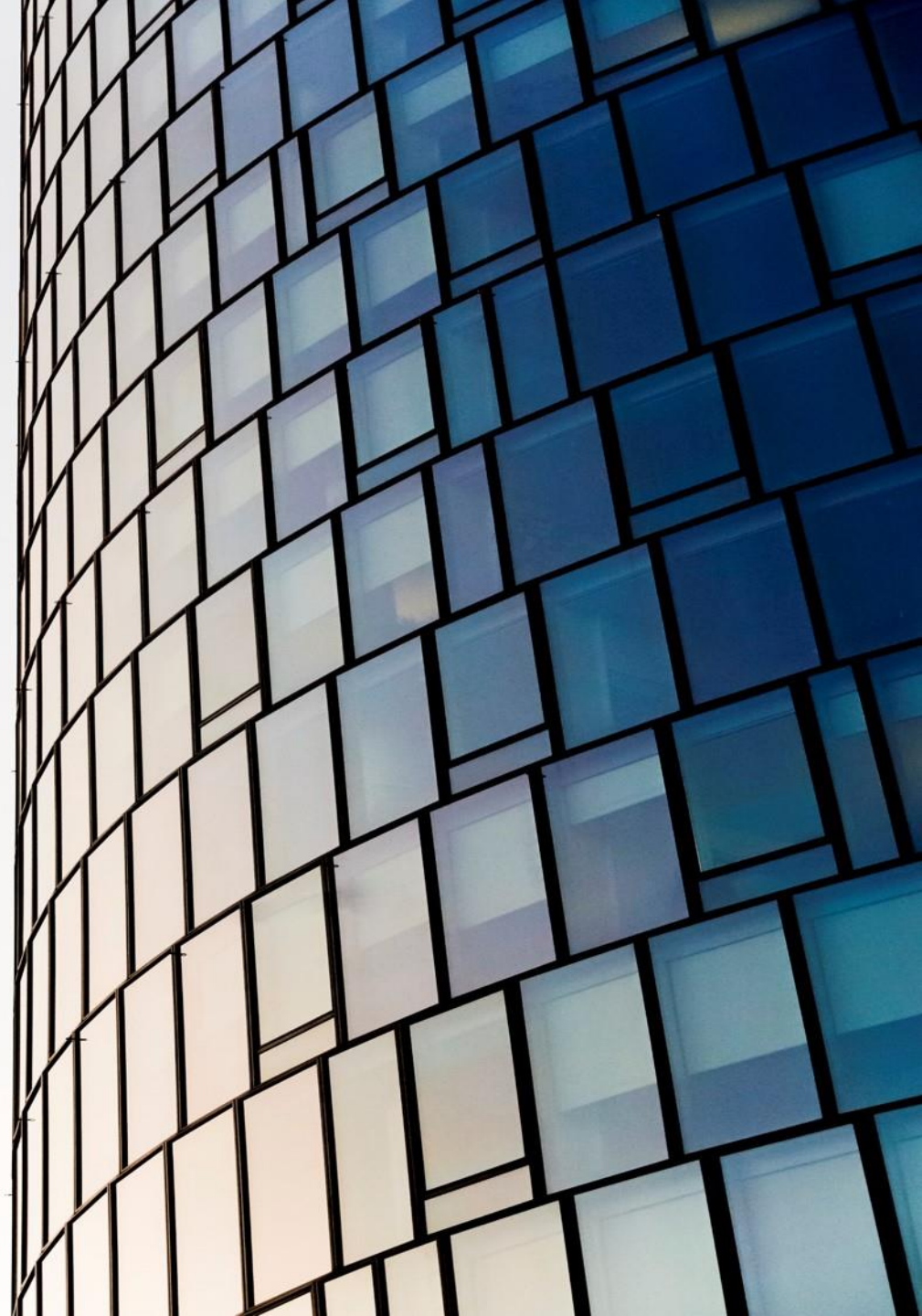


# Ind AS 21

## The Effects of Changes in Foreign Exchange Rates

May 2017

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# Agenda

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**Definitions**

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Foreign currency transaction

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Foreign currency financial  
statements

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Disclosures

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# Currencies

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## Functional currency

Currency of the  
primary  
economic  
environment in  
which entity  
operates

## Foreign currency

Currency other  
than the entity's  
functional  
currency

## Presentation currency

Currency in which  
the financial  
statements are  
presented

# Foreign operation

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Foreign operation

Subsidiary, associate, joint venture, branch  
whose activities are conducted in a country or currency  
other than those of the reporting entity



# Functional currency: Primary indicators

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Currency that mainly influences sales prices

Currency of country whose competitive forces / regulation mainly determine sale prices

*Re*

Primary indicators are the most important

Currency that mainly influences labour, material and other costs

# Functional currency: Secondary indicators

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Currency in which operating cash receipts are usually retained

*Re*

Currency in which funds from financing activities are generated

# Functional currency: Additional indicators for foreign operations

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Are activities conducted as extension of reporting entity or with significant autonomy?


What is proportion of transactions with reporting entity?

*Re*


Does it generate sufficient cash flows to service existing / normally expected debt obligations?

Do cash flows directly affect cash flows of reporting entity and are they readily available for remittance?


