



# IND AS - 21 - Effect of Change in Foreign exchange rates

V. easy (5-8 M)

This Indian Accounting Standard prescribes the accounting treatment for foreign currency transactions and the translation of financial statements of foreign operations. It ensures consistency in recording foreign currency items and provides guidance on how to present financial statements in different currencies.

## SCOPE

This Ind AS prescribes:

- **Accounting for Foreign Currency Transactions** (Meaning: how to record individual foreign-currency items like a USD purchase, EUR loan, etc., in your functional currency so your books remain consistent.)
- **Translation of Financial Statements of Foreign Operations** (Meaning: if you have a subsidiary/branch abroad keeping its own financials in its own functional currency, how to translate that whole set of statements for reporting/consolidation.)
- **Translation of Financial Statements into Presentation Currency** (Meaning: even if your functional currency is, say, INR, you may present statements in USD for investors—this tells you how to convert the entire financial statements for display.)

## Types of Currency

Understanding the different types of currencies is fundamental to applying Ind AS 21 correctly. Each type serves a specific purpose in the accounting and reporting framework.

### Foreign Currency

A currency other than the functional currency of the entity

**Logic:** "Foreign" is relative—it simply means "not functional."

**Example:** If your functional currency is INR, then USD/EUR/GBP are foreign currencies for you.

### Functional Currency\*

The currency of the primary economic environment in which the entity operates

**Logic:** This is the currency that best reflects the real economics of the business (pricing + costs + financing + cash retention).

**Example:** A business selling mainly in USD and paying major costs in USD may have USD as functional currency even if it's located elsewhere.

### Presentation Currency

The currency in which the Financial Statements are presented (Can be Functional Currency or Foreign Currency)

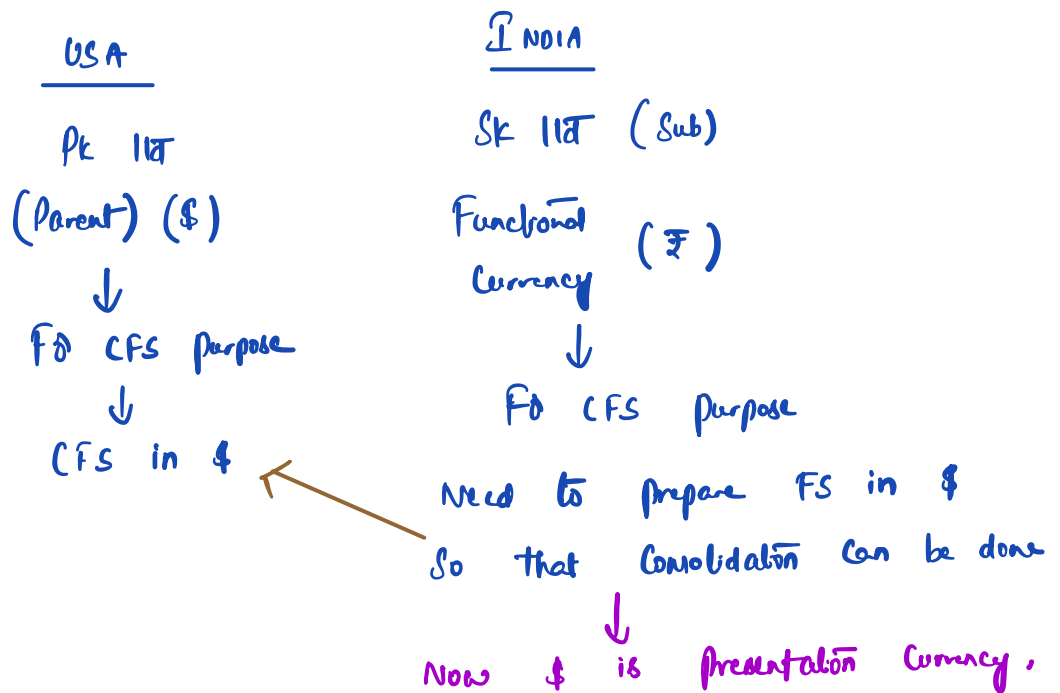
**Logic:** This is the reporting/display currency.

**Example:** Functional = INR, but the company presents statements in USD for foreign investors → presentation currency = USD (still allowed, as the line says).

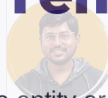
\*Quick mental model: Functional = business reality currency, Foreign = anything else, Presentation = reporting choice.



Eg



## Functional Currency

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It is the currency in which books of the entity are maintained.

(Practical meaning: your accounting system records day-to-day entries in this currency. If you try to maintain books in a currency that doesn't reflect your economics, your profits can look artificially volatile due to exchange movements.)

The following factors are considered in determining an appropriate functional currency.

(Reason: Ind AS 21 doesn't want companies to "pick" a currency; it wants the currency that best matches how the business actually operates.)

