Forex Transactions — Accountant's Role as an Accountant and a Planner

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Foreign Exchange has always been regarded as an esoteric subject as it involves dealing with multiple currencies and countries coupled with different legal systems and trade practices. It covers a wide range of issues such as international finance, economics of exchange rate, risk management and of course Accounting Standards that regulate accounting of such transactions. Each of these topics is in itself a field of specialization.

In India, Accounting Standard (AS) 11 titled "The Effects of Changes in Foreign Exchange Rates" was originally issued in 1989 by ICAI, which was revised in 1994. It has been again revised in 2003 and is mandatory in respect of accounting periods commencing on or after 01.04.2004.

With the increasing exposure of Indian entrepreneurs in foreign trade vis-a-vis guidelines on transfer pricing for taxation purposes, understanding and implementation of AS in full compliance of its technicalities has become more important.

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

As per para 9 of AS-11 "A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transactions".

The requirement of para 9, apparently simple, gives rise to several interesting and complicated dimensions. An incorrect interpretation or adoption of date/rate may lead to qualification from auditors as well as may have several taxation angles.

For application of Para 9 two facts viz. (i) date of the transaction and (ii) exchange rate between the two currencies should be very clear.

Date of the Transaction: Though there is no official definition of the term "Date of the transaction", in Indian GAAP it can be defined as 'The date on which a transaction (whether goods or services) is recognised in accounting records in conformity with generally accepted accounting principals.'

What is the 'date of transaction' is a question of fact to be decided on a case-to-case basis. The Sale of Goods Act 1930 as well as AS-9 (Revenue Recognition) plays very important role in deciding such date.

Date of the Transaction in the contracts for sale/purchase of goods: Transactions of sale or purchase of goods in international trade are concluded either on (i) F.O.B. or (ii) C&F or (iii) CIF basis.

Under FOB contracts, seller generally undertakes to take the material up to the port of loading. Under C&F contracts, seller undertakes to bear the freight on the consignment also. A CIF contract ordinarily is a contract (a) to ship at the port of shipment, goods of the description contained in the contract (b) to procure contract for freighting under which goods will be delivered at the destination contemplated by the contract (c) to arrange for an insurance on terms current in the trade which will be available to the buyer (d) to make out proper invoice and (e) to tender deed documents to the buyer so that he can obtain delivery of goods on arrival or recover for their loss if they are lost on the voyage (EAC VOL-XI - 58).

Following options are available to reporting enterprise to recognize the date of transaction:

(a) Date of Invoice
(b) Date of Bill of Lading
(c) Date of shipment
(d) Date on which goods were received by the Clearing Agent
(e) Date on which goods were cleared from customs
(f) Date on which goods finally arrive at unit and taken into stocks.

In the absence of any specific mention in the contract, the rule of thumb in the Sale of

Goods Act has to be applied, which states that in the case of "unascertained" goods, the property does not pass until the goods are ascertained and such goods after ascertainment have been unconditionally appropriated to the contract. Strictly speaking, if the bill of lading is taken to the order of the shipper, then there is no unconditional appropriation and in such a case, the unconditional appropriation will be only when the Bill of Lading is physically transferred, which may be contingent on completion of several actions through banking channels.

In a CIF contract, the question whether the property in the goods passes to the buyer depends entirely on the question whether the seller has parted with the control over the disposal of goods. It is not an unconditional contract, because in commercial parlance, CIF presumes an undertaking by the seller to do something more, namely, to put the goods on a ship and this postpones the passing of the property until the goods are shipped by the seller. But the presumption that the property passes on shipment is a presumption as to the intention of the parties and may be excluded either by the express terms of the contract or by other circumstances.

If the seller endorses the bill of loading in blank and hands it over to his agent not to be delivered to the buyer until the goods are paid for or bill of exchange is accepted by the buyer, the seller shows his intention to retain the disposal of goods under his control (Mehta v. Heureux, A.I.R. 1924 Bom. 422: Mohanlal V Kishna 1928 30 Bom. L.R. 415). As most of the international trade is routed through banking channels, it can be safely concluded that the date of transaction in these cases is the date on which documents are released by bankers in favour of buyers for taking the delivery from shippers. (EAC VOL-XI - 59). This will hold good where goods are imported under sight L.C. or under usance L.C. and documents are handed over to buyer on retirement of documents by bank on payment or acceptance of bill of exchange.