# A question for you: Functional currency




Power-Up is a revitalising energy drink that is sold by Lila-Vitamins throughout the galaxy




Sales of Power-Up comprise over 90% of the revenue of Lila-Vitamins



For convenience and consistency in pricing, sales of Power-Up are denominated in USD



All financing activities of Lila-Vitamins are in Rs, although the company holds some USD cash reserves



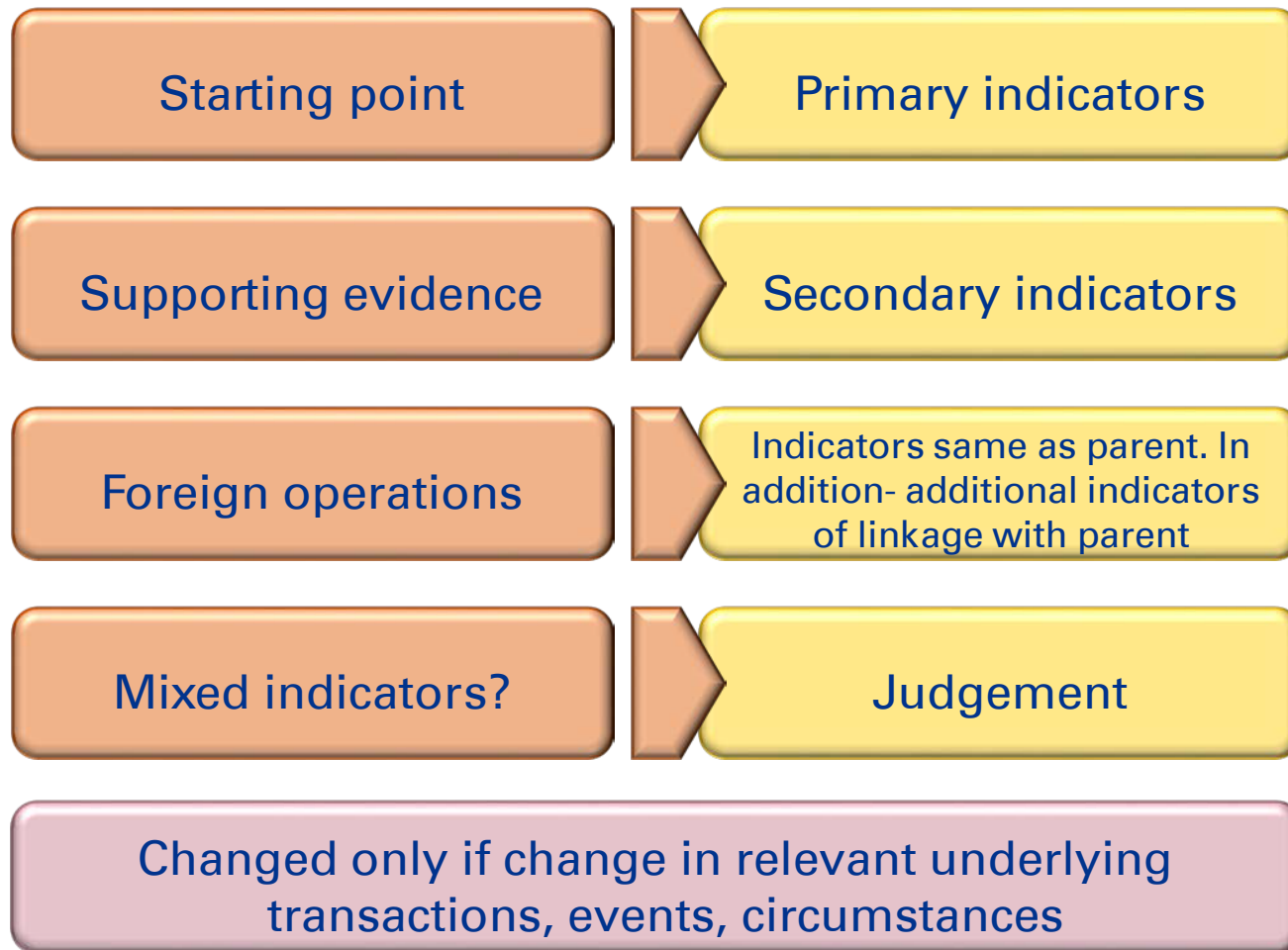
Almost all of the costs incurred by Lila-Vitamins are denominated in Rs.

What is the functional currency of Lila-Vitamins?



# Functional currency: Summary

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## Functional currency: Additional disclosure

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In case of Change in functional currency of either the reporting entity or a significant foreign operation, Ind AS 21 requires additional disclosure of **date of change in functional currency**. There is no such disclosure requirement in case of IAS 21.