## Primary Indicators for Determining Functional Currency

### Currency which influences the Sales Price of its Goods & Services

**Logic:** Ask—In which currency are our prices really set/anchored? If you sell globally but your contracts/pricelists are USD-based, USD is a strong candidate.

**Example:** An exporter who quotes and negotiates mostly in USD → sales price influenced by USD.

### Currency which influences the Cost of providing Goods & Services

**Logic:** Ask—Which currency drives our major costs (materials, wages, rent, utilities, etc.)?

**Example:** If raw material and major operating costs are USD-linked, that pushes toward USD; if wages/rent are mainly INR, that pushes toward INR.



# Secondary Indicators for Determining Functional Currency

## Currency in which funds are raised

**Reasoning:** Financing choices often reveal the currency management considers "core."

**Example:** Company consistently borrows long-term in EUR/USD because revenues are in that currency → supports that currency.

## Currency in which receipts from operating activities are retained

**Reasoning:** Even if customers pay in foreign currency, if you immediately convert and retain in INR, INR may be the functional currency; if you retain USD to pay USD costs, USD may be functional.

**Example:** Exporter receives USD and keeps USD balances to pay USD suppliers → supports USD retention.

# Foreign Currency Transactions

Means any transaction that is denominated or requires settlement in foreign currency.

(Logic: Two triggers are enough—(1) the transaction is denominated in foreign currency (invoice/contract is in USD), or (2) it requires settlement in foreign currency (you must pay/receive in USD). Either way, exchange differences can arise later.)

## Example:

1. **Purchase or Sale of goods or services in foreign currency.** (Example add-on: Import inventory for \$10,000; or export services billed €5,000.)
2. **Borrowing or Lending of funds in foreign currency.** (Example add-on: USD term loan; EUR supplier credit; loan given to foreign subsidiary in USD.)
3. **Buying or Disposing of assets denominated in foreign currency.** (Example add-on: Buying equipment priced in USD; selling an investment whose contract value is in EUR.)

# Initial Recognition

A foreign currency transaction is initially recorded by converting into functional currency at the Exchange Rate on the transaction date.

**Logic:** On the transaction date, you are creating the asset/liability/income/expense in your books, so you measure it using the rate that existed that day (best evidence of value at that moment).

**Mini-example:** Buy goods for \$10,000 when \$1 = ₹83 → initial record = ₹8,30,000. If payment happens later at a different rate, the difference becomes exchange gain/loss later (covered in later parts of Ind AS 21).



# Subsequent Recognition (At each Balance sheet date)

Treatment depends whether Monetary or Non-Monetary Item.

(Logic: at year-end, exchange rates may have moved. Ind AS 21 asks: does this item represent a right/obligation to receive/pay a fixed or determinable amount of currency? If yes → you remeasure at closing rate; if not → treatment depends on whether it's carried at historical cost or fair value.)

Eg Pk Ltd (Indian Company) whose functional currency is ₹  
 Purchased Machinery with \$10000 on 1/12/21 on credit.  
 Exchange rate on 1/12/21 1\$ = ₹80 31/3/22 1\$ = 85  
 Ignore Dep. Pk Ltd follows Cost model on Machinery  
 Pass Journal entries for yr ended 31/3/22.

a) Initial recognition (on transaction day)

1/12/21 ⇒ Machinery A/c Dr ₹ 80000

To Creditors A/c ₹ 80000

( \$ 10000 × 80/\$ )

↓  
Exchange rate on date of transaction

Subsequent recognition

↓  
First check whether Monetary / Non-monetary item.

↓  
Creditors ⇒ Monetary item ⇒ Remeasurement required  
 ↓  
Show at closing rate

↓  
Liability    ↑ loss    ↓ Gain

Assets      ↑ Gain    ↓ loss



↓

Exchange loss (P/L) Dr 50000  
To Creditors A/c 50000  
(10000 x (85 - 80))

\* Machinery ⇒ Non-Monetary item : No re measurement required.

B/s (Extract)

P/L A/c

<p style="text-align: center;"><u>Assets</u></p> <p style="text-align: center;">PPE (Machinery)</p>	800000	<p style="text-align: center;">Exchange loss</p>	50000
<p style="text-align: center;"><u>Equity &amp; Liabilities</u></p>			
<p style="text-align: center;">Other Eq (Retained earnings)</p>	(50000)		
<p style="text-align: center;"><u>Liabilities</u></p>			
<p style="text-align: center;">Creditors</p>	850000		



Q.13

Ex Pk Ltd (Indian Company) whose functional currency is ₹  
 Purchased Machinery with \$10000 on 1/12/21 on credit.  
 Exchange rate on 1/12/21 1\$ = ₹80      31/3/22 1\$ = ₹85  
 Ignore Dep. Pk Ltd follows Revaluation model on Machinery  
 Fair value on 31/3/22 is \$11000  
 Pass Journal entries for yr ended 31/3/22.

a) 1/12/21 Machinery A/c Dr ₹ 80000  
 To Creditors A/c ₹ 80000  
 (\$ 10000 x 80/\$)  
 ↓  
 Exchange rate on date of transaction



31/3/22

Creditors  $\Rightarrow$  Monetary item  $\Rightarrow$  Remeasurement required  
 Show at closing rate

Exchange loss (P/L) Dr 50000  
 To Creditors 50000  
 (10000 x (85 - 80))

\* Machinery is non-monetary item but revaluation model is followed.

