ED/AS21/2020/11

Exposure Draft

Accounting Standard (AS) 21

The Effects of Changes in Foreign Exchange Differences

Last date for the comments: December 3, 2020

Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 21, *The Effects of Changes in Foreign Exchange Rates*

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, are applicable to the specified class of companies. Accounting Standards notified under Companies (Accounting Standards) Rules, 2006, and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, such as, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI), NACAS[1] and the Ministry of Corporate Affairs (MCA), it has been decided to revise the Accounting Standards. Accordingly, the Accounting Standards Board of ICAI has initiated the process of upgradation of these standards which will be applicable to the entities to whom Ind AS are not applicable. While formulating these Standards, It was decided to maintain the consistency with the numbering of Standards of the Ind AS.

In the above background, the ASB has finalised AS 21, *The Effects of Changes in Foreign Exchange Rates,* taking AS 11, *The Effects of Changes in Foreign Exchange Rates,* notified by MCA as the base. Major differences between draft of revised AS 21 and Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, are included in the Appendix 1 of the Standard. Major differences between draft of revised AS 21 and AS 11 are given in Appendix 2 of the Standard.

This is the Exposure Draft of the revised Accounting Standard (AS) 21, *The Effects of Changes in Foreign Exchange Rates*, issued by the ASB, for comments. AS 21 refers to provisions of various revised AS which are under formulation.

The ASB invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment:
Comments can be submitted using one of the following methods so as to receive not later than ***December 3, 2020.***

Electronically:	click on http://www.icai.org/comments/asb/to submit comments online
Email:	Comments can be sent at commentsasb@icai.in
Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

[1]Prior to the constitution of National Financial Reporting Authority (NFRA) on October 1, 2018, NACAS was advisory/recommendatory body to MCA for prescribing Accounting Standards under Section 133 of the Companies Act, 2013.

Accounting Standard (AS) 21

The Effects of Changes in Foreign Exchange Rates

[This Accounting Standard includes paragraphs set in ***bold*** *type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.]*

Objective

An entity may carry on activities involving foreign exchange in two ways. It may have transactions in foreign currencies or it may have foreign operations. In order to include foreign currency transactions and foreign operations in the financial statements of an entity, transactions must be expressed in the entity's presentation currency and the financial statements of foreign operations must be translated into the entity's presentation currency.

The principal issues in accounting for foreign currency transactions and foreign operations are to decide which exchange rate to use and how to recognise in the financial statements the financial effect of changes in exchange rates.

Scope

1. **This Standard shall be applied:**

   (a) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of AS 109, ***Financial Instruments*****;**

   (b) in translating the results and financial position of foreign operations.

2. AS 109 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of AS 109 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard.

3. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of an entity investment in a foreign operation. AS 109 applies to hedge accounting.

4. This Standard does not apply to the presentation in a statement of cash flow of the cash flows arising from transactions in a foreign currency or to the translation of cash flows of a foreign operation (see AS 7, *Statement of Cash Flows*).

5. An entity may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first revised AS financial reporting period, as per the previous GAAP.

6. This Standard does not specify the currency in which an entity presents its financial statements. However, an entity normally uses the currency of the country in which it is domiciled. If it uses a different currency, this Standard requires disclosure of the reason for using that currency. This Standard also requires disclosure of the reason for any change in the presentation currency.

7. This Standard does not deal with the restatement of an entity's financial statements from its presentation currency into another currency for the convenience of users accustomed to that currency or for similar purposes.

8. This Standard does not deal with exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs (see paragraph 7(c) of AS 23, Borrowing Costs).

