Announcement

Presentation of Foreign Currency Monetary Item Translation Difference Account

1. In the year 2009, the Ministry of Corporate Affairs amended Accounting Standard (AS) 11, *The Effects of Changes in Foreign Exchange Rates* by inserting Paragraph 46. As per Paragraph 46, in respect of accounting periods commencing on or after 7th December, 2006 and ending on or before 31st March, 2011, at the option of the enterprise, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, insofar as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset, and in other cases, can be accumulated in a " Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortised over the balance period of such long-term asset/liability but not beyond 31st March, 2011, by recognition as income or expense in each such periods.

2. On 29th December, 2011, the MCA, through the Companies (Accounting Standards) Amendment Rules, 2011, further extended the date of amortisation of the balance in the FCMITDA to 31st March, 2020 instead of 31st March, 2011. The MCA on December 29, 2011, inserted paragraph 46A in the AS 11, *The Effects of Changes in Foreign Exchange Rates* through Companies (Accounting Standards) (Second Amendment) Rules, 2011, on similar lines as paragraph 46.

3. As in the Revised Schedule VI format, no line item has been specified for the presentation of "Foreign Currency Monetary Item Translation Difference Account (FCMITDA)", the Council of the Institute at its 324th meeting held on March 24-26, 2013 at New Delhi, considered the issue regarding the presentation of the FCMITDA in the balance sheet.

4. The Council noted that the *Framework on Preparation and Presentation of Financial Statement*s issued by ICAI, defines an asset as follows:

   "An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise."

   Where the balance in FCMITDA represents foreign currency translation loss, it does not meet the above definition of 'asset' as it is neither a resource nor any future economic benefit would flow to the entity therefrom. Accordingly, such balance cannot be reflected as an asset.

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Accordingly, the Council decided that debit or credit balance in FCMITDA should be shown on the "Equity and Liabilities" side of the balance sheet under the head 'Reserves and Surplus' as a separate line item.

5. The aforesaid decision of the Council supersedes the following Frequently Asked Question on AS 11 notification – Companies (Accounting Standards) Amendment Rules, 2009 (G.S.R. 225 (E) dt. 31.3.09) issued by Ministry of Corporate Affairs on May 18, 2009, which was issued by the Accounting Standards Board of ICAI on May 18, 2009:

"(*14) How 'Foreign Currency Monetary Item Translation Difference Account' should be presented in the Balance Sheet?*

Response

The 'Foreign Currency Monetary Item Translation Difference Account' should be shown as a separate line item in the Balance Sheet, in line with treatment given to Deferred Tax Asset/Liability, i.e. after the head 'Investments' or after the head 'Unsecured Loans' as the case may be and separately from current assets and current liabilities."