However, in case of specific or ascertained goods, as per section 19 of the Sales of Goods Act, the property is transferred to the buyer at such time as the parties to the contract intend it to be transferred. What is the intent of the party depends on combined cognizance of terms of contract, conduct of the party and circumstances of the case.

Where the payment is made in advance, there is no

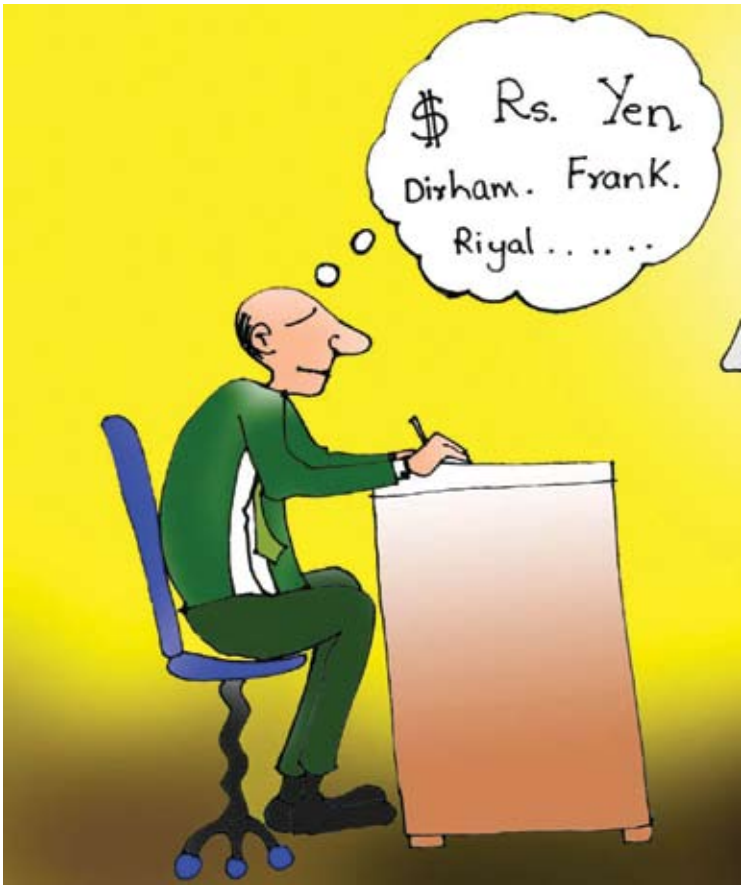
In a CIF contract, the question whether the property in the goods passes to the buyer depends entirely on the question whether the seller has parted with the control over the disposal of goods

question of endorsement of documents by the banker and date of transaction again is to be decided on the basis of intention of parties.

The law is well settled that in the case of contract for sale of unascertained goods, the property does not pass to the purchaser unless there is unconditional appropriation of the goods in deliverable state to the contract. In case of such a contract, delivery of goods by the vendor to the common carrier is an appropriation sufficient to pass property. It is immaterial whether the seller has taken shipping documents to his own order or to the order of buyer. The effect of taking shipping document to the order of seller is only to safeguard the interests of both the parties and is to make carrier accountable to deliver the goods to the seller as the holder of bill of lading (BL). The BL in this case is the symbol of property, and by so taking the BL the seller keeps to himself the right of dealing with property shipped and also the right of demanding possession from the captain, this is consistent even with a special term that the goods are shipped on account of and at the risk of the buyer.

The law is well settled that in the case of contract for sale of unascertained goods, the property does not pass to the purchaser unless there is unconditional appropriation of the goods in deliverable state to the contract

What was the intention of the parties is a matter of fact and no specific guidelines can be made to ascertain it. Even delivery of goods to the carrier without reserving the right of disposal is held to be unconditional appropriation of the goods to the contract. The Apex Court in Mahabir Commercial Co. Limited Vs. CIT [1972] 86 ITR 417 has laid down the guiding principles for transfer of property in a cross-border transaction in a transaction of purchase of goods as below:



"Where in pursuance of a contract the seller delivers the goods to the buyer or to a carrier or other bailee whether named by the buyer or not for the purpose of transmission to the buyer and does not reserve the right of disposal, he is deemed to have unconditionally appropriated the goods to the contract. The buyer's assent to the passing of the property in the said circumstances is implied and when the seller dispatches them to the common carrier for purposes of transit to the buyer, the common carrier not only receives the goods as agent of the buyer but also assents to the appropriation made by the seller."

