INDAS – 21 EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

(TOTAL NO. OF QUESTIONS – 13)

INDEX

RTPs QUESTIONS

Q1 (May 18)

On 30th January, 20X1, A Ltd. purchased machinery for $5,000 from USA supplier on credit basis. A's Ltd. functional currency is the Rupee. The exchange rate on the date of transaction is 1 $ = Rs 60. The fair value of the machinery determined on 31st March, 20X1 is $ 5,500. The exchange rate on 31st March, 20X1 is 1$= Rs 65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1$= Rs 67. The fair value of the machinery remains unchanged for the year ended on 31st March 20X2. Prepare the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21.

Solution

Journal Entries

Purchase of Machinery on credit basis on 30th January 20X1:

	Rs.	Rs.
Machinery A/c (5,000 x $ 60) Dr.	3,00,000	
To Creditors		3,00,000
(Initial transaction will be recorded at exchange rate on the date of transaction)		

Exchange difference arising on translating monetary item on 31st March 20X1:

	Rs	Rs
Machinery A/c [(5,500 x $ 65) – (5,000 x $ 60)] Dr.	57,500	
To OCI a/c (Exchange Profit & Loss)		57,500
Profit & Loss A/c [(5,000 x $ 65) – (5,000 x $ 60)] Dr.	25,000	
To Creditors		20,000

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 20X2:

		Rs.	Rs.
Creditors A/c (5,000 x $65)	Dr.	3,25,000	
Profit & loss A/c [(5,000 x ($ 67 -$ 65)]	Dr.	10,000	
To Bank A/c			3,35,000
Machinery A/c [(5,500*($ 67-$ 65))	Dr.	11,000	
To OCI A/c			11,000

Q2 (Nov 18)

On 1st January 2018, P Ltd. purchased a machine for $ 2 lakhs. The functional currency of P Ltd. is Rupees. At that date the exchange rate was $1 = Rs. 68. P Ltd. is not required to pay for this purchase until 30th June, 2018. Rupees strengthened against the $ in the three months following purchase and by 31st March, 2018 the exchange rate was $1 = Rs. 65. CFO of P Ltd. Feels that these exchange fluctuations would not affect the financial statements because P Ltd. has an asset and a liability denominated in rupees. which was initially the same amount. He also feels that P Ltd. depreciates this machine over four years so the future year-end amounts will not be the same.

Examine the impact of this transaction on the financial statements of P Ltd. for the year ended 31st March, 2018 as per Ind AS.

Solution

As per Ind AS 21 'The Effects of Changes in Foreign Exchange Rates' the asset and liability would initially be recognised at the rate of exchange in force at the transaction date i.e. 1st January, 2018. Therefore, the amount initially recognised would be Rs1,36,00,000 ($ 2,00 000 x Rs. 68).

The liability is a monetary item so it is retranslated using the rate of exchange in force at 31st March, 2018. This makes the closing liability of Rs 1,30,00,000 ($ 2,00,000 x Rs65).

The Gain on re-translation of Rs 6,00,000 (Rs1,36,00,000 – Rs1,30,00,000) is recognised in the Statement of profit or loss.

The machine is a non-monetary asset carried at historical cost. Therefore, it continues to be translated using the rate of Rs68 to $ 1.

Depreciation of Rs 8,50,000 (Rs1,36,00,000 x ¼ x 3/12) would be charged to profit or loss for the year ended 31st March, 2018.

The closing balance in property, plant and equipment would be Rs1,27,50,000 (Rs1,36,00,000 – Rs1,30,00,000). This would be shown as a non-current asset in the statement of financial position.

Q3 (May 19)

Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1st January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31st March, 2018. USD 30 million is received on 1st April, 2018 in full and final settlement of the purchase consideration.

State the date of transaction for advance consideration and recognition of revenue. Also state the amount of revenue in INR to be recognized on the date of recognition of revenue. The exchange rates on 1st January, 2018 and 31st March, 2018 are Rs 72 per USD and Rs 75 per USD respectively.

SOLUTION

This is the case of Revenue recognised at a single point in time with multiple payments. As per the guidance given in Appendix B to Ind AS 21:

A Ltd. will recognise a non-monetary contract liability amounting Rs1,440 million, by translating USD 20 million at the exchange rate on 1st January, 2018 ieRs72 per USD.

