

Indian Accounting Standard (Ind AS) 21

The Effects of Changes in Foreign Exchange Rates

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Indian Accounting Standard (Ind AS) 21

The Effects of Changes in Foreign Exchange Rates

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

Objective

1 An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

2 The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

Scope

3 This Standard shall be applied

- (a) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of Ind AS 39 *Financial Instruments: Recognition and Measurement*;**
- (b) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or the equity method; and**

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- (c) in translating an entity's results and financial position into a presentation currency.**

4 Ind AS 39 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of Ind AS 39 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

5 This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. Ind AS 39 applies to hedge accounting.

6 This Standard applies to the presentation of an entity's financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with Indian Accounting Standards. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.

7 This Standard does not apply to the presentation in a statement of cash flows of the cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see Ind AS 7 *Statement of Cash Flows*).

Definitions

- 8 The following terms are used in this Standard with the meanings specified:**

***Closing rate* is the spot exchange rate at the end of the reporting period.**

***Exchange difference* is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.**

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Exchange rate is the ratio of exchange for two currencies.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Foreign currency is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

A group is a parent and all its subsidiaries.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

Elaboration on the definitions

Functional currency

9 The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An

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entity considers the following factors in determining its functional currency:

- (a) the currency:
 - (i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
 - (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
- (b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

10 The following factors may also provide evidence of an entity's functional currency:

- (a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.
- (b) the currency in which receipts from operating activities are usually retained.

11 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):

- (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items,

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incurs expenses, generates income and arranges borrowings, all substantially in its local currency.

- (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities
- (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
- (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

12 When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 9 before considering the indicators in paragraphs 10 and 11, which are designed to provide additional supporting evidence to determine an entity's functional currency.

13 An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

14 If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with Ind AS 29 *Financial Reporting in Hyperinflationary Economies*. An entity cannot avoid restatement in accordance with Ind AS 29 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its parent).

Net investment in a foreign operation

15 An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither

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planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs 32 and 33. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

15A The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 15 may be any subsidiary of the group. For example, an entity has two subsidiaries, A and B. Subsidiary B is a foreign operation. Subsidiary A grants a loan to Subsidiary B. Subsidiary A's loan receivable from Subsidiary B would be part of the entity's net investment in Subsidiary B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if Subsidiary A were itself a foreign operation.

Monetary items

16 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

Summary of the approach required by this Standard

17 In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a

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foreign operation (such as a subsidiary or branch)—determines its functional currency in accordance with paragraphs 9–14. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 20–37 and 50.

18 Many reporting entities comprise a number of individual entities (eg a group is made up of a parent and one or more subsidiaries). Various types of entities, whether members of a group or otherwise, may have investments in associates or joint ventures. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 38–50.

19 This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with *Ind AS 27 Consolidated and Separate Financial Statements* to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 38–50.

Reporting foreign currency transactions in the functional currency

Initial recognition

20 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

- (a) buys or sells goods or services whose price is denominated in a foreign currency;

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- (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
- (c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

21 A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

22 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with Indian Accounting Standards. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at the ends of subsequent reporting periods

23 At the end of each reporting period

- (a) foreign currency monetary items shall be translated using the closing rate;
- (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

24 The carrying amount of an item is determined in conjunction with other relevant Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with Ind AS 16 *Property, Plant and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of

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fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.

25 The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories is the lower of cost and net realisable value in accordance with Ind AS 2 *Inventories*. Similarly, in accordance with Ind AS 36 *Impairment of Assets*, the carrying amount of an asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

- (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (ie the rate at the date of the transaction for an item measured in terms of historical cost); and
- (b) the net realisable value or recoverable amount, as appropriate, translated at the exchange rate at the date when that value was determined (eg the closing rate at the end of the reporting period).

The effect of this comparison may be that an impairment loss is recognised in the functional currency but would not be recognised in the foreign currency, or vice versa.

26 When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of exchange differences

27 As noted in paragraph 3 (a) and 5, Ind AS 39 applies to hedge accounting for foreign currency items. The application of hedge accounting requires an entity to account for some exchange differences

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differently from the treatment of exchange differences required by this Standard. For example, Ind AS 39 requires that exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are recognised initially in other comprehensive income to the extent that the hedge is effective.

28 Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise, except:

- (i) exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation as described in paragraph 32;**
- (ii) where an entity exercises the option provided in paragraph 29A in respect of long-term monetary items.**

29 When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period. Paragraph 29A provides an option to recognise unrealised exchange differences arising on translation of certain long-term monetary assets and long-term monetary liabilities from foreign currency to functional currency.

