

Effect of foreign currency movement on financial statements

M.S.P.K.Mathalage & W.M.H.N. Wijekoon
smathalage@gmail.com&nisansala@kln.ac.lk

Introduction

This report includes descriptively an accounting issue and the analysis of that issue. Relevant areas of issue were identified and recommendations were given according to the applicable accounting standard. Main consideration was LKAS applications when analyzing this issue. This analysis has considered also about the accounting treatments of the other countries regarding the particular issue and compared those accounting treatments with LKASs. Similarities and differences between LKASs with, US GAAP and Ind GAAP were also analyzed.

Discussion of the issue

Madura (Pvt) Ltd had engaged in foreign currency transactions such as sales and purchases and transactions has been recorded initially by applying spot rate at the date of the transactions. But the company has not reported foreign currency items using closing rate at end of the accounting period.

Applicable accounting standard

Effects of changes in foreign exchange rates (LKAS 21)

Subsequent Recognition

- Foreign currency monetary items should translate using the closing rate at the end of each reporting period.

- The Non-monitory items that are measured at fair value in a foreign currency should translate using the exchange rates at the date when the fair value was determined.

Exchange Differences

- Arising on the settlement or translating on monitory items should recognize in profit or loss in the period.
- Arising on a non-monitory item(Gain or loss is recognized in other comprehensive income)should recognized directly in other comprehensive income.
- Arising on a non-monitory itemshould recognize in profit or loss in the period.

Comparison with International GAAPs

US GAAP and IFRS require foreign currency transactions to be recalculated into an entity's functional currency with amounts resulting from changes in exchange rates reported in income. 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 currency. In Ind AS 21 requires an additional disclosure of the date of change in functional currency.

Implications of the issue

- The balance of the foreign currency of the company will not be the correct amount.
- They have not identified the profit or loss arising from exchange differences. That is affecting directly to the equity of the shareholders and to the tax portion of the company.

Conclusions and Recommendations

- According to the above standard the company should assess their monetary terms according to the spot rate at the balance sheet date same as recognition date.
- The exchange difference should transfer to the statement comprehensive of the period.