Above mentioned principles are still relevant and has recently been applied by the Authority For Advance Rulings in a reference by a company incorporated in Japan [2004] 271 ITR 193.

The Institute of Chartered Accountants of India (ICAI), in consecutive opinions, has taken a stand that 'the date of transaction' in accounting is that date on which a transaction becomes eligible to be recognized in the books of account of the enterprise as per the relevant normally accepted accounting principles. (EAC VOL-XVI - 78)

The point of time when all significant risks and rewards of the ownership passed on to the buyer depends on the terms and conditions of the contract and timing of recognition of purchases or sale should be such when all significant risks and rewards of the ownership passed on to the buyer provided the amount of consideration is measurable reliably. (EAC VOL-XX - 10).

Date of the transaction in service contracts: Business

practices have continued to grow increasingly complex, involving, among other things, a marked shift from manufacturing to services-based economy, where the proper timing for revenue recognition is often more difficult to ascertain and require extra care while arriving at the date of the transaction. Services may be major as software services or minor as accounting, book keeping, entertainment, distribution, education and health care, printing and processing, advertising, architecture, designing, management consultancy and so on. Earlier recognition of profit coupled with corresponding earlier payment of tax could be financially damaging. At the same time, postponement of recognition may lead to consequences of concealment of income.

In Indian accounting standard on revenue recognition on service contracts, only Para 7 of AS-9 deals with the aspect. Even in USA, where services represent over half of the transactions completed in the economy, there are no official pronouncements that provide specific accounting standards for them. Accounting for service transactions has evolved primarily through industry practice, and as a result, different accounting methods have developed to apply the fundamental principles of revenue and cost recognition.

Many transactions involve the sale of a tangible product and a service, therefore, for a proper accounting treatment, it must be determined whether the transaction is primarily a service transaction accompanied by an incidental product, primarily a product transaction accompanied by an incidental service, or a sale in which both a service transaction and a product transaction occur. Among other decided cases by Indian courts, guidance may be taken from the principles applied by Apex court in the case of State of Andhra Pradesh Vs. Kone Elevators (I) Ltd. [2005] 140 STC 22 / 3 SCC 389. Circular no.681 dated 08.03.1994 by CBDT also discusses applicable principles.

The guidance issued by the Accounting Standard Board (ASB) as Urgent Issues Task Force (UITF) Abstract No. 40 by the ICAEW, UK on 10th Mar, 2005 has covered the issue of Revenue recognition for service contracts in great detail and following discussions are based mainly on that guidance note.

Service contract may be bifurcated as i) long term contracts and ii) on going contracts.

A long term contract is defined as "a contract entered in to for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls in to different accounting periods."

Para 20 of International accounting standard–18 on revenue states that "where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the Balance Sheet date.

A contract to provide repetitive services (such as general professional advice, accounting support, help desk support, maintenance or cleaning) on ongoing basis should not be accounted for as a long-term contract.

In some cases, it may be appropriate to treat a single contractual arrangement as two or more separate transactions, where there are distinguishable phases. This approach may only be adopted where the value of each element can be reliably estimated.

Where the substance of the contract is that a right to consideration does not arise until the occurrence of a critical event, revenue is not recognized until that event occurs. This only applies where the right to consideration is conditional or contingent on a specified future event or outcome, the occurrence of which is outside the control of the service provider.

The right to consideration does not necessarily correspond to amounts falling due in accordance with a schedule of stage payments, which may be specified in a contractual arrangement. Whilst stage payments will often be timed to coincide with performance, they may not correspond exactly. Stage payments reflect only the agreed timing of payment, whereas a right to consideration arises through the seller's performance. Performance is defined as 'The fulfillment of the seller's contractual obligations to a customer through the supply of goods and services'

Contracts for services should not be accounted for as long-term contract unless they involve the provision of a single service, or a number of services that constitute a single project.