A Ltd. will recognise revenue at 31st March, 2018 (that is, the date on which it transfers the goods to the customer).

A Ltd. determines that the date of the transaction for the revenue relating to the advance consideration of USD 20 million is 1st January, 2018. Applying paragraph 22 of Ind AS 21, A Ltd. determines that the date of the transaction for the remainder of the revenue as 31st March, 2018.

On 31st March, 2018, A Ltd. will:

- *De-recognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1st January, 2018 ieRs72 per USD; and*
- *Recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31st March, 2018 ieRs75 per USD.*

The receivable of USD 30 million is a monetary item, so it should be translated using the closing rate until the receivable is settled.

Q4 (Nov. 19)

Global Limited, an Indian company acquired on 30th September, 20X1 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is Rupees and its financial year end is 31st March, 20X2.

(i) *The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30th September, 20X1.*

The exchange rates as at 30th September, 20X1 was Rs.82/EURO & at 31st March, 20X2 was Rs. 84/EURO. What is the value at which the goodwill has to be recognised in the financial statements of Global Limited as on 31st March, 20X2?

(ii) *Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended 31st March, 20X2. The exchange rate on the date of purchase by Global Limited was Rs. 83/EURO and on 31st March, 20X2 was Rs. 84/EURO. The entire goods purchased from Mark Limited are unsold as on 31st March, 20X2. Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements.*

SOLUTION

(i) Ind AS 21 requires that goodwill arose on business combination shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42. In this case the amount of goodwill will be as follows:

Net identifiable asset	**Dr.**	**23 million**

Goodwill (bal. fig.) Dr. 1.4 million

To Bank 17.5 million

To NCI (23x30%) 6.9 million

Thus, goodwill on reporting date would be 1.4 million EURO x Rs.84 = Rs. 117.6 million

(ii)

Particulars	EURO in million
Sale price of Inventory	4.20
Un-realised Profit [a]	1.80

Exchange rate as on date of purchase of Inventory [b] - Rs. 83/Euro

Unrealized Profit to be eliminated [a x b] - Rs. 149.40 million

As per Ind AS 21 "income and expenses for each statement of profit and loss presented (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions".

In the given case, purchase of inventory is an expense item shown in the statement profit and loss account. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated on the event of consolidation.

Q5. (May 20 & Newly Added in ICAI Module)

On 1st April, 20X1, Makers Ltd. raised a long term loan from foreign investors. The investors subscribed for 6 million Foreign Currency (FCY) loan notes at par. It incurred incremental issue costs of FCY 2,00,000. Interest of FCY 6,00,000 is payable annually on 31st March, starting from 31st March, 20X2. The loan is repayable in FCY on 31st March, 20X7 at a premium and the effective annual interest rate implicit in the loan is 12%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

- *1st April, 20X1 - FCY 1 = Rs 2.50.*
- *31st March, 20X2 – FCY 1 = Rs 2.75.*
- *Average rate for the year ended 31st Match, 20X2 – FCY 1 = Rs 2.42. The functional currency of the group is Indian Rupee.*

What would be the appropriate accounting treatment for the foreign currency loan in the books of Makers Ltd. for the FY 20X1-20X2? Calculate the initial measurement amount for the loan, finance cost for the year, closing balance and exchange gain/loss.

SOLUTION

Initial carrying amount of loan in books

Loan amount received	= 60,00,000 FCY
Less: Incremental issue costs	= 2,00,000 FCY
	58,00,000 FCY

Ind AS 21, "The Effect of Changes in Foreign Exchange Rates" states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in INR = 58,00,000 FCY x Rs 2.50/FCY = Rs 1,45,00,000

Therefore, the loan would initially be recorded at Rs 1,45,00,000.

Calculation of amortized cost of loan (in FCY) at the year end:

Period	Opening Financial Liability (FCY) A	Interest @ 12% (FCY) B	Cash Flow (FCY) C	Closing Financial Liability (FCY) A+B-C
20X1-20X2	58,00,000	6,96,000	6,00,000	58,96,000

The finance cost in FCY is 6,96,000

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

Hence, the finance cost for FY 20X1-20X2 in INR is Rs 16,84,320 (6,96,000 FCY x Rs 2.42 / FCY)

The actual payment of interest would be recorded at 6,00,000 x 2.75 = INR 16,50,000

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance in INR is 58,96,000 FCY x INR 2.75 / FCY = Rs 1,62,14,000

The exchange differences that are created by this treatment are recognized in profit and loss.