Definitions

9. The following terms are used in this Standard with the meanings specified.

Average rate **is the mean of the exchange rates in force during a period.**

Closing rate **is the spot exchange rate at end of the reporting period.**

Exchange difference **is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.**

Exchange rate **is the ratio for exchange of two currencies.**

Fair value **is the value as defined in AS 113,** ***Fair Value Measurements*****.**

Foreign currency **is a currency other than the presentation currency of an enterprise.**

Foreign operation **is an entity that is a subsidiary' associate, joint arrangement or for branch of a reporting entity the activities of which are based or conducted in a country other than those of the reporting entity.**

Integral foreign operation **is a foreign operation' the activities of which are an integral part of those of the reporting entity.**

Monetary items **are money held and assets and liabilities to be received or paid in fixed or determinable amounts of units of currency.**

Net investment in a non-integral foreign operation **is the reporting entity's share in the net assets of that operation.**

Non-integral foreign operation **is a foreign operation that is not an integral foreign operation.**

Non-monetary items **are assets and liabilities other than monetary items.**

Presentation currency **is the currency used in presenting the financial statements.**

Spot exchange rate **is the exchange rate for immediate delivery.**

Monetary items

10. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non- monetary asset.

Foreign Currency Transactions

Initial Recognition

11. A foreign currency transaction is a transaction which is denominated or requires settlement in a foreign currency, including transactions arising when an entity :

    (a) buys or sells goods or services whose price is denominated in a foreign currency;

    (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

    (c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

12. A foreign currency transaction shall be recorded, on initial recognition in the presentation currency, by applying to the foreign currency amount the spot exchange rate between the presentation currency and the foreign currency at the date of the transaction.

13. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with Accounting Standards. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at the ends of subsequent reporting periods

14. At the end of each reporting period:

(a) **foreign currency monetary items shall be presented using the closing rate. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in presentation that is likely to be realized from, or required to disburse, a foreign currency monetary item at the balance sheet date, e.g., where there are restrictions on remittances and it is not possible to effect an exchange of currencies at that rate at the balance sheet date. In such circumstances, the relevant monetary item shall be presented in presentation currency at the amount which is likely to be realised from, or required to disburse, such item at the end of each reporting period;**

(b) **non-monetary items which are carried in terms of historical cost denominated in a foreign currency shall be presented using the exchange rate at the date of the transaction; and**

(c) **non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency shall be presented using the exchange rates that existed when the values were determined.**

15. Cash, receivables, and payables are examples of monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items. The carrying amount of an item is determined in accordance with the relevant Accounting Standards. For example, certain assets may be measured at fair value or other similar valuation (e.g., net realisable value) or at historical cost. Whether the carrying amount is determined based on fair value or other similar valuation or at historical cost, the amounts so determined for foreign currency items are then presented in the presentation currency in accordance with this Standard. The contingent liability denominated in foreign currency at the end of the reporting period is disclosed by using the closing rate.

Recognition of Exchange Differences

16. Exchange differences arising on the settlement of monetary items or on presenting an entity's monetary items at rates different from those at which they were initially recorded during the period, or presented in previous financial statements, shall be recognised in profit or loss as income or as expenses in the period in which they arise, with the exception of exchange differences dealt with in accordance with paragraph 20.

17. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the period of settlement is determined by the change in exchange rates during each period.

18. **When a gain or loss on a non-monetary item is recognised in any specific reserve, any**

exchange component of that gain or loss shall be recognised in that specific reserve. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.

19. Other ASs require some gains and losses to be recognised in specific reserve(s). For example, AS 16 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognised in shareholder's funds /Capital and Reserve under the heading revaluation surplus .When such an asset is measured in a foreign currency, paragraph 14(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in shareholder's funds /Capital and Reserve.

Net Investment in a Non-integral Foreign Operation

20. **Exchange differences arising on a monetary item that forms part of an entity's net investment in a non-integral foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g., consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in Foreign Currency Translation Reserve and reclassified to profit or loss on disposal of the net investment in accordance with paragraph 36.**

21. An entity may have a monetary item that is receivable from, or payable to, a non-integral foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension to, or deduction from, the entity's net investment in that non-integral foreign operation. Such monetary items may include long-term receivables or loans but do not include trade receivables or trade payables.

Financial Statements of Foreign Operations
Classification of Foreign Operations

22. The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to the reporting entity. For this purpose, foreign operations are classified as either "integral foreign operations" or "non-integral foreign operations".