1/12/21 Amt = \$10000 x 80 = 800000  
 31/3/22 Fair value = \$11000 x 85 = 935000  
 135000  $\uparrow$  Inc



Fair value / Revaluation gain

$$(11000 - 10000) \times 80 \text{ (rate on transaction date)} = 80000$$

Exchange gain (B.F)

(Or)

$$11000 (85 - 80) = 55000$$

31/3/22

Machinery A/c Dr 80000  
 To Rev Surplus 80000  
 (OCI - NR)

Q. (2)  
 Q. (14)

Machinery A/c Dr 55000  
 To Rev Surplus 55000  
 (OCI) (NR) (Exchange gain)



# Monetary Items vs Non-Monetary Items

## Monetary Items

Assets or Liabilities which will be settled in fixed or determinable units of currency.

(Meaning: you will receive/pay a known number of currency units—so when exchange rates change, the functional-currency value changes.)

### Example:

- Trade Receivables, Trade Payables, Loan given, Loan taken, Cash & Bank Balance, Employee Benefits Payable, Income Tax Payable, Import Duty Payable,
- Provision for Doubtful Debts, etc.

(Quick reasoning: all of these will finally be settled by paying/receiving a determinable amount of money, so they behave like "money claims/obligations.")

## Non-Monetary Items

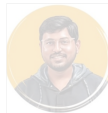
Other than Monetary Items

(Meaning: items that are not a fixed right/obligation to receive/pay currency units—usually real assets, equity items, many prepayments/advances, etc.)

### Example:

PPE, Intangible Assets, Investment Property, Inventories, Deferred Tax Asset/Liability, Prepaid Expense, Income Received in Advance, Share Capital, etc.

(Reasoning: PPE/inventories are goods/assets, not a right to receive a fixed number of currency units; share capital is equity; advances/prepays are typically settled through goods/services rather than cash.)





# Treatment of Monetary Items

**Monetary Items: Remeasured at Closing rate (Exchange rate on Balance sheet date)**

(Don't miss the key exam phrase: closing rate means the exchange rate on the balance sheet date. Example: Trade receivable \$10,000 outstanding at year end → convert using year-end rate.)

**Difference will be Exchange Gain/Loss transferred to P&L.**

(Logic: because monetary items are "money claims," exchange movement creates a real gain/loss in functional currency, so it hits profit or loss. Mini-example: Receivable \$10,000 initially recorded at ₹80 = ₹8,00,000; year-end rate ₹83 = ₹8,30,000 → ₹30,000 exchange gain in P&L.)

# Treatment of Non-Monetary Items

1

2

## Measured at Historical Cost

**No Remeasurement so no exchange difference**

(Reasoning: historical-cost non-monetary items stay at the transaction-date translated amount. Example: PPE bought for \$50,000 when rate ₹82 → recorded at ₹41,00,000 and not retranslated at year end if carried at cost model.)

## Measured at Fair Value (Revaluation Model)

**Remeasured at Exchange rate on Fair Value determination date.**

(Logic: if the carrying amount itself is updated to fair value, you translate that updated fair value using the rate on the date you measured fair value—because that's when the fair value is determined.)

# Exchange Difference on Fair Value Remeasurement

**If Fair Value Gain/Loss tfd to OCI**

Exchange difference tfd to OCI

**If Fair Value Gain/Loss tfd to P&L**

Exchange difference tfd to P&L

(Exam-friendly takeaway: exchange difference follows the same route as the underlying fair value movement. So, if revaluation surplus goes to OCI, the related forex part also goes to OCI; if FV change goes to P&L, the forex part also goes to P&L.)



## Special Points

Certain items require special consideration when dealing with foreign currency transactions. These exceptions ensure that the accounting treatment aligns with the specific measurement requirements of other Indian Accounting Standards.

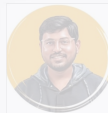
## Inventory purchased in Foreign Currency *(Eg below)*

Inventory purchased in Foreign Currency (Non-Monetary) is measured at year end:

Lower of Cost or NRV as per Ind AS 2 *(after conversion in Functional Currency)*

(Important logic: inventory is non-monetary, but Ind AS 2 requires lower of cost or NRV at year end. Since your books are in functional currency, you compare cost (in functional currency) vs NRV (in functional currency)—and the conversion dates can differ.)

## Cost vs NRV Conversion for Inventory



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### Cost in Foreign Currency

Converted in Functional Currency by using Transaction Date rate (Purchase Date)

(Meaning: cost is locked using the rate on purchase date.)

### NRV in Foreign Currency

Converted in Functional Currency by using Closing rate (NRV determination date)

(Meaning: NRV is a year-end estimate, so convert using the rate relevant on that date—often the closing rate.)