# Monetary vs non-monetary

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## Monetary items

Items that will be received / paid in fixed or determinable number of units of currency

Accounts payable

Plant & equipment

Goodwill

Accrued expenses

Equity securities  
(investments)

Accounts  
receivable

Bank balance

## Non-monetary items

Items that will not be received / paid in fixed or determinable number of units of currency

# Agenda

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Definitions

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**Foreign currency transaction**

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Foreign currency financial  
statements

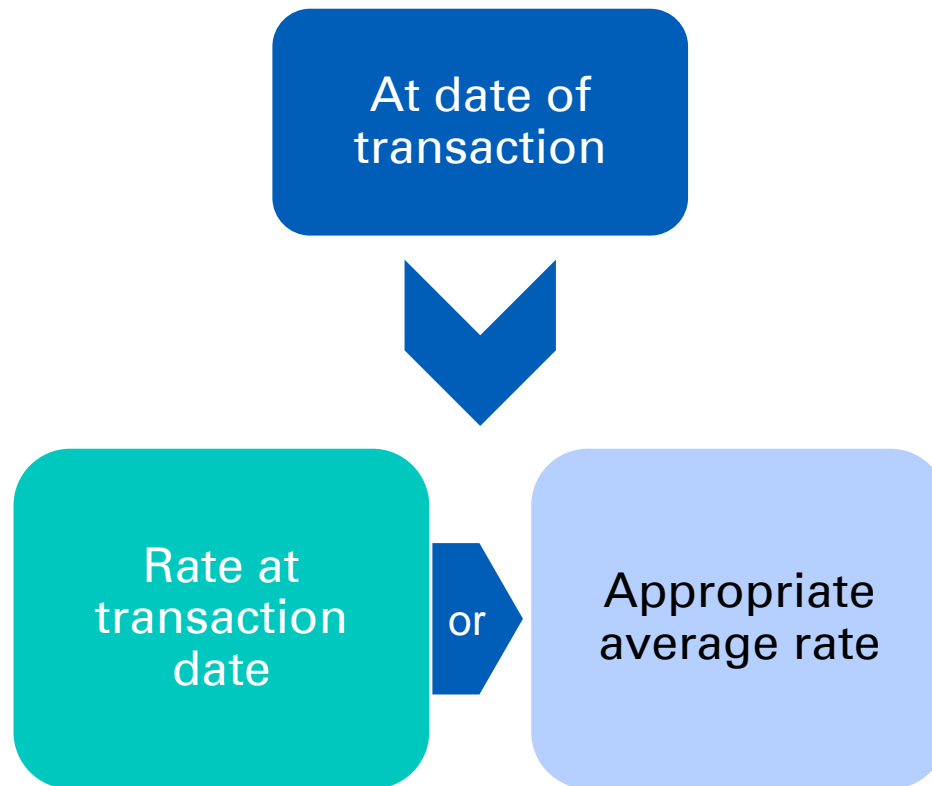
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Disclosures

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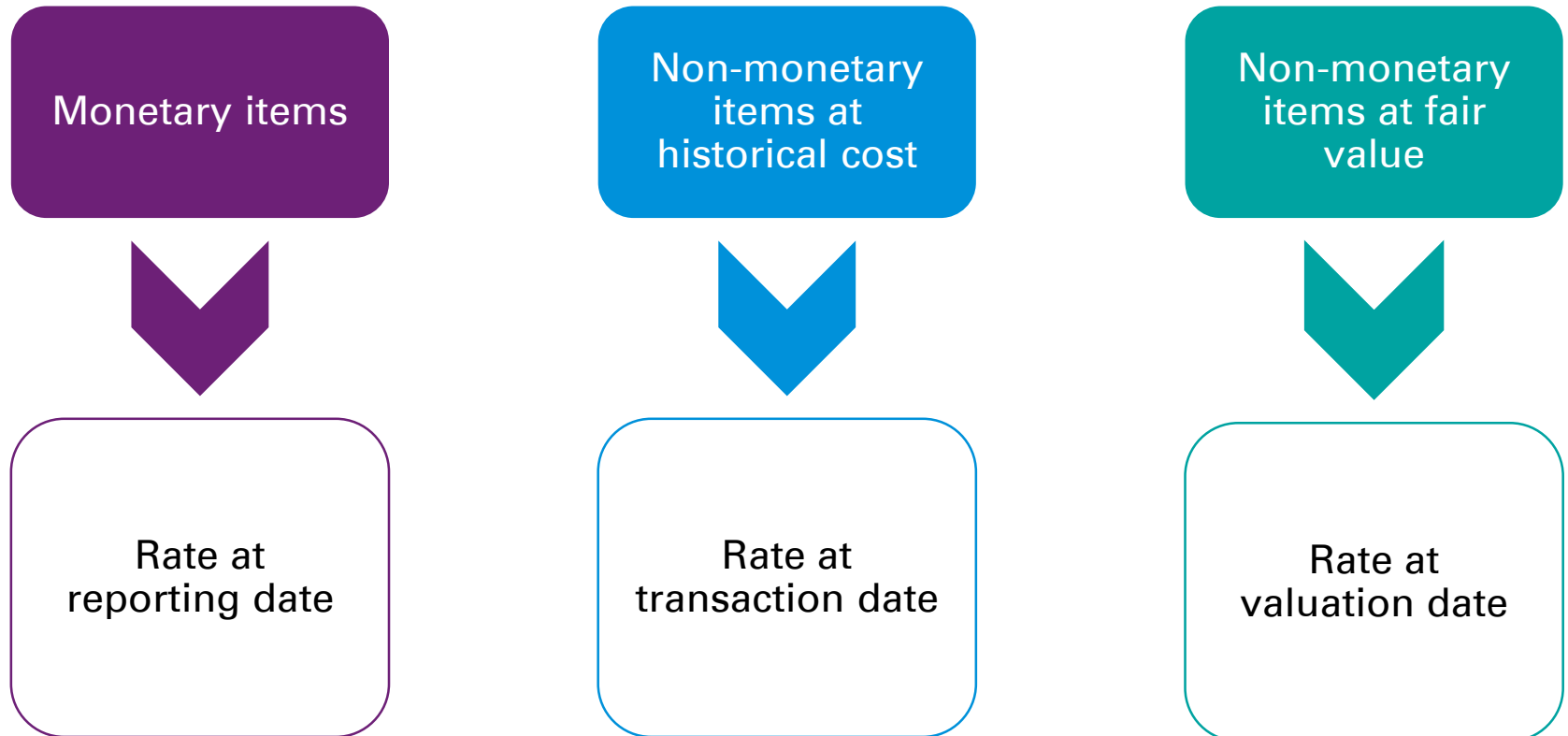
# Initial translation to functional currency