29A An entity may exercise the option in respect of recognition of exchange differences arising on translation of long-term monetary items from foreign currency to functional currency as follows:

- (i) Unrealised exchange differences arising on long-term monetary assets and long-term-term monetary liabilities denominated in a foreign currency shall be recognised directly in equity and accumulated in a separate component

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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. The separate component of equity shall be distinguished from any other component of equity representing any other exchange difference recognised in other comprehensive income and accumulated in equity.

- (ii) The option provided in paragraph 29A(i) is not available for the long-term monetary assets and long-term monetary liabilities during the period they are classified as at fair value through profit or loss in accordance with Ind AS 39, either because they are held for trading or because of their designation as at fair value through profit or loss.
- (iii) The option provided in paragraph 29A(i) shall be exercised for the first time when the exchange difference arising on a long-term monetary asset or a long-term monetary liability mentioned in paragraph 29A(i) is recognised. The option, once exercised, shall be irrevocable and shall be exercised in respect of all the long-term monetary assets and long-term monetary liabilities mentioned in paragraph 29A(i).
- (iv) For the purpose of this paragraph, a monetary asset or a monetary liability shall be treated as long-term, if that asset or liability has a maturity period of twelve months or more from the date of the initial recognition of that asset or liability.

30 When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.

31 Other Indian Accounting Standards require some gains and losses to be recognised in other comprehensive income. For example, Ind AS 16 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognised in other comprehensive income. When such an asset is measured in a foreign currency, paragraph 23(c)

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of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in other comprehensive income.

32 Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 15) shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in accordance with paragraph 48.

33 When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 28. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 28. Such exchange differences are recognised in other comprehensive income in the financial statements that include the foreign operation and the reporting entity (ie financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted for using the equity method).

34 When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 20–26. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items

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are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in functional currency

35 When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

36 As noted in paragraph 13, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.

37 The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously recognised in other comprehensive income in accordance with paragraphs 32 and 39(c) are not reclassified from equity to profit or loss until the disposal of the operation. When the option provided in paragraph 29A is exercised, exchange differences previously recognised directly in equity and accumulated in a separate component of equity in accordance with that paragraph are not transferred to profit or loss immediately on change of the entity's functional currency. They shall continue to be transferred to profit or loss in the manner stated in that paragraph.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

38 An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

39 The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

- (a) assets and liabilities for each balance sheet presented (ie including comparatives) shall be translated at the closing rate at the date of that balance sheet;**
- (b) income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and**
- (c) all resulting exchange differences shall be recognised in other comprehensive income.**

40 For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

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41 The exchange differences referred to in paragraph 39(c) result from:

- (a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate.
- (b) translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of the foreign operation. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to, and recognised as part of, non-controlling interests in the consolidated balance sheet.

42 The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

- (a) all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent balance sheet, except that**
- (b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**

43 When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial

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statements in accordance with Ind AS 29 before applying the translation method set out in paragraph 42, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 42(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with Ind AS 29, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.

Translation of a foreign operation

44 Paragraphs 45–47, in addition to paragraphs 38–43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, proportionate consolidation or the equity method.

45 The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Ind AS 27 and Ind AS 31 *Interests in Joint Ventures*). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss or, if it arises from the circumstances described in paragraph 32, it is recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation. When the option provided in paragraph 29A is exercised, in the consolidated financial statements of the reporting entity, such an exchange difference is directly recognised in equity and disposed of in the manner prescribed in that paragraph.

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46 When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, Ind AS 27 allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with Ind AS 27. The same approach is used in applying the equity method to associates and joint ventures and in applying proportionate consolidation to joint ventures in accordance with Ind AS 28 *Investments in Associates* and Ind AS 31.

47 Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they 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.

Disposal or partial disposal of a foreign operation

48 On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (see Ind AS 1 *Presentation of Financial Statements*).

48A In addition to the disposal of an entity's entire interest in a foreign operation, the following are accounted for as disposals even if the entity

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retains an interest in the former subsidiary, associate or jointly controlled entity:

- (a) the loss of control of a subsidiary that includes a foreign operation;
- (b) the loss of significant influence over an associate that includes a foreign operation; and
- (c) the loss of joint control over a jointly controlled entity that includes a foreign operation.

48B On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to profit or loss.

48C On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

48D A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 48A that are accounted for as disposals.

49 An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised in other comprehensive income is reclassified to profit or loss at the time of a write-down.

Tax effects of all exchange differences

50 Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects. Ind AS 12 *Income Taxes* applies to these tax effects.

Disclosure

51 In paragraphs 53 and 55–57 references to ‘functional currency’ apply, in the case of a group, to the functional currency of the parent.

52 An entity shall disclose:

- (a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with Ind AS 39;
- (b) net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period; and
- (c) net exchange differences recognised directly in equity and accumulated in a separate component of equity in accordance with paragraph 29A, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

53 When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.

54 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact, the

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reason for the change in functional currency and the date of change in functional currency shall be disclosed.