### Mini-example (to cement the rule):

- Cost: \$1,000 bought when  $\$1 = ₹80$  → cost = ₹80,000.
- Year-end NRV: \$900 and closing rate  $\$1 = ₹85$  → NRV = ₹76,500.
- Lower of cost/NRV = ₹76,500 → inventory written down.

## Impairment Loss on Asset purchased in Foreign Currency

Impairment Loss as per Ind AS 36 = Carrying Amount – Recoverable Amount

(Same manner of computation as in case of Inventory above)

(Logic: you again compare two numbers in functional currency, and conversion follows the date relevant to each measure—just like cost vs NRV for inventory.)



# Carrying Amount vs Recoverable Amount Conversion

## Carrying Amount

Transaction Date Exchange Rate

(Meaning: the carrying amount is based on how it was initially recorded—typically transaction-date rate for historical-cost items.)

## Recoverable Amount

Closing Rate (Recoverable Amount determination date)

(Meaning: recoverable amount is measured "now" at impairment testing date, so use that date's rate—often the closing rate.)

**Quick numeric feel:** If an asset was bought \$10,000 at ₹80 → carrying amount ₹8,00,000. If recoverable amount is estimated as \$9,000 at closing rate ₹85 → recoverable amount ₹7,65,000 → impairment loss ₹35,000.

# Loans or Investments Denominated in Foreign Currency

Loans or Investments Denominated in Foreign Currency: Prepare Amortization Table (Ind AS 109)

(Logic: loans/investments are monetary items, and under Ind AS 109 they are measured using effective interest rate (EIR) and amortised cost. When they are in foreign currency, you need an amortisation schedule and then reflect exchange differences as well.)

## Amortization Table Structure

Year	Opening Balance	Interest @ Disc. Rate (EIR)	Actual Payment	Exchange Gain/Loss	Closing Balance
Foreign Currency	XX	XX	XX	XX	XX
Conversion in Functional Currency	XX (Opening rate)	XX (Average rate)	XX (Payment date rate)	(Bal. fig.)	XX (Closing rate)

(How to read the columns: opening balance → apply EIR to compute interest → subtract actual payment (if any) → the remaining becomes closing balance; additionally, because it's foreign currency, you compute/recognise Exchange Gain/Loss due to rate movements.)



# Practical Logic Behind Exchange Rates in Amortization

(Practical exam logic behind the "rates" shown in the format:

- **Opening rate:** translate opening amortised cost at the beginning of the year.
- **Average rate:** often used for interest income/expense for the period (if appropriate as an approximation).
- **Payment date rate:** use actual rate on the cash flow date for payments.
- **Closing rate:** translate closing balance at year end; the difference typically becomes exchange gain/loss because it's a monetary item.)

Eg 1

Inventories

on 1/12/21 Inventory purchased for \$ 2000  
on 31/3/22 NRV is \$ 1900

Exchange rate : 1/12/21 1\$ = ₹ 80  
31/3/22 1\$ = ₹ 85

Inventory : Cost (2000 x 80) = 160000  
NRV (1900 x 85) = 161500

NRV determination rate (closing rate)

lower of Cost / NRV i.e. Cost @ ₹ 160000 (Ind AS 2)

Even if NRV in \$ was lower than Cost, we will compare Cost & NRV after converting in to functional currency.



Eg

Asset Subject to Impairment loss

Machinery purchased from US for \$ 10000 on 1/12/x1

Recoverable amt on 31/3/x2 is \$ 9900

Exchange rate : 1/12/x1 1\$ = ₹ 80

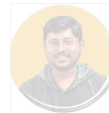
31/3/x2 1\$ = ₹ 85

Ignore Dep.

Machinery

Carrying Amt (10000 x 80) = 800000

Recoverable Amt (9900 x 85) = 841500

No Impairment loss as Recoverable amt > Carrying amount  
(in Functional currency)CA PRASANNA KUMAR  
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Q (16), (18)

## Foreign Operation (Eg below)

It refers to a Subsidiary, Associate, Joint Venture, or Branch of an entity operating in another country.

(Explanation: this is any "overseas unit" of the reporting entity—whether it's controlled (subsidiary/branch) or significant influence/joint control (associate/JV). The key is: it operates in a different country, so currency/environment may differ.)



# When Foreign Operation Shares Parent's Functional Currency

The functional currency of a foreign operation will be the same as that of the parent entity if all the following conditions are met:

(Logic: these conditions test whether the foreign operation is basically just an extension of the parent—so economically it "behaves" like the parent and therefore shares the same functional currency.)

01

## Foreign operation functions as an extension of the parent entity

(Example: it's mainly a sales office/support unit, not an independent business.)

02

## Foreign operation's high proportion of transactions are conducted with parent entity

(Example: most sales/purchases are intercompany, so pricing/cash flows are parent-linked.)