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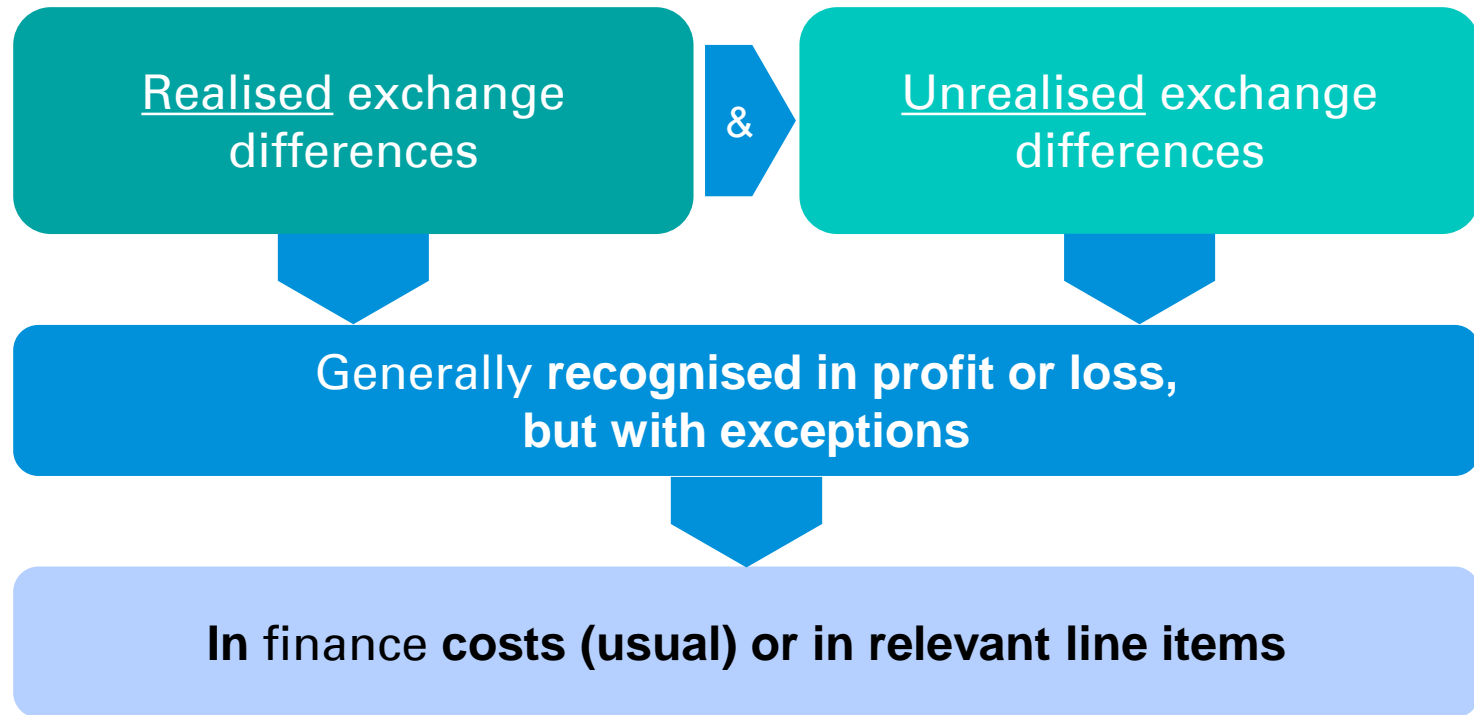
# Re-translation to functional currency

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# Monetary items: Exchange differences

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# Monetary items: exchange differences - Exceptions