55 When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with Indian Accounting Standards only if they comply with all the requirements of each applicable Standard including the translation method set out in paragraphs 39 and 42.

56 An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 55. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with Indian Accounting Standards and the disclosures set out in paragraph 57 are required.

57 When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 55 are not met, it shall:

- (a) clearly identify the information as supplementary information to distinguish it from the information that complies with Indian Accounting Standards;
- (b) disclose the currency in which the supplementary information is displayed; and
- (c) disclose the entity's functional currency and the method of translation used to determine the supplementary information.

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard 21

This appendix lists the appendix which is a part of another Indian Accounting Standard and makes reference to Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*.

1. Appendix D *Hedges of a Net Investment in a Foreign Operation* contained in Ind AS 39, *Financial instruments: Recognition and Measurement* makes reference to this Standard also.

Appendix B

This Appendix accompanies, but is not part of Ind AS 21.

Example illustrating paragraph 14

Entity P has a subsidiary Entity S. Functional currencies of Entities P and S determined in accordance with Ind AS 21 are Rupee and CU respectively. Further, currency CU is determined as currency of a hyperinflationary economy within the meaning of Ind AS 29. The financial statements of Entity S should be restated in accordance with Ind AS 29. This requirement cannot be avoided, for example, by adopting Rupee as the functional currency of Entity S.

Example illustrating impairment loss in paragraph 25

Entity A's functional currency is Rupee. It has a building located in US acquired at a cost of US\$ 10,000 when the exchange rate was US\$ 1= Rs. 50. The building is carried at cost in the financial statements of Entity A. For the purpose of this example depreciation is ignored. At the balance sheet date, there is an indication of impairment for this building. Consequently, an impairment test has been made in accordance with Ind AS 36 as at the balance sheet date and the recoverable amount of the building is determined to be US\$ 9,500. The exchange rate as at the balance sheet date is US\$ 1=Rs. 53.

	Rs.
Cost translated at the exchange rate on the date of acquisition-US\$10,000 @Rs. 50 per US\$	500,000
Recoverable amount translated at the exchange rate on the balance sheet date-US\$9,500 @ Rs. 53 per US\$	503,500

Though there is an impairment loss of US\$ 500 (US\$10,000-US\$9,500) in terms of foreign currency, there is no impairment loss in terms of functional currency. This is because, recoverable amount in terms of

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functional currency (Rs. 503,500) exceeds carrying amount (ie cost in this example) in terms of functional currency (Rs. 500,000). Hence, no impairment loss is recognised for the building.

Example illustrating paragraph 33

Entity P has a foreign subsidiary Entity S1. The functional currencies of Entities P and S1 are Rupee and US\$ respectively. Both the entities follow financial year as accounting year. Accounting Year of both the entities ends on March 31. The presentation currency for Entity P's separate as well as consolidated financial statements is Rupee.

In all the following situations, it is assumed that the loan forms part of the entity's net investment in the foreign operation.

Situation 1:

Entity S1 owes to Entity P US\$1,000 towards a loan obtained some years back. Exchange rates as at 31 March 20X0 and 31 March 20X1 were US\$ 1=Rs. 48 and US\$ 1=Rs. 50 respectively.

In the above situation, in the individual financial statements of Entity S1, no exchange difference arises on the loan since it is denominated in its own functional currency.

In the separate financial statements of Entity P, an exchange gain of Rs. 2,000 arises as shown below:

	Rs.
Loan asset of US\$1,000 translated	
@ exchange rate as at 31 March 20X1 (Rs. 50 per US\$)	50,000
@ exchange rate as at 31 March 20X0 (Rs. 48 per US\$)	48,000
Exchange gain	2,000

In the consolidated financial statements of Entity P, the exchange gain of Rs. 2,000 will be recognised in other comprehensive income and accumulated in equity.

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Situation 2:

Entity S1 owes to Entity P Rs. 48,000 towards a loan obtained some years back. For the purpose of this example, it is assumed that the use of the average exchange rate provides a reliable approximation of the spot rates during the year. Exchange rates as at 31 March 20X0 and 31 March 20X1 were US\$ 1=Rs. 48 and US\$ 1=Rs. 50 respectively. Average exchange rate during the financial year ending 31 March 20X1 was US\$ 1=Rs. 49.

In the above situation, in the separate financial statements of Entity P, no exchange difference arises on the loan since it is denominated in its own functional currency.

In the individual financial statements of Entity S1, an exchange gain of US\$40 arises as shown below:

	US\$
Loan liability of Rs. 48,000 translated	
@ exchange rate as at 31 March 20X1 (Rs. 50 per US\$)	960
@ exchange rate as at 31 March 20X0 (Rs. 48 per US\$)	1,000
Exchange gain	40

After translating the financial statements of Entity S1 into Rupees in accordance with paragraphs 38-47 of Ind AS 21, in the consolidated financial statements of Entity P, the exchange gain in terms of Rupee corresponding to US\$40 i.e. Rs. 1,960 (US\$40 @ Rs. 49)' will be recognised in other comprehensive income and accumulated in equity.