03

## Foreign operation's cash flows can be easily repatriated to the parent entity

(Meaning: cash can be sent upstream without major restrictions—so the parent's currency environment dominates.)

04

## Foreign operation's cash flows are insufficient to independently settle its debt

(Meaning: it depends on the parent to fund/settle obligations—again showing it's not independent.)

# Independent Foreign Operation Functional Currency

If any of these conditions are not met, the foreign operation must determine its functional currency based on primary and secondary indicators discussed earlier.

So if it is more independent—local customers, local costs, local financing—it will likely have its own functional currency based on sales-price/cost/funding/retention indicators

# Translation of Financial Statements of Foreign Operation

## Translation of Financial Statements of Foreign Operation into Presentation Currency of Parent Entity (For Consolidation Purpose)

Since Foreign Operation prepares its Financial Statements in its Functional Currency, therefore for the purpose of Consolidation by Parent Entity, Financial Statements of Foreign Operation is to be translated into Presentation Currency of Parent Entity.

(Explanation: the foreign operation's numbers are prepared in its functional currency. But the parent consolidates in the parent's presentation currency, so you translate line items using the standard translation rules below.)



## Translation Rules: Item-wise Conversion

**Rates** (No checking of Monetary | Non-monetary item, this is translation)   
 Q. (19), (11), (17)   
 Not transaction

Item	Conversion Rate
Assets* & Liabilities	Closing Rate (Exchange Rate on Balance sheet date)
Share Capital, Other Equity, and Opening Retained Earnings	Exchange rate prevailing on Actual transaction date (Sometimes, converted amount directly given)
Profit or Retained Earnings for year (Income & Expense Items)	Average Rate
<b>Exchange Difference Recognized as Foreign Currency Translation Reserve (FCTR) in Other Comprehensive Income (OCI).</b>	

(Explanation blended: because assets/liabilities are translated at closing rate while income/expenses use average and equity uses historical rates, the "plug" difference is not treated as normal P&L forex—rather it is accumulated in OCI as FCTR until disposal rules apply.)

\* Inventory and Assets subject to Impairment Loss: Approach discussed in Special Points.

(Meaning: don't blindly use closing rate for those specific items in all cases—apply the same "special points" logic you saw earlier for inventory NRV and impairment testing, where the relevant measurement date matters.)

## Notes on Translation

Understanding the treatment of Foreign Currency Translation Reserve (FCTR) is critical for proper consolidation and disposal accounting.

## Treatment of FCTR while Preparing CFS

### Parent's Share in FCTR

Shown in Consolidated Other Equity (FCTR) (OCI)

(Logic: parent's portion of the translation reserve sits in consolidated equity through OCI—because it's a consolidation translation reserve.)

### NCI's Share in FCTR

Added to NCI Balance

(Logic: since NCI also owns part of the foreign operation, its share of translation reserve belongs with NCI in consolidated equity.)



# Treatment of FCTR on Disposal of Foreign Operation (Other than Subsidiary)

## Full Disposal

Reclassify Full Balance in FCTR(OCI) to P&L

## Partial Disposal

Reclassify Proportionate Balance in FCTR (OCI) to P&L

(Explanation: "reclassify to P&L" means the cumulative translation reserve that was sitting in OCI is released to profit or loss when you dispose—fully or proportionately—because the investment is being realized.)

# Treatment of FCTR on Disposal of Foreign Operation (Subsidiary)

## Full Disposal (Loss of Control in Foreign Operation)

Reclassify Parent's Share in FCTR(OCI) to P&L

## Partial Disposal (No Loss of Control in Foreign Operation)

Reclassify Parent's Proportionate Share (upto % of stake sold) in FCTR (OCI) to NCI

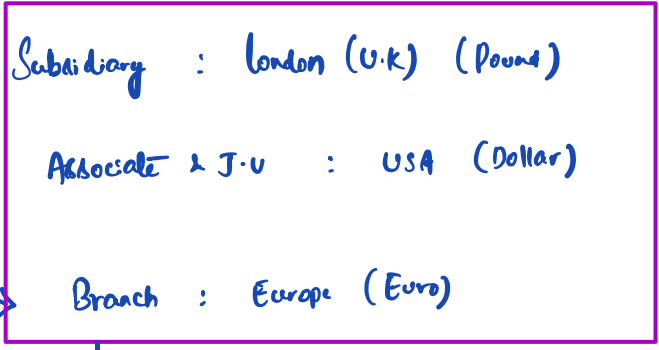
(Quick intuition: If you still control the subsidiary after selling a portion, the foreign operation continues to be consolidated—so instead of "releasing" translation reserve to P&L, you reattribute an appropriate portion from parent to NCI.)