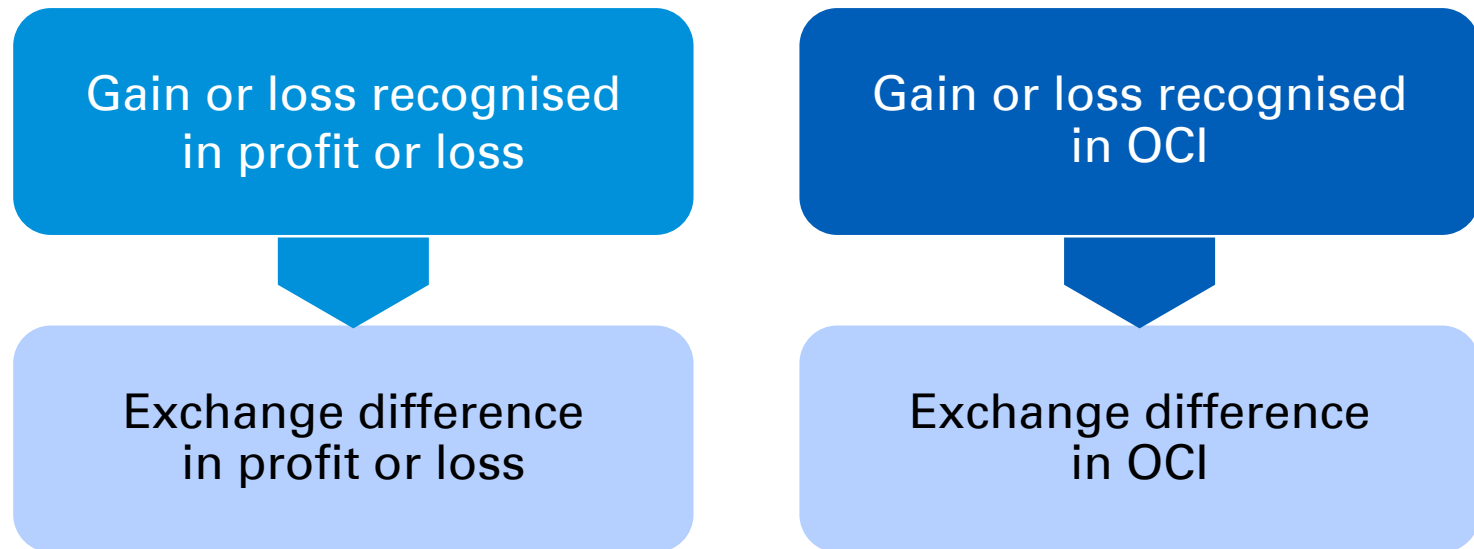
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- Monetary item that in substance represents part of net investment in a foreign operation
  - in financial statements that incorporate the foreign operation, take to OCI till disposal
- Long-term foreign currency monetary item
  - option to continue previous policy (Ind AS 101)
  - Ind AS transition group constituted by ASB has interpreted Ind AS 101 exemption as being limited to items existing (e.g., foreign currency loans taken) prior to beginning of first Ind AS reporting period



# Non-monetary items: Exchange differences

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**OCI = other comprehensive income**

# A question for you: Forex transactions

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- Lila-Tech gave a loan of INR 100,000 to its subsidiary, Lila-NewPlanet on 1 April
- Lila-Tech's functional currency is INR
- Lila-NewPlanet's functional currency is NPR
- The INR / NPR rates are:
  - 1 April: 1 / 1.5
  - 31 March: 1 / 2.0

Based on the mini-case above, is the statement below true or false?

No exchange gain or loss will be recognised in CFS because the loan will be eliminated on consolidation.

INR Indian Rupee  
NPR = Nepalese Rupee



# Exchange differences: Intra-group monetary items

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- Not eliminated when incorporating the financial statements of foreign operation (e.g. incorporating FS of foreign subsidiary in CFS)
  - Reporting entity (or group) is exposed to exchange differences

# Translation of long-term monetary items (Para 46 A of AS 11)

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Unrealized exchange differences on long-term monetary items



```
graph TD; A[Unrealized exchange differences on long-term monetary items] --> B[Recognised and accumulated in a separate component of equity or capitalized as fixed asset]; B --> C[Transferred to profit or loss over the period of maturity in an appropriate manner.]; C --> D[First time adoption exemption to continue the policy adopted as per previous GAAP]; D --> E[Exemption only till beginning of the first Ind AS financial reporting period];
```

Recognised and accumulated in a separate component of equity or capitalized as fixed asset

Transferred to profit or loss over the period of maturity in an appropriate manner.

First time adoption exemption to continue the policy adopted as per previous GAAP

Exemption only till beginning of the first Ind AS financial reporting period

## Illustration: FCMIDTA(1) under IND AS 21

- Lila-Rent has borrowed an amount of \$ 1 million on Jan 1, 2015.
- Exchange rate as on that date is 1 \$ = Rs 50 and on March 31, 2015 is 1 \$ = Rs 52 .
- Foreign currency loan is repayable in 6 installments.

Date of repayment	Amount of principal to be repaid (\$)
Mar 31, 2015	50,000
Mar 31, 2016	200,000
Mar 31, 2017	200,000
Mar 31, 2018	200,000
Mar 31, 2019	200,000
Mar 31, 2020	150,000

- The amount recorded as separate component of equity say Foreign currency monetary item translation difference account (FCMIDTA) before amortisation would be Rs 2 million.