Where the substance of a contract is that the service provider's contractual obligations are performed gradually

Accounting for service transactions has evolved primarily through industry practice, and as a result, different accounting methods have developed to apply the fundamental principles of revenue and cost recognition

over time, revenue should be recognized as contract activity progresses. Where the substance of a contract is that a right to consideration does not arise until the occurrence of a critical event, revenue is not recognized until that event occurs. A long-term commitment may have more than one date of the transaction.

The date that the fee note is raised has no bearing on the accounting. However, that may be one of the guiding factors to arrive at the date of transaction.

Merely accepting a deposit does not amount to performance under the contract. Revenue should only be recognized when performance has taken place.

Contract terms and commercial substance of contracts for services vary considerably in practice, and each entity needs to develop an appropriate accounting policy

Contract terms and commercial substance of contracts for services vary considerably in practice, and each entity needs to develop an appropriate accounting policy. In some cases a single approach will be appropriate for all contracts, in others, different approaches will be required for different classes of contracts.

In case of service contracts, the date for the relevant rate of exchange would be the date on which the relevant items of revenues and expenses are recognized in the books of account of the enterprise in accordance with the relevant normally accepted accounting principles and no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Date of transaction and high seas sales: Transactions of sale or purchase undertaken on high seas i.e. beyond the customs frontiers are considered in the course of export or import and thus are exempt from levy of Central Sales Tax. A question often arises that in these types of peculiar transactions, where goods are being imported to sell them on high seas, at what point of time, the transaction of purchase and then sale should be recorded. These sales or purchases are concluded by transfer of documents of title to the goods. As time is the essence in these transactions, delivery is completed by endorsement of non-negotiable copy of Bill of Lading and buyer takes the delivery of the cargo from the ship by executing an indemnity bond in favour of the ports and customs authorities without waiting for the negotiable set of documents.

As non-negotiable set of documents cannot be said to be the documents of title to the goods, strictly speaking, booking of transactions can be done only when negotiable sets of documents are endorsed in favour of buyer. However, in that case, sales tax authorities might not treat these transactions as 'high seas' sales and levy sales tax as at the time when the transactions of sales or purchases were entered into books of account, the ships have already entered the territorial water of India.

Though the above objection looks very technical, it is settled law that in tax matters, the literal rule of interpretation applies and it is not open to the court to extend the language of a provision in the Act by relying on equity, inference, etc. The principle is applied with particular emphasis while interpreting the taxing statute and the fundamental principle of interpreting taxing statute is that nothing can be added or deleted by the court to the language while reaching to the conclusion.

To avoid any litigation, express provision should be kept in the contracts making intentions of the buyer and seller both very clear that they intend to treat the delivery and passing of property complete on the basis of handing over of non-negotiable set of documents. As the goods loaded on ship on high seas are ascertained and specific, section 19 of the Sales of Goods Act 1930 would provide sufficient protection.

Rates: AS-11 requires the transactions to be recorded on the exchange rate prevailing at the date of transaction. AS-11 itself provides leverage, which allows using of average rate for recording of all transactions during a week or month in which the transaction occurs. The average being used should approximate the actual rate. The flexibility provided in AS in not blanket flexibility and should be applied only when there are a large number of transaction and keeping track of actual rates may have practical difficulties. (EAC VOL-XX - 163).

Average rate is defined as "the mean of exchange rates in force during a period". AS, however, does not specify as to which exchange rates should be considered for computing mean rate. In one of the opinions, EAC has taken a view that the average rate should be such as would represent as nearly as possible, the various actual rates, which were in force during the relevant period. For this purpose, an average of weekly averages of opening and closing rates may be a good indicator. Moreover, if there have been wide fluctuations in the exchange rates during the year, use of weighted average rates would be more reliable. (EAC VOL-

XIV - 17).

The exchange rate prevailing on a particular date may be obtained from various sources i.e. from bankers, financial dailies or magazines and so on.

In one of the opinions, EAC has held the rates quoted in Financial Times, London a good indicator of the rates prevailing on the date of transaction. In another opinion, view has been taken that the rates published by a reliable source for the day can be used (EAC VOL-XXII - 11).

However, the rate at which an enterprise can acquire foreign currency is the best rate, which should be applied. It would be better if the rates of exchange quoted by company's regular banker were applied.