23. A foreign operation that is integral to the operations of the reporting entity carries on its business as if it were an extension of the reporting entity's operations. For example, such a foreign operation might only sell goods imported from the reporting entity and remit the proceeds to the reporting entity. In such cases, a change in the exchange rate between the presentation currency and the currency in the country of foreign operation has an almost immediate effect on the reporting entity's cash flow from operations. Therefore, the change in the exchange rate affects the individual monetary items held by the foreign operation rather than the reporting entity's net investment in that operation.

24. In contrast, a non-integral foreign operation accumulates cash and other monetary items, incurs expenses, generates income and perhaps arranges borrowings, all substantially in its local currency. It may also enter into transactions in foreign currencies, including transactions in the presentation currency. When there is a change in the exchange rate between the presentation currency and the local currency, there is little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting entity. The change in the exchange rate affects the reporting entity's net investment in the non-integral foreign operation rather than the individual monetary and non-monetary items held by the non-integral foreign operation.

25. The following are indications that a foreign operation is a non-integral foreign operation rather than an integral foreign operation:

(a) while the reporting entity may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting entity;

(b) transactions with the reporting entity are not a high proportion of the foreign operation's activities;

(c) the activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting entity;

(d) costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency rather than in the presentation currency;

(e) the foreign operation's sales are mainly in currencies other than the presentation currency;

(f) cash flows of the reporting entity are insulated from the day-to-day activities of the foreign operation rather than being directly affected by the activities of the foreign operation;

(g) sales prices for the foreign operation's products are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation; and

(h) there is an active local sales market for the foreign operation's products, although there also might be significant amounts of exports.

The appropriate classification for each operation can, in principle, be established from factual information related to the indicators listed above. In some cases, the classification of a foreign operation as either a non-integral foreign operation or an integral foreign operation of the reporting entity may not be clear, and judgement is necessary to determine the appropriate classification.

Integral Foreign Operations

26. The financial statements of an integral foreign operation shall be translated using the principles and procedures in paragraphs 11 to 21 as if the transactions of the foreign operation had been those of the reporting entity itself.

27. The individual items in the financial statements of the foreign operation are translated as if all its transactions had been entered into by the reporting entity itself. The cost and depreciation of Property, Plant and Equipment is translated using the exchange rate at the date of purchase of the asset or, if the asset is carried at fair value or other similar valuation, using the rate that existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when those costs were incurred. The recoverable amount or realisable value of an asset is translated using the exchange rate that existed when the recoverable amount or net realisable value was determined. For example, when the net realisable value of an item of inventory is determined in a foreign currency, that value is translated using the exchange rate at the date as at which the net realisable value is determined. The rate used is therefore usually the closing rate. An adjustment may be required to reduce the carrying amount of an asset in the financial statements of the reporting entity to its recoverable amount or net realisable value even when no such adjustment is necessary in the financial statements of the foreign operation. Alternatively, an adjustment in the financial statements of the foreign operation may need to be reversed in the financial statements of the reporting entity.

28. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is unreliable.

Non-integral Foreign Operations

29. In translating the financial statements of a non-integral foreign operation for incorporation in its financial statements' the reporting entity shall use the following procedures:

- ***(a)*** **the assets and liabilities' both monetary and non-monetary' of the non-integral foreign operation shall be translated at the closing rate;**

- ***(b)*** **income and expense items of the non-integral foreign operation shall be translated at exchange rates at the dates of the transactions; and**

- ***(c)*** **all resulting exchange differences shall be accumulated in a foreign currency translation reserve until the disposal of the net investment.**

30. For practical reasons, a rate that approximates the actual exchange rates, for example an average rate for the period, is often used to translate income and expense items of a foreign operation.

31. The translation of the financial statements of a non-integral foreign operation results in the recognition of exchange differences arising from:

(a) translating income and expense items at the exchange rates at the dates of transactions and assets and liabilities at the closing rate;

(b) translating the opening net investment in the non-integral foreign operation at an exchange rate different from that at which it was previously reported; and

(c) other changes to equity in the non-integral foreign operation.