# Illustration: FCMIDTA(2) under IND AS 21

The principle should be to amortize the exchange difference proportionately over the period of the monetary item

Year ends	Repayments	Forex loss	Original Maturity (Years)	Remaining maturity as on Mar 31, 2015 (Years)	Amount to be amortised
31 March 2015	50,000	100,000	0.25	Nil	100,000
31 March 2016	200,000	400,000	1.25	1	79,121
31 March 2017	200,000	400,000	2.25	2	43,902
31 March 2018	200,000	400,000	3.25	3	30,380
31 March 2019	200,000	400,000	4.25	4	23,211
31 March 2020	150,000	300,000	5.25	5	14,092
<b>Total</b>	<b>1,000,000</b>	<b>2,000,000</b>			<b>290,706</b>

# Net investment in a foreign operation

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Settlement of a monetary item neither planned nor likely to occur

```
graph TD; A[Settlement of a monetary item neither planned nor likely to occur] --> B[Separate financial statements of parent and foreign operation: Profit or loss]; A --> C[Financial statements that include both: OCI];
```

Separate financial statements  
of parent and foreign operation:  
Profit or loss

Financial statements that  
include both:  
OCI

# Agenda

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Definitions

Foreign currency transaction

**Foreign currency financial  
statements**

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# From functional to presentation currency: Entity's own financial statements

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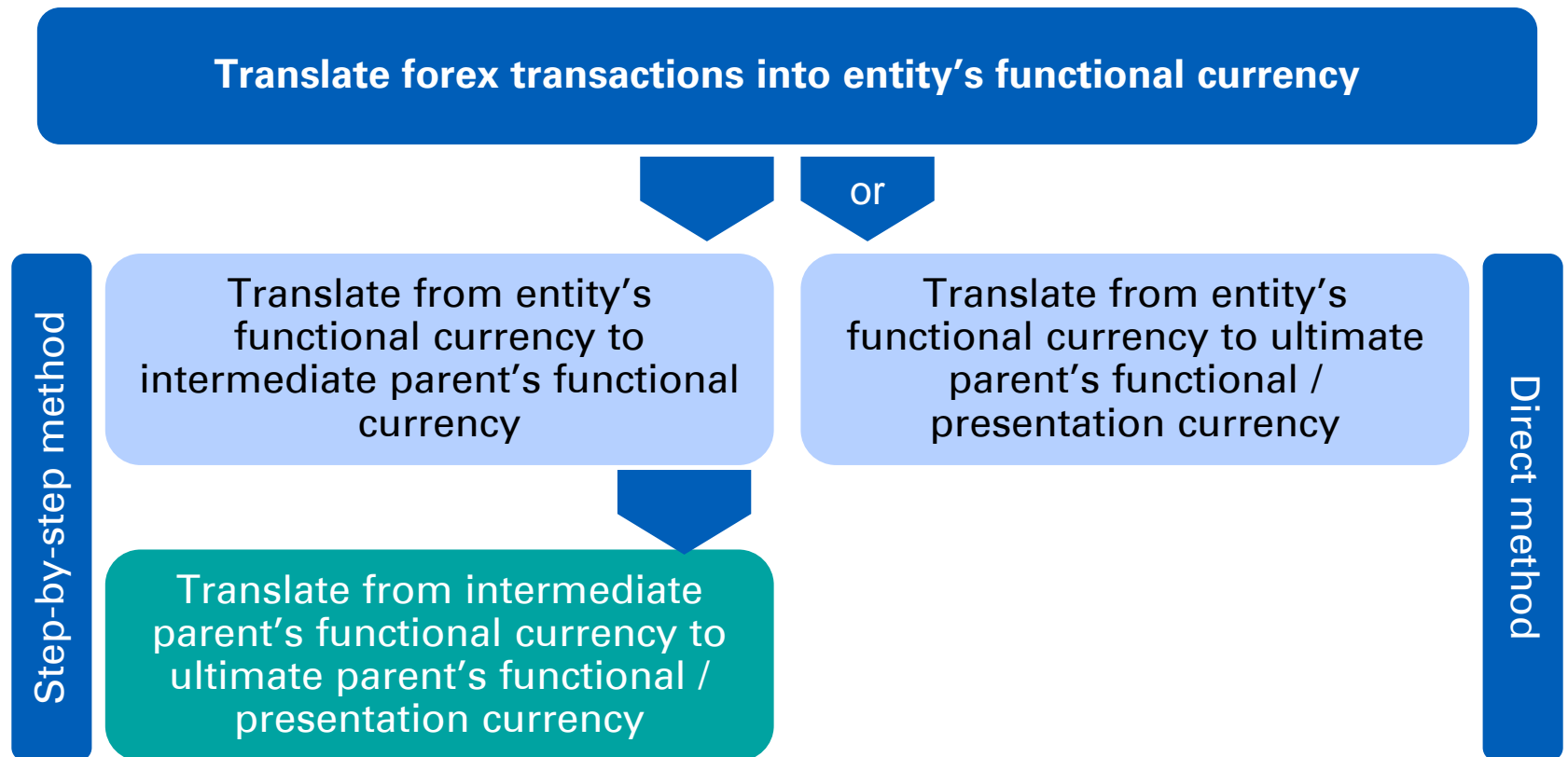
Translate forex transactions into functional currency