Eg FCTR = 5000  
 ↓  
 Share 80% : 4000  
 NCI 20% : 1000  
 After Sale : 4000 to P/L  
 (Disposal)  
 19, 20

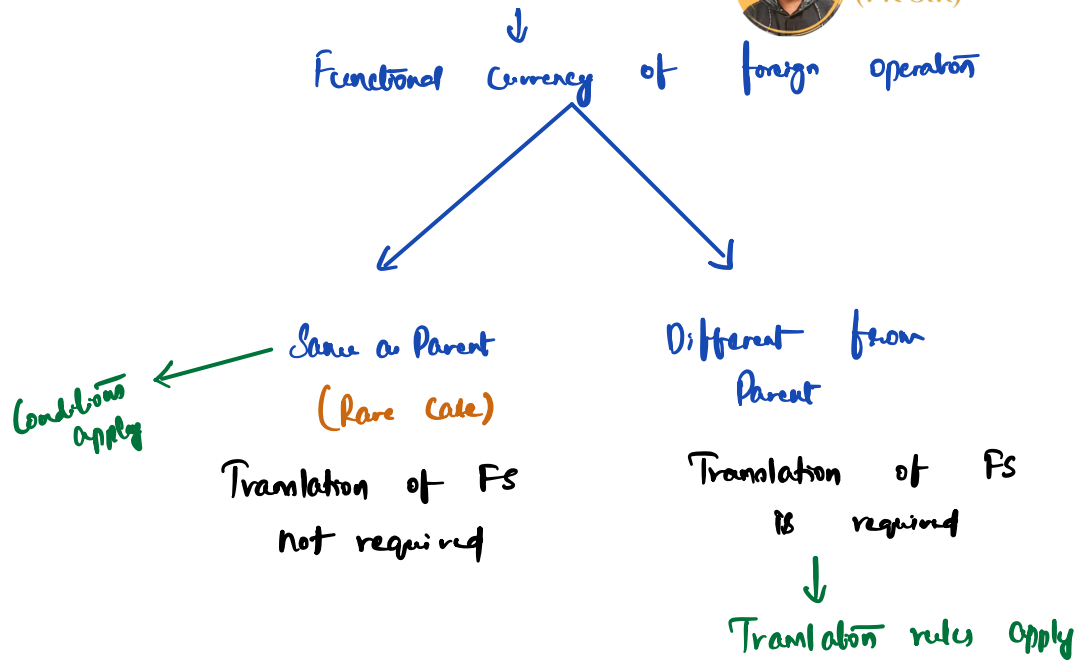
Parent 80% : 4000 NCI 20%  
 (-) Sale (10%) 500 → + 10% (1500)  
 -----  
 70% 30%

## Foreign operation

Parent (India)  
 Functional Currency ₹



Foreign operation



Q. 19, 11, 17

Eg



FS CPS, FS of Subsidiary to be converted from \$ to ₹

After conversion in ₹

Exchange diff on Translation → FCTR (OCI)

Eg

① FCTR : 5000

↓

100% Subsidiary

↓

CFS

Consolidated other Equity

FCTR (OCI) = 5000

② FCTR = ₹ 5000

↓

80% (1. of holding) , 20% NEI

↓

CFS

Consolidated other Equity

FCTR (OCI) (5000 x 80%) 4000

NEI (Existing Amt + 20% of 5000 i.e 1000)



# Goodwill arising from acquisition of foreign operation

Goodwill arising from acquisition of foreign operation is initially measured in functional currency of the foreign operation & subsequently translated using the closing exchange rate (exchange rate on Balance sheet date).

(Blended understanding: goodwill is treated like an asset of the foreign operation. So first, you measure it in that foreign operation's functional currency—because economically it belongs to that operation. Then, at each reporting date, you translate it using the closing exchange rate just like other assets/liabilities translated for consolidation. Practical effect: goodwill carrying amount in parent's presentation currency can move due to exchange rate changes—even without any impairment—because the closing-rate translation changes.)

## Intra-Group Transactions (Eg below)

Transactions between the Parent Entity and its Foreign Operation may involve:

- **Credit Sale/Purchase of Goods resulting in Trade Receivables & Trade Payables.** (Meaning: parent sells to foreign unit (or vice versa) on credit → intercompany receivable/payable arises, and if denominated in foreign currency it creates forex differences.)
- **Long term Loans given by Parent to its subsidiary, resulting in Loan Given & Loan taken.** (Meaning: intercompany loan balances—again typically monetary items, often in a foreign currency.)

## Elimination Rules for Intra-Group Transactions

### Eliminate Intra Group transactions while making CFS as per Ind AS 110

(Logic: consolidation shows the group as one economic entity. So internal balances/transactions (intercompany sales, receivables, loans) are not "real" from the group's perspective and must be eliminated under Ind AS 110.)

### No elimination of Exchange Gain/Loss arising on such transactions

(Important nuance: even though the underlying intercompany balance is eliminated, the exchange gain/loss recognised in each entity's own books represents currency movement effects that remain relevant in consolidation—so Ind AS 21 says don't eliminate that forex impact.)

### It will be recorded in CFS under the same head- P&L or OCI as in SFS

(Meaning: if in the separate financial statements (SFS) the exchange difference went to P&L, it stays in P&L in CFS; if it belongs in OCI in SFS (in some specific cases), it remains in OCI in CFS—same "route".)