Situation 3:

Entity S1 owes to Entity P •1,000 towards a loan obtained some years back.

Exchange rates:

As at 31 March 20X0
•1=Rs. 60
•1=US\$1.3

As at 31 March 20X1
•1=Rs. 61
•1=US\$.1.4

The Effects of Changes in Foreign Exchange Rates

Average exchange rate between US\$ and Rupee during the financial year ending 31 March 20X1 was US\$ 1= Rs. 45. For the purpose of this example, it is assumed that the use of the average exchange rate provides a reliable approximation of the spot rates during the year.

In the separate financial statements of Entity P, an exchange gain of Rs. 1,000 arises as shown below:

	Rs.
Loan asset of •1,000 translated	
@ exchange rate as at 31 March 20X1(Rs. 61 per •)	61,000
@ exchange rate as at 31 March 20X0(Rs. 60 per •)	60,000
Exchange gain	1,000

In the consolidated financial statements of Entity P, the exchange gain of Rs. 1,000 will be recognised in other comprehensive income and accumulated in equity.

In the individual financial statements of Entity S1, an exchange loss of US\$100 arises as shown below:

	US\$
Loan liability of •1,000 translated	
@ exchange rate as at 31 March 20X1(US\$1.4 per •)	1,400
@ exchange rate as at 31 March 20X0(US\$1.3 per •)	1,300
Exchange loss	100

After translating the financial statements of Entity S1 into Rupees in accordance with paragraphs 38-47 of Ind AS 21, in the consolidated financial statements of Entity P, the exchange loss in terms of Rupee corresponding to US\$100 ie Rs. 4,500 (US\$100 @ Rs. 45) will be recognised in other comprehensive income and accumulated in equity.

Example illustrating paragraph 37

Right from inception, Entity A's functional currency has been Rupee. It has one foreign operation with Euro as its functional currency. As a result of change in circumstances affecting the operations of the entity, the management determines that with effect from 1 January 20X1, the entity's functional currency will be US\$. The exchange rate on that date is US\$ 1=Rs. 50. On that date, the carrying amount of inventories carried at cost in terms of previous functional currency is Rs. 100,000. The entity has previously recognised in other comprehensive income exchange differences arising on translation of its foreign operation and accumulated in equity as Foreign Currency Translation Reserve ('FCTR'). The accumulated FCTR as at 1 January 20X1 in terms of the previous functional currency is Rs. 50,000. There is no change in the functional currency of the foreign operation. The entity follows calendar year as accounting year.

Entity A shall apply the translation procedures applicable to the new functional currency ie US\$ prospectively from the date of change in functional currency. Accordingly, all items in its balance sheet as at 1 January 20X1 are translated into US\$ at the exchange rate of US\$ 1 = Rs. 50.

The carrying amount of the inventories as at 1 January 20X1 in terms of the new functional currency will be US\$2,000 (Rs. 100,000 translated @ Rs. 50 per US\$). US\$2,000 will be the historical cost of the inventories. This will be so even if the inventories were acquired prior to 1 January 20X1.

The accumulated FCTR as at 1 January 20X1 in terms of the new functional currency will be US\$1,000 (Rs. 50,000 translated @ Rs. 50 per US\$). This amount is not reclassified from equity to profit or loss until the disposal of the foreign operation.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences between Indian Accounting Standard (Ind AS) 21 and the corresponding International Accounting Standard (IAS) 21, The Effects of Changes in Foreign Exchange Rates.

Comparison with IAS 21, *The Effects of Changes in Foreign Exchange Rates*

1 The transitional provisions given in IAS 21 have not been given in the Ind AS 21, since all transitional provisions related to Indian ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

2 Ind AS 21 permits an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity. In this situation, Ind AS 21 requires the accumulated exchange differences to be transferred to profit or loss in an appropriate manner. IAS 21 does not permit such a treatment. Consequentially a new paragraph 29A has been added in Ind AS 21 as compared to IAS 21.

3 Consequent to the optional treatment prescribed for some exchange differences (as mentioned in 2 above), an additional disclosure has been added in paragraph 52 of Ind AS 21.

4 Appendix containing examples illustrating application of paragraphs 14, 25, 33 and 37 have been added in Ind AS 21.

5 When there is a change in functional currency of either the reporting currency or a significant foreign operation, IAS 21 requires disclosure of that fact and the reason for the change in functional

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currency. Ind AS 21 requires an additional disclosure of the date of change in functional currency.

6 Different terminology is used in this Standard e.g., the term 'balance sheet' is used instead of 'Statement of financial position'.