In this case, the exchange difference is Rs [1,62,14,000 - (1,45,00,000 + 16,84,320 – 16,50,000)] = Rs 16,79,680. This exchange difference is taken to profit and loss.

Q6. (Nov 20)

An Indian entity, whose functional currency is rupees, purchases USD dominated bond at its fair value of USD 1,000. The bond carries stated interest @ 4.7% p.a. on its face value. The said interest is received at the year-end. The bond has maturity period of 5 years and is redeemable at its face value of USD 1,250. The fair value of the bond at the end of year 1 is USD 1,060. The exchange rate on the date of transaction and at the end of year 1 are USD 1 = Rs 40 and USD 1 = Rs 45, respectively. The weighted average exchange rate for the year is 1 USD = Rs 42.

The entity has determined that it is holding the bond as part of an investment portfolio whose objective is met both by holding the asset to collect contractual cash flows and selling the asset. The purchased USD bond is to be classified under the FVTOCI category.

The bond results in effective interest rate (EIR) of 10% p.a.

Calculate gain or loss to be recognised in Profit & Loss and Other Comprehensive Income for year Also pass journal entry to recognise gain or loss on above. (Round off the figures to nearest rupees)

SOLUTION

Computation of amounts to be recognized in the P&L and OCI:

Particulars	USD	Exchange rate	Rs
Cost of the bond	1,000	40	40,000
Interest accrued @ 10% p.a.	100	42	4,200
Interest received (USD 1,250 x 4.7%)	(59)	45	(2,655)
Amortized cost at year-end	1,041	45	46,845
Fair value at year end	1,060	45	47,700
Interest income to be recognized in P & L			4,200
Exchange gain on the principal amount [1,000 x (45-40)] (OCI)			5,000
Exchange gain on interest accrual [100 x (45 - 42)] (OCI)			300
Total exchange gain/loss to be recognized in OCI			5,300
Fair value gain to be recognized in OCI [45 x (1,060 - 1,041)]			**855**

Journal entry to recognize gain/loss

Bond (Rs 47,700 – Rs 40,000)	Dr.	7,700	
Bank (Interest received)	Dr.	2,655	
To Interest Income (P & L)			4,200
To Exchange gain (OCI)			5,300
To OCI (fair value gain)			855

Q7. (May 21) – Similar to Q4a

Monsoon Limited acquired, on 30 September, 20X2, 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Monsoon Limited is Indian Rupee and its financial year ends on 31 March, 20X3.

The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30 September, 20X2.

The exchange rates as on 30 September, 20X2 was Rs.82 per EURO and at 31 March, 20X3 was Rs.84 per EURO.

On acquisition of Mark limited, what is the value at which the goodwill / capital reserve has to be recognized in the financial statements of Monsoon Limited as on 31 March 20X3?.

SOLUTION

Para 47 of Ind AS 21 requires that goodwill arose on business combination shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42.

In this case, the amount of goodwill will be as follows:

Net identifiable asset	**Dr.**	**Rs. 23 million**	
Goodwill (bal. fig.)	**Dr.**	**Rs. 1.4 million**	
To Bank (Purchase consideration)			**Rs. 17.5 million**
To NCI (23 x 30%)			**Rs.6.9 million**

Thus, goodwill on reporting date in the books of Monsoon Limited would be

= 1.4 million EURO x Rs. 84 = Rs. 117.6 million.

MTPs QUESTIONS

Q8. (MTP - Oct 19 – 6 Marks)

A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of Rs. 2,00,000, but there are no trade receivables or trade payables balances as on 1st April, 20X1. During the year 20X1-20X2, the entity entered into the following foreign currency transactions:

❖ A Ltd. purchased goods for resale from Europe for €1,00,000 when the exchange rate was €1 = Rs. 50. This balance is still unpaid at 31st March, 20X2 when the exchange rate is €1 = Rs. 45. An exchange gain on retranslation of the trade payable of Rs. 5,00,000 is recorded in profit or loss.