## Exception: Intra Group Loan with No Foreseeable Settlement

Intra Group Loan transaction for which settlement is not planned in foreseeable future. Exchange gain/loss on such transaction will be recorded as follows:

(Logic: when an intercompany loan is, in substance, part of the net investment in the foreign operation (because settlement is not planned in the foreseeable future), the exchange differences are treated like translation differences—so they sit in OCI until disposal.)

## Treatment in SFS vs CFS for Long-term Intra-Group Loans

### In SFS

Recognised in P&L A/c, since it is a Monetary Item.

(Reason: in the individual entity's own books, the loan is still a monetary item, so normal rule applies: closing-rate remeasurement → exchange difference in P&L.)

### In CFS

Recorded in OCI & will be reclassified to P&L on Disposal of foreign operation.

(Meaning: at group level, treat that forex movement similarly to FCTR logic—accumulate in OCI and only release to P&L when the foreign operation is disposed.)

## Elimination of Unrealized Profit from Intra-Group Transactions § 15(b)

Eliminate Unrealized Profit arising from such transactions (in case of stock held) in CFS as per Ind AS 110 by converting Profit in Foreign Currency at Exchange rate on Intra Group Transaction Date.

(Explanation + example: if parent sells goods to foreign operation and some inventory is still unsold at year-end, the group hasn't earned that profit externally—so you eliminate the unrealised profit in consolidation. Since the profit may be computed in a foreign currency, you eliminate it after converting at the intra-group transaction date rate (the rate relevant to that profit's creation). Example: parent sold goods at a profit of \$1,000 on the sale date; if inventory remains unsold, eliminate that \$1,000 profit translated at the sale-date rate.)



## \* Translation of Financial Statements of Entity into Presentation Currency

An entity may decide to present its financial statements in a currency other than its functional currency.

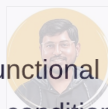
(Meaning: functional currency = business reality; presentation currency = reporting choice. So you can "display" your results in another currency.)

It can happen when Books of Accounts of an entity are maintained in functional currency, but entity is required to submit its financial statements in another currency (i.e. Presentation currency).

(Example: an Indian entity maintains books in INR (functional), but must submit financials to a foreign regulator/group in USD/EUR—so presentation currency differs.)

**Apply same procedure as in case of Translation of Financial Statements of Foreign Operation into Presentation Currency of Parent Entity.**

## Change in Functional Currency



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Once an entity has determined its functional currency, it is not changed unless there is a change in the relevant underlying transactions, events and conditions.

(Logic: functional currency is not a "policy choice" to be changed for convenience; it changes only when the business's economics genuinely change—like sales market, cost base, funding, and cash retention shifting.)

## Accounting for Change in Functional Currency

If circumstances change and a change in functional currency is appropriate, then the change is accounted for prospectively from the date of the change.

(Meaning: you don't restate prior periods under Ind AS 21 here; you apply the new functional currency from the change date onward.)

For accounting, all items are translated into new functional currency using the exchange rate at the date of the change.

(Practical meaning: on the change date, you "reset" the books into the new functional currency using that date's rate—so the new functional-currency amounts become the new baseline going forward.)



### Eg Intra group transaction

Parent PK IIT whose functional currency is \$ & Subsidiary SK IIT  
 whose functional currency is €. Parent PK IIT lends 100 \$ to  
 SK IIT on 30/9/21

Exchange rates 30/9/21 = 1 \$ = 1.5 €

31/3/22 = 1 \$ = 2 €

a)

#### SFS Books of Parent PK (\$)

Since loan is given in \$, so not a foreign currency  
 transaction for PK IIT (Parent)

30/9/21 loan to Subsidiary A/c Dr 100 \$

To Bank A/c 100 \$

31/3/22 NO remeasurement (AS it is not foreign currency transaction)

#### SFS Books of Subsidiary (SK) (€)

Since loan received in \$, so foreign currency transaction  
 for Subsidiary.

30/9/21 Bank A/c Dr 150 €

To loan from Parent 150 €

( 1 \$ = 1.5 € ⇒ 100 \$ ⇒ 100 × 1.5 ⇒ 150 € )

31/3/22 Monetary item : loan from Parent

Remeasurement @ closing rate

Exchange loss (PL) A/c Dr 50

To loan from Parent 50

( 100 (2 - 1.5) ) = 200 - 150 = 50



Subsidiary

(SFS) B/Ls of Parent	SFS	B/Ls (€)
<p style="text-align: center;"><u>\$</u></p> <p>loan to Sub 100</p>	<p>PL (€)</p> <p>Exchange loss 50</p>	<p>loan from Parent 200</p>

