

January 2012

AS 11: The Effects of Changes in Foreign Exchange Rates Recent Developments AMENDMENT MADE IN AS- 11 PARA 46A(1)

“MCA extends the date of applicability of treatment in respect of “AS-11” allowing the option to capitalize certain foreign exchange fluctuations”

The Ministry of Corporate Affairs (generally referred to as MCA) gave the accounting fraternity two notifications just before the New Year’s Eve as a New Year gift.

Accounting Standard 11 deals with accounting for and reporting of transactions denominated in foreign currency. The last full-scale revision of this Standard was made by the ICAI in 2003. Since then, in the later five years and until March 2009, companies were required to record and report the amount of foreign currency denominated receivables or loans using the exchange rate of the rupee against the foreign currency on the recording or reporting date, as applicable. Because exchange rates are unlikely to be the same on these dates, the resultant differences (foreign exchange gains/losses) at the end of each accounting period were required to be recognized in the Profit & Loss Account.

The 2008 turmoil in global financial markets saw new lows for the INR. Pressure mounted on government from the corporates who were to book heavy losses on account of rupee depreciation. The MCA made an attempt to modify the prevailing AS 11. The government on the last day of financial year 2008-09 came out with a notification – with the following relaxation

- A. Exchange differences arising on reporting of “Long Term Foreign Currency Monetary Items” (LTFCMI) at the end of each accounting period, to the extent they are related to acquisition of depreciable capital assets – can be added to or deducted from that asset and depreciation also calculated accordingly.
- B. In case of other LTFCMI, such differences would be accumulated in a balance sheet account Foreign Currency Monetary Item Translation Difference Account (FCMITDA) and amortized over the life of such long-term asset or liability.

These treatments were initially allowed up to 31st March 2011 and later up to 31st March 2012 (vide MCA notification dated 11th May 2011). LTFCMI covered balance sheet items like long term debt, creditors and loans & advances with original life of 12 months or more. The above notification, allowed retrospective reinstatement of accounts from December 2006, at the option of the company. A number of companies with

long-term foreign currency liabilities exercised the option, in order to avoid accounting losses resulting from INR depreciation.

Over the last six months, foreign exchange markets have worsened taking INR to 50+ levels against the USD; forcing companies to declare heavy foreign exchange losses for the quarter ended September 2011.

In view of the steep depreciation of INR, the MCA has further extended the relief granted for valuation adjustment; vide Notification dated 29 December 2011, till 31st March 2020. AS 11, however, would continue to apply to short-term foreign currency cash flows (with maturity less than 1 year), which will be marked-to-market at closing rates as at quarter-end / year-end.

Source: mca.gov.in

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