

Chapter: Accounting for Foreign Currencies AS 11

Foreign exchange accounting involves the recordation of transactions in currencies other than one's functional currency. For example, a business enters into a transaction where it is scheduled to receive a payment from a customer that is denominated in a foreign currency, or to make a payment to a supplier in a foreign currency. On the date of recognition of each such transaction, the accountant records it in the functional currency of the reporting entity, based on the exchange rate in effect on that date. If it is not possible to determine the market exchange rate on the date of recognition of a transaction, the accountant uses the next available exchange rate.

If there is a change in the expected exchange rate between the functional currency of the entity and the currency in which a transaction is denominated, record a gain or loss in earnings in the period when the exchange rate changes. This can result in the recognition of a series of gains or losses over a number of accounting periods, if the settlement date of a transaction is sufficiently far in the future. This also means that the stated balances of the related receivables and payables will reflect the current exchange rate as of each subsequent balance sheet date.

Definitions:

1. Domestic currency/reporting currency: Currency of reporting country or currency used in presenting the financial statements.
2. Foreign currency: Currency other than domestic currency
3. Exchange rate: Rate at which currencies of two countries are exchanged.
4. Opening rate: Exchange rate in the beginning of the year
5. Closing rate: Exchange rate at the end of the year
6. Average rate: It is the mean of opening and closing rate
7. Monetary items: Money held and assets and liabilities to be received or paid
8. Non-monetary item: Items other than monetary items