❖ A Ltd. sold the goods to an American client for $ 1,50,000 when the exchange rate was $1 = Rs. 40. This amount was settled when the exchange rate was $1 = Rs. 42. A further exchange gain regarding the trade receivable is recorded in the statement of profit or loss.

❖ A Ltd. also borrowed €1,00,000 under a long-term loan agreement when the exchange rate was €1 = Rs. 50 and immediately converted it to Rs. 50,00,000. The loan was retranslated at 31st March, 20X2 @ Rs. 45, with a further exchange gain recorded in the statement of profit or loss.

❖ A Ltd. therefore records a cumulative exchange gain of Rs. 13,00,000 (5,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year.

❖ In addition, A Ltd. records a gross profit of Rs. 10,00,000 (Rs. 60,00,000 – Rs. 50,00,000) on the sale of the goods.

❖Ignore taxation.

How cash flows arising from the above transactions would be reported in the statement of cash flows of A Ltd. under indirect method?

SOLUTION

STATEMENT OF CASH FLOWS

Particulars		Amount (Rs.)
Cash flows from operating activities:		
Profit before taxation (10,00,000 + 13,00,000)	23,00,000	
Adjustment for unrealised exchange gains/losses:		
Foreign exchange gain on long term loan [€ 1,00,000 x Rs. (50 – 45)]	(5,00,000)	
Decrease in trade payables [1,00,000 x Rs. (50 – 45)]	(5,00,000)	
Operating Cash flow before working capital changes	13,00,000	
Changes in working capital (Due to increase in trade payables)	50,00,000	
Net cash inflow from operating activities	**63,00,000**	
Cash inflow from financing activity	**50,00,000**	
Net increase in cash and cash equivalents	1,13,00,000	
Cash and cash equivalents at the beginning of the period	2,00,000	
Cash and cash equivalents at the end of the period	1,15,00,000	

Q9. (MTP March 21 & Exam Nov. 19 – 4 Marks)

What is the functional currency of an entity?

What are the primary and secondary factors that influence determination of functional currency?

SOLUTION

Functional currency is the currency of the primary economic environment in which the entity operates. In this regard, the primary economic environment will normally be the one in which it primarily generates and expends cash i.e. it operates. The functional currency is normally the currency of the country in which the entity is located. It might, however, be a different currency.

The following are the factors that influence determination of an appropriate functional currency:

1. ***Primary indicators:***

   (a) ***the currency:***

   i. *that mainly influences sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and*

   ii. *of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.*

   iii. *the currency that mainly influences labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.*

2. ***Secondary indicators:***

   Other factors that may provide supporting evidence to determine an entity's functional currency are-

   (a) *the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and*

   (b) *the currency in which receipts from operating activities are usually retained.*

QUESTIONS FROM PAST EXAM PAPERS

Q10. (May 19 – 5 Marks) (Newly Added in ICAI Module)

XYZ Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of XYZ Info (Euro).

The following is the statement of financial position of XYZ Global Ltd. prior to translation:

	USD	Euro
Property, plant and equipment	60,000	
Receivables	9,00,000	
Total assets	**9,60,000**	
Issued capital	40,000	25,000
Opening retained earnings	25,000	15,000
Profit for the year	22,000	
Accounts payable	8,15,000	
Accrued liabilities	58,000	
Total equity and liabilities	**9,60,000**	
Additional information:		
Relevant exchange rates are:		
Rate at the beginning of the year - Euro 1	= USD 1.25	
Average Rate for the Year	Euro 1 = USD 1.20	
Rate at the end of the year	Euro 1 = USD 1.15	

You are required to:

- Translate the statement of financial position of XYZ Global Ltd. into Euro which is ready for consolidation by XYZ Info. (Share capital and opening retained earnings have been pre-calculated.)
- Prepare a working of the cumulative balance of the foreign currency translation reserve as per relevant Ind AS.