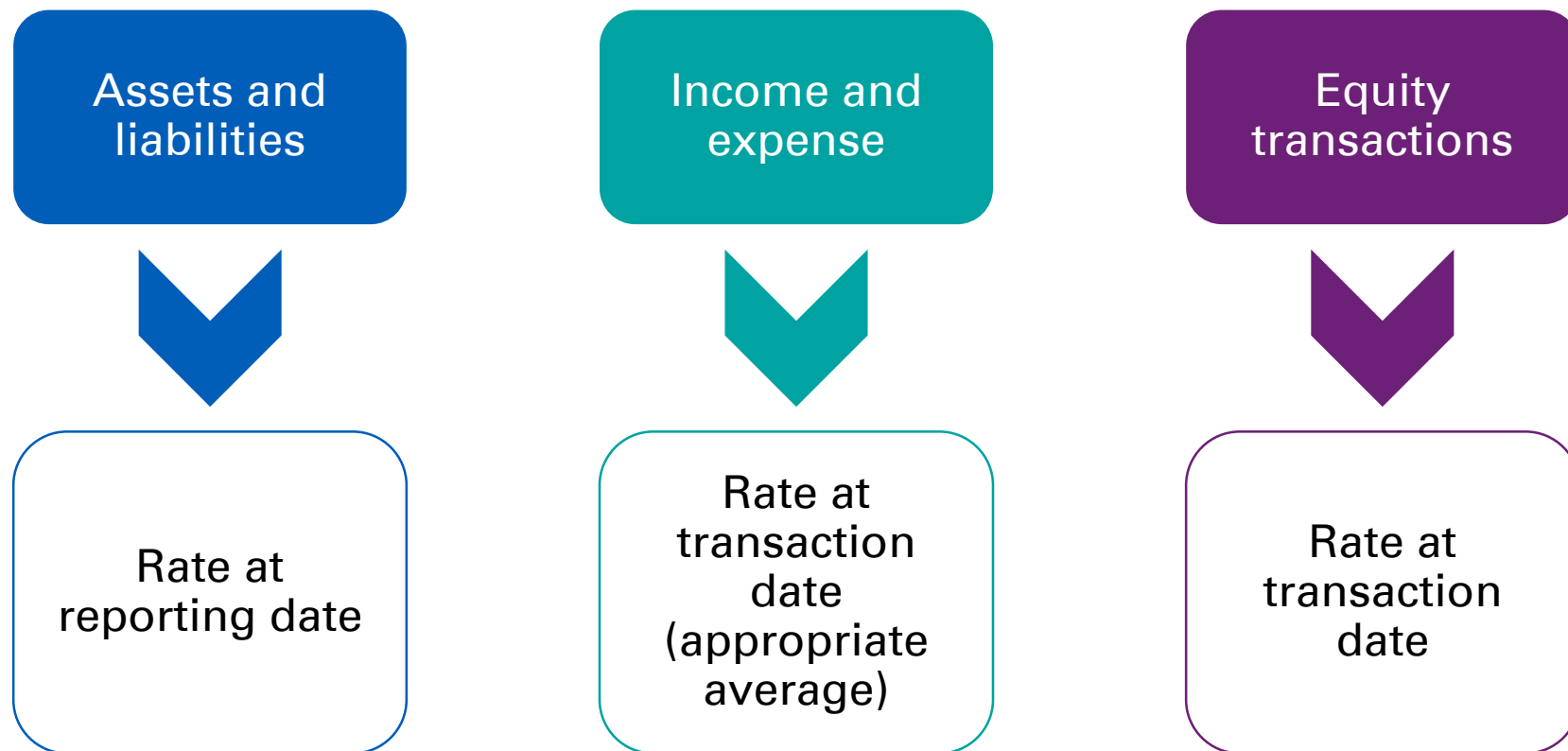
Translate financial statements from functional currency to presentation currency

# From functional to presentation currency: Consolidated financial statements

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# Translation to presentation currency



OCI and separate component of equity

# Illustration: Proof of FCTR (1)

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- New office established in Nepal on 1 April
- Share capital of INR 100 contributed in cash
- During the year a profit of INR 200 is made (cash sales)
- There were no other transactions
- The INR / NPR rates are:
  - 1 April : 1.0 / 1.5
  - 31 March next: 1.0 / 2.5
  - Average: 1.0 / 2.0

