



IAS 21 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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Effective Date Periods beginning on or after 1 January 2005

OBJECTIVE

Its objective is to state:
 How to include foreign currency transactions and foreign operations in the financial statements. (**Functional Currency**)
 How to translate the amounts to **presentation currency**.

DEFINITIONS

Functional Currency- (Entity needs to determine it).
 Currency in the primary economic environment in which the entity operates.

Presentation Currency- (Entity can select it).
 Currency in which the financial statements are presented.

How to report foreign currency transactions in the FUNCTIONAL CURRENCY.

Initially

Spot Exchange rate at the date of transaction.

Subsequently

Monetary Items	=> Closing Rates.
Non- Monetary Items at historical cost	=> Historical Rates.
Non- Monetary items at fair value	=> Rate at the date when FV was measured.

How to Present Differences

In Profit or Loss **Except For**
 Non- Monetary items through Other comprehensive Income.(OCI)
 Net investments in the foreign operations
 ↙ ↘
 Profit or Loss OCI

How to report foreign operation's Financial Statements to the PRESENTATION CURRENCY

Assets(including goodwill)and liabilities => Closing Rate	
Income, expenses, OCI	=> Historical Rates.
Share capital/ Equity items	=> Not specified.

Net Investment in foreign operations

How to Present Differences

In equity as Currency Translation Difference. (CTD)

ILLUSTRATIVE DISCLOSURE

ABC is a dollar based company and has the following transaction in foreign currency during the current year.

ABC sold goods for on £10,000 1ST January 2018 and the receipts will be in pounds. Receivables were collected on 30 April 2018. The spot exchange rates were as follows:

1st January 2018-£0.60

1st February 2018- £0.65

31st March- £0.75

30th April- £0.85

Date of transaction:1st January 2018

£10,000 /.60= \$16667

Reporting date: 31st march 2010

£10,000 /.75= \$13333

Loss because of exchange rate 3334 (16667-13333)

Entry will be : Debit: Profit loss a/c 3334

Credit: Receivables a/c 3334

After the reporting date the receivables are re-translated using spot rate and profit /loss charged to P/L.

£10,000 /.80= \$12500

Cash a/c- \$12500

Profit /loss-\$ 833

to receivables- \$13333