SOLUTION

TRANSLATION OF THE FINANCIAL STATEMENTS

	USD	Rate/Euro	Euro
	A	b	a/b
Property, plant and equipment	60,000	1.15	52,174
Receivables	9,00,000	1.15	7,82,609
Total assets	**9,60,000**		**8,34,783**
Issued capital	40,000		25,000
Opening retained earnings	25,000		15,000
Profit for the year	22,000	1.20	18,333
Accounts payable	8,15,000	1.15	7,08,696
Accrued liabilities	58,000	1.15	50,435
Total equity and liabilities	9,60,000		8,17,464
Foreign Currency Translation Reserve			17,319
Total equity and liabilities			**8,34,783**

Working of the cumulative balance of the FCTR

Particulars	Actual translated amount in Euro	Amount	Difference translated at closing rate of USD 1.15 /EURO
	A	b	b-a
Issued capital	25,000	34,783*	9,783
Opening retained earnings	15,000	21,739**	6,739
Profit for the year	18,333	19,130***	797
	58,333	**... 75,652**	**17,319**

$$\frac{40,000}{1.15} = 34,783 \quad ^{**}\frac{25,000}{1.15} = 21,739 \quad ^{***}\frac{22,000}{1.15} = 19,130$$

Q11 (Jan. 21 – 5 Mark)

SB Limited is engaged in the business of producing extracts from the natural plants for pharmaceuticals and Ayurvedic companies. It has a wholly owned subsidiary, UB Limited which is engaged in the business of pharmaceuticals. UB Limited purchases the pharmaceuticals extracts from its parent company. The demand of UB Limited is very high and hence to cater its shortfall, UB Limited also purchases the pharmaceutical extracts from other companies. Purchases are made at the competitive prices

SB Limited sold pharmaceutical extracts to UB Limited for Euro 10 lakhs on 1st February, 2021. The cost of these extracts was Rs 770 lakh in the books of SB Limited at the time of sale. At the year-end, i.e. 31st March 2021, all these pharmaceutical extracts were lying as closing stock and payable with UB Limited.

Euro is the functional currency of UB Limited while Indian-Rupee is the functional currency of SB Limited.

Following additional information is available:

Exchange rate on 1st February 2021 1 Euro = Rs 85

Exchange rate on 31st March 2021 1 Euro = Rs 88

Provide the accounting treatment of the above in the books of SB Limited and UB Limited.

Also show its impact on consolidated financial statements. Support your answer by journal entries, wherever necessary. Assume NRV to be higher than the cost.

SOLUTION

Accounting treatment in the books of SB Ltd (Functional Currency INR)

SB Ltd will recognize sales of Rs 850 lakh (10 lacs Euro x Rs 85)

Profit on sale of inventory = 850 lakh – 770 lakh = Rs 80 lakh.

On balance sheet date receivable from UB Ltd. will be translated at closing rate i.e. 1 Euro = Rs 88. Therefore, unrealised forex gain will be recorded in standalone profit and loss of Rs 30 lakh [i.e. (Rs 88 - Rs 85) x 10 lakh Euro].

Journal Entries

Date		(Rs in lakh)	(Rs in lakh)
1.2.2021	UB Ltd. A/c Dr.	850	
	To Sales		850
	(Being revenue recorded on initial recognition)		
31.3.2021	UB Ltd. A/c Dr.	30	

	To Foreign exchange difference (unrealised)		30
	(Being foreign exchange difference recorded at year end)		

Accounting treatment in the books of UB Ltd (Functional currency EURO)

Date		in Euros	in Euros
1.2.2021	Purchase account Dr.	10 lakh	
	To SB limited		10 lakh
	(Being purchased recorded at the date of transaction)		

UB Ltd will recognize inventory on 1st February, 2021 of Euro 10 lakh which will also be its closing stock at year end

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of abovementioned sale / purchase between SB Ltd and UB Ltd will get eliminated

The closing stock of UB Ltd will be recorded at lower of cost or NRV.

Since the question ask to assume that NRV is higher than cost, inventory will be measured at cost only. Therefore, no write off is required.

The amount of closing stock of Rs 850 lakh include two components-

- Cost of inventory for Rs 770 lakh ; and
- Profit element of Rs 80 lakh; and

At the time of consolidation, the second element amounting to Rs 80 lakh will be eliminated from the closing stock.

Journal Entry

		(Rs in lakh)	(Rs in lakh)
Consolidated P&L A/c	Dr.	80	
To Inventory			80
(Being profit element of intragroup transaction eliminated)			

Q12 (July. 21 – 5 Marks)

Z Ltd. (India) has an overseas branch in USA. It has a bank account having balance of USD 7,000 as on 1st April 2019. During the financial year 2019-2020, Z Ltd. Acquired computers for its USA office for USD 280 which was paid on same date. There is no other transaction reported in USA or India.