FD CFS : Translate Subsidiary FS from € to \$

CFS	B/Ls	Consolidated PL
<p style="text-align: center;"><u>\$</u></p> <p>loan from Parent (1\$ = 2€) 200€ = 100\$</p>	<p style="text-align: center;"><u>\$</u></p> <p>loan to Subsidiary 100</p> <p style="text-align: center;">CA PRASANNA KUMAR (PK SIR)</p> <p>Intra group transaction that should be eliminated</p>	<p>Exchange loss 25\$</p> <p>(50€ converted @ c/g rate since avg rate is missing)</p> <p>→ Should not be eliminated as there is no corresponding item.</p>

This exchange loss of 50 € recorded in

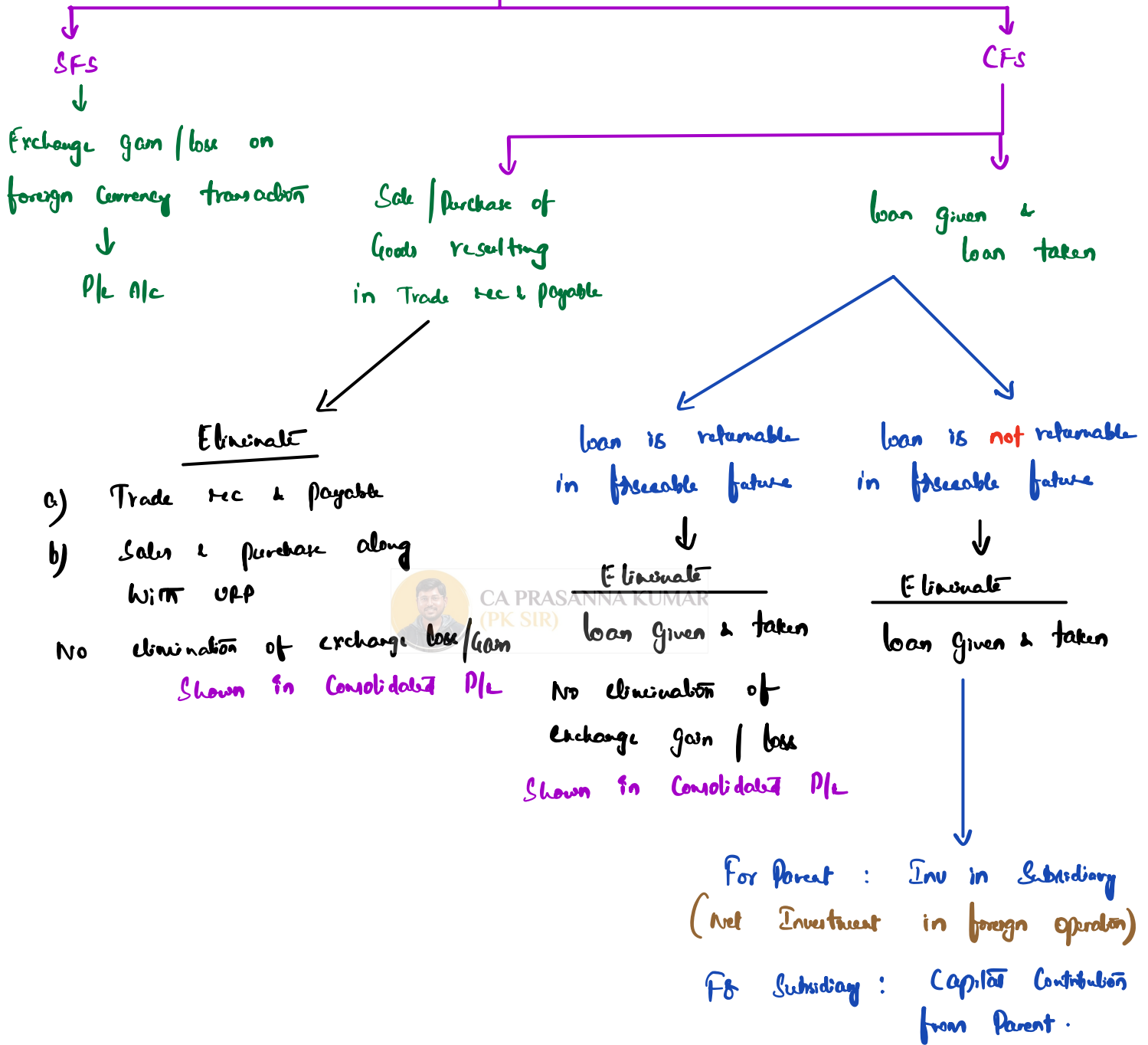
\* Subsidiary PL has no equivalent gain in Parents FS. Therefore Exchange loss of 50 € (after conversion in \$ in CFS) will remain in Consolidated PL.

\* Also 'SK' will need to obtain \$ in order to repay liability so group has foreign currency exposure.

Q 7, 8



Inter group transaction



SUMMARY

No elimination of Exchange gain / loss  
 Normally : Exchange gain / loss → PL A/c  
 Exception : When loan is not returnable } → OCI (R)

No elimination of Exchange gain / loss  
 Shown in Consolidated ~~P/L~~  
 Consolidated OCI (R)

Q.10, Q.15  
★