Recently, RBI has come out guidelines for compliance by banks for AS-11 (DBOD No. BP.BC.76/21.04.018/2004-05 dated the 15th March, 2005- See ICAI Journal May 2005- Page 1553). As per these guidelines FEDAI has agreed to publish a weekly average closing rate at the end of each week and a quarterly average closing rate at the end of each quarter for various currencies. These rates can be used if the same approximates the actual rate at the date of the transaction.

It is interesting that Income Tax Rules have their own guidelines for rate of exchange for conversion into Rupees of income expressed in foreign currency. Rule 26, 115 and 115A refers to the telegraphic transfer buying rate (TT buying rate). Unlike AS, Income Tax Rules are not flexible to recognize rate of exchange announced by any reliable source. Income Tax Rules specifically refer to rates adopted by State Bank Of India (SBI). Even separate dates have been specified for taking the rate of exchange for separate type of incomes. Banks quote four rates for foreign currency conversions i.e., i) TT selling, ii) TT buying, iii) Bills selling, iv) Bills buying. Thus, strictly speaking an enterprise will have to maintain two sets of records i) for presentation to share holder as per requirement of Companies Act 1956 applying principles of AS-11 and ii) for taxation authorities.

Closing Rate: Para 7 of the standards defines closing rate as the exchange rate at the balance sheet date. For the purpose closing spot rate of exchange should be applied as on balance sheet date.

Para 11 requires that in certain circumstances (wherever there are restrictions on remittances or where the closing rate is unrealistic), the relevant monetary items should be reported in the reporting currency at the amount, which is likely to be realized from, or required to disburse, such item at the balance sheet date.

Some times there is peculiar situation that an item of asset or liability though classifiable as a monetary item is not likely to be settled in near future. AS requires reporting of foreign currency monetary items using the closing rate. Such monetary items may keep on appearing on several consequential balance sheet dates without movement, may be because of political restrictions in any other countries or due to disputes between the parties of two countries.

There is no option but to value these monetary items every year as per the prevailing exchange rate on the balance sheet date. Such translation difference arising on the translation of current as-

sets and short-term liabilities should be charged to the profit and loss account of the year in which the difference arises. However, if the difference arises in respect of assets and liabilities in a country from which remittance of profits or funds is not possible, the recognition to the profit and loss account if it is net gain, should be deferred and transferred to a separate reserve account. Any loss arising on the subsequent translation of the assets or liabilities in the same currency can be debited to this reserve. If the difference is a net loss, it must be charged to the profit

and loss account in all cases. (EAC VOL-VI - 42).

Conflict between Schedule VI to the Companies Act and AS-11

It is interesting to note that schedule VI to the Companies Act overrides AS-11. Schedule VI to the Companies Act provide, inter-alia that where the original cost and additions and deductions there to relate to any fixed asset which has been acquired form a country outside India, and in consequence of a change in the rate of exchange at any time after the acquisition of such asset, there has been an increase or reduction in the liability of the company, as expressed in Indian currency, for making payment towards the whole or a part of the cost of the asset or for re-payment of the whole or a part of moneys borrowed by the company from any person, directly or indirectly, in any foreign currency specifically for the purpose of acquiring the assets (being in either case the liability existing immediately before the date on which the change in the rate of exchange takes effect), the amount by which the liability is so increased or reduced during the year, shall be added to, or, as the case may be, deducted from the cost, and the amount arrived at after such addition or deduction shall be taken to be the cost of the fixed asset.

The revised AS-11, however, does not require the adjustment of exchange differences in carrying amount of the fixed assets, in the situations envisaged in Schedule VI. As per revised AS-11 such differences are required to be recognized in the statement of profit and loss since it is felt that this treatment is conceptually preferable to that required in Schedule VI and is in consonance with the international position in this regard.

As per an announcement by ICAI on 10.10.2003 the Institute has decided to take up this aspect with the Government to make suitable amendments in the Companies Act. Pending amendment, Institute has advised that where a requirement of an AS is different from the applicable law, the law prevails i.e., the auditor of the company should not assert non-compliance with AS-11 and should not qualify his report in this regard on the true and fare view.