Exchange rates between INR and USD during the financial year 2019-2020 were:

Date	**USD 1 to INR**
1st April 2019	70.00
30th November 2019	71.00 (Date of purchase of computer)
31st March 2020	71.50
Average for 2019-2020	70.50

Please prepare the extract of Cash Flow Statement for the year ended 31st March 2020 as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-2020?

SOLUTION

In the books of Z Ltd.

Statement of Cash Flows for the year ended 31st March 2020

	Rs.	Rs.
Cash flows from operating activities		
Net Profit (Refer Working Note)	10,360	
Adjustments for non-cash items:		
Foreign Exchange Gain	(10,360)	
Net cash outflow from operating activities		**0**
Cash flows from investing activities	(19,880)	**(19,880)**
Acquisition of Property, Plant and Equipment		
Net cash outflow from Investing activities		
Cash flows from financing activities		**0**
Net change in cash and cash equivalents		**(19880)**
Cash and cash equivalents at the beginning of the year i.e. 1st April 2019		4,90,000
Foreign Exchange difference		
Cash and cash equivalents at the end of the year i.e. 31st March 2020		10,360
		4,80,480

Working Note:

Computation of Foreign Exchange Gain

Bank Account USD	Date	USD	Exchange Rate	Rs.
Opening balance	1.4.2019	7,000	70.00	4,90,000
Less: Purchase of Computer	30.11.2019	280	71.00	19,880
Closing balance calculated		6,720		4,70,120
Closing balance (at year end spot rate)	31.3.2020	6,720	71.50	4,80,480
Foreign Exchange Gain credited to Profit and Loss account				**10,360**

Q13 (December 21 – 5 Marks – IND AS 21)

Hari Ltd. purchased an equipment for 10,200 CAD from Canada supplier on credit basis on 31st January, 2020. Hari Ltd.'s functional currency is INR. The fair value of the equipment determined on 31st March, 2020 is 12,100 CAD. The payment to overseas supplier done on 31st March 2021. The fair value of the machinery remained unchanged for the year ended on 31st March 2021.

The exchange rates are as follows:

On date of transactions 1 CAD = 57.68 INR

On 31st March, 2020 – 1 CAD = 62.12 INR

On 31st March, 2021 – 1 CAD = 69.24 INR

Prepare the Journal entries for the year ended on 31st March 2020 and year 2021 according to Ind AS 21. Tax rate is 25%. A Ltd. follows revaluation method in respect of Plant and Machinery.

SOLUTION

Journal Entries

Purchase of Machinery on credit basis on 30th January 2020.21:

	Rs.	Rs.
Machinery A/c (10,200 X 57.68) Dr.	5,88,336	
To Creditors-Machinery		5,88,336
(Initial transaction will be recorded at exchange rate on the date of transaction)		

Exchange difference arising on translating monetary item on 31st March 2020.21:

	Rs.	Rs.
Profit & Loss A/c [(10,200 X 57.68) – (10,200 X 62.12)] Dr	45,288	
To Creditors-Machinery		45,288
Machinery A/c Dr.	45,288	
To Revaluation Surplus (OCI)		45,288
(Initial transaction will be recorded at exchange rate on the date of transaction)		
Machinery A/c Dr.	1,18,028	
To Revaluation Surplus (OCI)		1,18,028
(Being Machinery measured at the exchange rate on 31-03-2020 [USD 12,100 x (Rs 62.12 - Rs 57.68)]		
Revaluation Surplus (OCI) Dr.	40,829	
To Deferred Tax Liability		40,829
(DTL created @ of 25% of the total OCI amount)		

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 2021:

	Rs.	Rs.
Creditors-Machinery A/c (10,200 X 62.12) Dr.	5,88,336	
Profit & loss A/c [(10,200 X ($ 69.24 -$ 62.12)] Dr.	72,624	
To Bank A/c		6,60,960
Machinery A/c [(12,100 x ($ 69.24 - $ 62.12)) Dr.	86,152	
Revaluation Surplus (OCI)		86,152
Revaluation Surplus (OCI) Dr.	21,538	
To Deferred Tax Liability		21,538
(DTL created @ of 25% of the OCI amount)		