

FOREIGN CURRENCY TRANSACTION

Important Terms :-

Reporting currency :- It means the currency of country in which the company is situated. It is also called as local currency.

Foreign currency :- Any currency other than local currency.

Exchange rate :- It is ratio between foreign currency and local currency.

Spot rate :- It is an exchange rate on the date of transaction.

Closing rate :- It is an exchange rate at the end of accounting year.

Types of transactions

- a) Import (purchase of goods)
- b) Export (sale of goods)
- c) Import of fixed asset
- d) Loan given or taken
- e) Etc.

Accounting Standard-11:- Monetary items must be revalued at the end of the accounting year.

Monetary item means those items where amount are **receivable or payable** are **fixed under contract**. for example Debtors, Creditors, Bills receivable, Bills payable, Loan given, Loan taken, Bank balance etc.

Non monetary item should not be revalued at the end of accounting year. for example fixed assets, investment, stock etc.

Accounting treatment :-

A) Cash transactions :- This transaction must be recorded at spot rate only and there is no profit or loss due to foreign exchange fluctuation.

B) Credit transactions :-

1) Completed within the same year

Profit or loss due to foreign exchange fluctuations will arise on the date of receipt or payment. Revaluation at the end of year is not required.

2) Completed in the next accounting year

Profit or loss due to foreign exchange fluctuations will arise on the date of receipt or payment. Revaluation of the party's account at the end of accounting year must be done.