These exchange differences are not recognised as income or expenses for the period because the changes in the exchange rates have little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting entity. When a non-integral foreign operation is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and reported as part of, the minority interest in the consolidated balance sheet.

32. Any goodwill or capital reserve arising on the acquisition of a non-integral foreign operation is translated at the closing rate in accordance with paragraph 29.

33. A contingent liability disclosed in the financial statements of a non-integral foreign operation is translated at the closing rate for its disclosure in the financial statements of the reporting entity.

34. The incorporation of the financial statements of a non-integral foreign operation in those of the reporting entity follows normal consolidation procedures, such as the elimination of intra-group balances and intra-group transactions of a subsidiary (see AS 27, *Consolidated Financial Statements and Separate Financial Statements*, and AS 111, *Joint Arrangements*). However, an exchange difference arising on an intra-group monetary item, whether short-term or long-term, cannot be eliminated against a corresponding amount arising on other intra-group balances because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss or, if it arises in accordance with paragraph 20, it is accumulated in a foreign currency translation reserve until the disposal of the net investment.

35. When the financial statements of a non-integral foreign operation are drawn up to a different reporting date from that of the reporting entity, the non-integral foreign operation often prepares, for purposes of incorporation in the financial statements of the reporting entity, statements as at the same date as the reporting entity. When it is impracticable to do this, AS 27, allows the use of financial statements drawn up to a different reporting date provided that the difference is no greater than six months and adjustments are made for the effects of any significant transactions or other events that occur between the different reporting dates. In such a case, the assets and liabilities of the non-integral foreign

operation are translated at the exchange rate at the balance sheet date of the non-integral foreign operation and adjustments are made when appropriate for significant movements in exchange rates up to the end of the reporting period of the reporting entity in accordance with AS 27. The same approach is used in applying the equity method to associates and joint ventures in accordance with AS 28, *Accounting for Investments in Associates in Consolidated Financial Statements* and AS 111, *Joint Arrangements*.

Disposal of a Non-integral Foreign Operation

36. On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences which have been deferred and which relate to that operation shall be recognised in profit or loss in the same period in which the gain or loss on disposal is recognised.

37. An entity may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised at the time of a write-down.

Change in the Classification of a Foreign Operation

38. When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification shall be applied from the date of the change in the classification.

39. The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the reporting entity may lead to a change in the classification of that foreign operation. When a foreign operation that is integral to the operations of the reporting entity is reclassified as a non-integral foreign operation, exchange differences arising on the translation of non-monetary assets at the date of the reclassification are accumulated in a foreign currency translation reserve. When a non-integral foreign operation is reclassified as an integral foreign operation, the translated amounts for non-monetary items at the date of the change are treated as the historical cost for those items in the period of change and subsequent periods. Exchange differences which have been deferred are not recognised as income or expenses until the disposal of the operation.

Tax Effects of Exchange Differences

40. Gains and losses on foreign currency transactions and exchange differences arising on the translation of the financial statements of foreign operations may have associated tax effects which are accounted for in accordance with AS 12, *Income Taxes*.

Disclosure

41. An entity shall disclose:

- *(a)* **the amount of exchange differences included in the profit or loss for the period; and**
- *(b)* **net exchange differences accumulated in foreign currency translation reserve as a separate component of equity and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**

42. When the presentation currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency shall be disclosed. The reason for any change in the presentation currency shall also be disclosed.

43. When there is a change in the classification of a significant foreign operation, an entity shall disclose:

- *(a)* **the nature of the change in classification;**
- *(b)* **the reason for the change;**
- *(c)* **the impact of the change in classification on equity; and**
- *(d)* **the impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.**

44. The effect on foreign currency monetary items or on the financial statements of a foreign operation of a change in exchange rates occurring after the balance sheet date is disclosed in accordance with AS 10, *Events After the Reporting Period*.