FCTR = foreign currency translation reserve

INR Indian Rupee

NPR Nepalese rupee

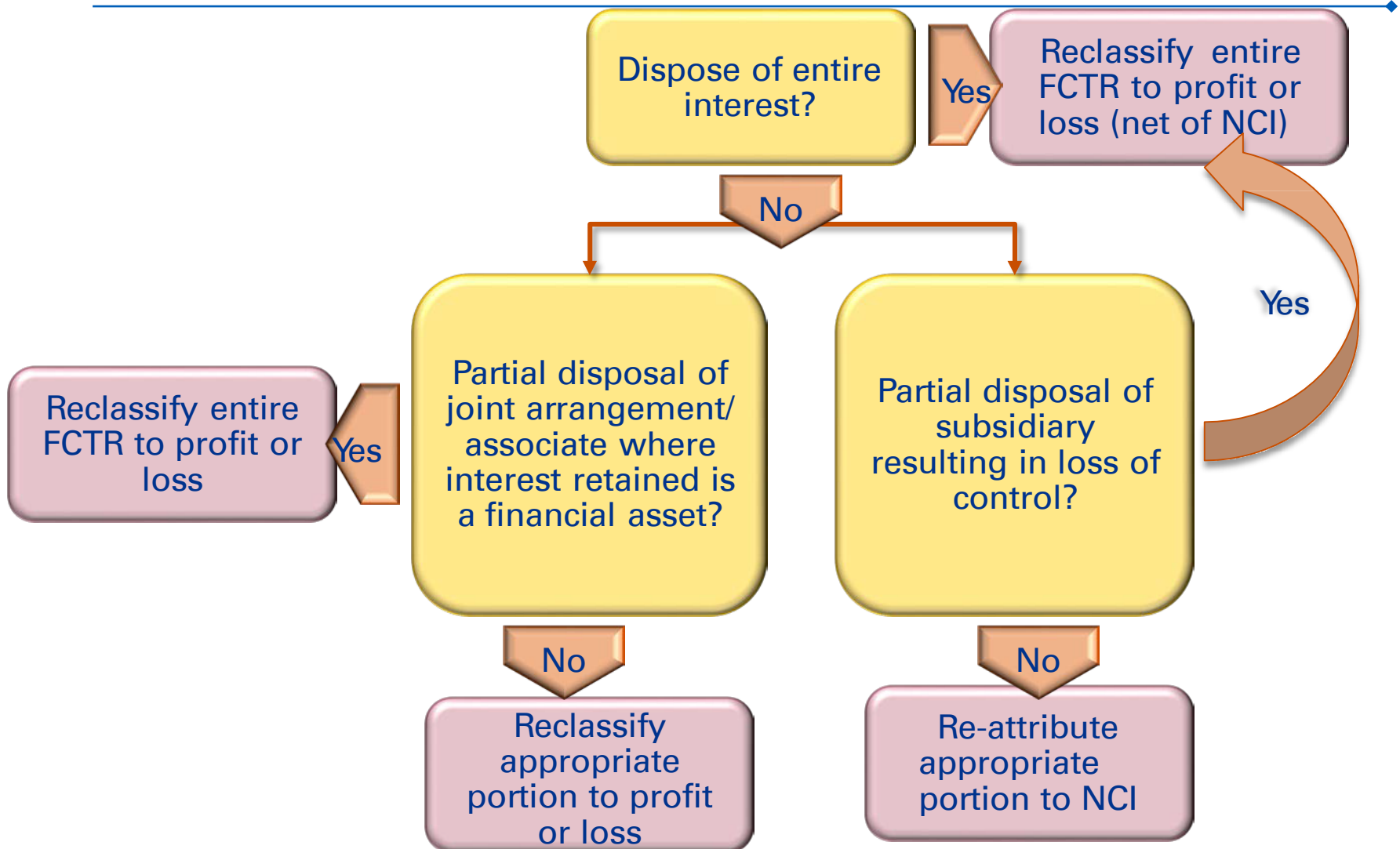
## Illustration: Proof of FCTR (2)

	INR	Rate	NPR
Capital	100	1.5	150
Profit	200	2.0	400
<b>Balancing</b>	-	-	<b>200</b>
Equity	300	2.5	750
Assets	300	2.5	750



	Actual rate	Closing rate	Rate difference	Amount in INR	Amount in NPR
Capital	1.5	2.5	1.0	100	100
Profit	2.0	2.5	0.5	200	100
FCTR	-	-	-	-	<b>200</b>

# Reclassification of FCTR to profit or loss on disposal



# Agenda

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Definitions

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Foreign currency transaction

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Foreign currency financial  
statements

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Disclosures

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# Key disclosures

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## Exchange rate differences included in:

- P/L (except for financial instruments measured at FV through P/L)
- Other comprehensive income

## Reminders

- Refer to functional currency and presentation currency
- In accounting policy note disclose that P/L items are translated at rate at transaction dates





Which factors are not part of the determination of functional currency?

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The currency that influences sales prices for goods and services

The currency that influences labour, material and other costs for producing goods and services

The currency that is the most financially stable and is frequently used in business transactions

The currency in which funds from financing activities are generated

The currency in which books of account are maintained

# Which statements are true in respect of translations of foreign currency items?

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**Monetary items are retranslated at the exchange rate at the reporting date**

**Non-monetary items carried at fair value at the reporting date are retranslated at the exchange rate at the reporting date**

**Investments in equity securities that are carried at fair value through OCI are not retranslated at the exchange rate at the reporting date**

**Property, plant and equipment carried at historical cost is retranslated at the exchange rate at the reporting date**

# Which statements are true in respect of translation into a presentation currency?

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An entity's profit or loss is translated to the group presentation currency at the exchange rate at the reporting date

All exchange differences from the translation of a foreign operation are recognised in a separate component of equity

Exchange differences are reclassified to profit or loss when a foreign operation is disposed of



- 1) Functional currency is the currency of the primary economic environment in which entity operates
- 2) Presentation currency is the currency in which the financial statements are presented
- 3) Exchange gains / losses from foreign currency transactions generally are recognised in profit or loss
- 4) Exchange gains / losses from the translation of foreign currency financial statements are recognised in OCI

# Thank You

*Presented by :*

Shabbir Readymadewala