45. Disclosure is also encouraged of an entity's foreign currency risk management policy.

Appendix 1

Note 1:This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 21 and the corresponding Indian Accounting Standard (Ind AS) 21, The Effects of Changes in Foreign Exchanges Rates

Comparison with Ind AS 21, *The Effects of Changes in Foreign Exchanges Rates*

1. Ind AS 21 is based on the functional currency approach. An entity is required to determine its functional currency which can be different from its presentation currency based on factors envisaged in the standard. under revised AS 21 there is no concept of functional currency. The method used to translate the financial statements of a foreign operation depends on the classification of foreign operation (integral foreign operation or non-integral foreign operation). .

2. As per Ind AS 21, presentation currency can be different from local currency and it gives detailed guidance in this regard, whereas revised AS 21 does not explicitly state so.

3. The concept of 'Other Comprehensive Income (OCI)' section of the Statement of Profit and Loss has not been included in revised AS, therefore, following exchange gains and losses which are required to be recognised in OCI in Ind AS 21 are required to be recognised in relevant reserves under revised AS 21:
   - when a gain or loss on a non-monetary item is recognised in any specific reserve, any exchange component of that gain or loss shall be recognised in that specific reserve.
   - exchange differences on monetary items, that in substance, form part of net investment in a foreign operation, are recognised in profit or loss in the period in which they arise in the separate financial statements and in 'Foreign Currency Translation Reserve' in the consolidated financial statements until the disposal of the net investment.

4. Ind AS 21 includes Appendix B which provides guidance on Foreign Currency Transactions and Advance Consideration. Revised AS 21 does not include such Appendix.

Appendix 2

Note 1:This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 21 and the Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Differences

Note 2: Existing AS 11, The Effects of Changes in Foreign Exchanges Rates, is taken as base for formulation of revised AS 21. Paragraph numbers appearing in Revised AS 21 can be different as compared to those in AS 11.

Comparison with AS 11, *The Effects of Changes in Foreign Exchange Differences*

1. Revised AS 21 excludes from its scope forward exchange contracts and other similar financial instruments, which are treated in accordance with AS 109. AS 11 deals with accounting for forward exchange contracts (except forward exchange contracts entered into to hedge the foreign currency risks of future transactions in respect of which firm commitments are made or which are highly probable forecast transactions. Consequently, paragraphs 8(c) and 36-39 of AS 11 have not been included in revised AS 21.

2. Revised AS 21 uses the term 'presentation currency' and AS 11 uses the term 'reporting currency' although both the Standards define the terms in similar way.

3. Revised AS 21 includes explanation regarding monetary items and non-monetary items. (see paragraph 10). AS 11 does not include such explanation.

5. AS 11 gives an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity, to be transferred to profit or loss over the life of the relevant liability/asset if such items are not related to acquisition of depreciable capital assets; where such items are related to acquisition of depreciable capital assets, the foreign exchange differences can be recognised as part of the cost of the asset. (paragraphs 46 and 46A of AS 11)

   Revised AS 21 does not give the above option. However, revised AS 21 provides that an entity may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first revised AS financial reporting period, as per the previous GAAP, i.e. AS 11.

4. Under revised AS 21, a provision has been added that when a gain or loss on a non-monetary item is recognised in any specific reserve, any exchange component of that gain or loss shall be recognised in that specific reserve. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss. AS 11 does not have any such provision.

5. As per revised AS 21, exchange differences on monetary items, that in substance, form part of net investment in a foreign operation, are recognised in profit or loss in the period in which they

arise in the separate financial statements and in ‘Foreign Currency Translation Reserve’ in the consolidated financial statements and reclassified to profit or loss on disposal of the net investment. While, as per AS 11, exchange differences on monetary items that in substance, form part of net investment in a foreign operation, are recognised in ‘Foreign Currency Translation Reserve’ both in the separate and consolidated financial statements until the disposal of the net investment, at which time income or expense on the same are recognised in profit or loss.