In an opinion published in "The Chartered Accountant" Oct'04 it has been clarified that adjustment of exchange differences in the cost of fixed assets in respect of liabilities incurred or in respect of the repayment of borrowings in foreign currency made specifically for acquisition of the fixed assets would be in compliance with the requirements of AS-11 read with Schedule VI to the Companies Act, only if the fixed assets are acquired from a country outside India. In respect of the exchange differences arising on liabilities incurred or on repayment of borrowings in foreign currency for acquisition of fixed assets acquired within India, AS-11 would apply for transaction entered into on or after 01.04.2004.

Forward Exchange Contracts (FEC)

Para 36 & 37 of the revised AS deal with accounting for a forward exchange contract which is not intended for trading or speculation purposes i.e., pure hedging contracts. Para 38 & 39 of revised AS deal with forward exchange contracts intended for trading or speculation purposes.

As per para 8 of the AS, foreign currency transactions include transactions when an enterprise becomes a party to an unperformed forward exchange contract. Therefore, AS-11 contemplates accounting for forward exchange contracts separate from the underlying asset. Thus accounting for forward exchange contract has to be done separately considering it as a transaction separate from the underlying transaction.

AS provides that difference between the spot rate on the date of inception of FEC and exchange rate contracted in FEC should be recognized separately, and should be amortised as expense or income over the life of the contract.

The difference between spot rate on reporting/settlement date and date of FEC should be recognized as exchange fluctuation gain or loss.

Accounting for forward exchange contracts under AS-11 (revised 2003) has been explained by the Technical Directorate of the ICAI in May 2005 journal-pages 1547 to 1549. This is again explained with different figures with example given in annexure to this write up.

Rollover charges or loss or gain arising on cancellation or renewal of a forward exchange contract represents the difference between the spot exchange rate at the inception or cancellation of contract and forward rate. For all practical purposes these stand on same footing on which actual exchange fluctuation gain or loss stands and hence should be treated in accounts accordingly i.e. should be recognized as income or expense for the period. Under no circumstances, it should be added to the value of relevant inventory or fixed asset (except if related to acquisition of fixed asset from a country outside India).

Disclosure of Exchange Fluctuation Gain/Loss in published accounts

Different corporates have adopted different practices for such disclosure. Some show the same as a separate line item in the schedule of selling, distribution, administration and other expenses. Some companies show such differences as part of financial expenses if it is a loss and as part of other income if it is a gain, but as a separate line item. Some of the corporates simply make a disclosure in the notes that exchange gain/loss has been adjusted in the respective accounts without disclosing the amount involved. Some Corporates include such gain/loss in miscellaneous expenses with a disclosure of amounts in notes to accounts. Model Accounts released by international firms of Auditors operating in India, recommend such disclosure in the schedule of selling, distribution, administration and other expenses as a separate line item.

Disclosures Regarding Derivative Instruments

Meanwhile, the ICAI has recently decided to issue an Announcement that enterprises should make the following disclosures regarding Derivative Instruments in their financial statements:

(a) category-wise quantitative data about derivative instruments that are outstanding at the balance sheet date,

(b) the purpose, viz., hedging or speculation, for which such derivative instruments have been acquired, and

(c) the foreign currency exposures that are not hedged by a derivative instrument or otherwise.

Apart from the above, enterprises are also required to disclose, pursuant to the requirements of AS 1, Disclosure of Accounting Policies, the accounting policy regarding criteria applied for recognition and measurement of the derivative instruments which are used by the enterprise for hedging or for other purposes and the criteria applied for recognition and measurement of income and expenses arising from such instruments.

The above disclosures are applicable in respect of financial statements for the accounting period(s)` ending on or after March 31, 2006.

This Announcement is an interim measure pending issuance of Accounting Standards on (i) 'Financial Instruments: Presentation', (ii) 'Financial Instruments: Disclosures' and (iii) 'Financial Instruments: Recognition and Measurement' which would deal with the presentation, disclosure and recognition and measurements aspects of all financial instruments including derivative instruments. The purpose of the Announcement is that the users of the financial statements become aware of the extent of risks an enterprise faces on account of its dealings in derivative instruments and unhedged positions in foreign currency exposures.

Conclusion

The next decade will see India rising and shining even more brightly. Today India is an attractive investment destination and most of the developed and even developing countries are looking for investment opportunities here. As India externalizes, with a higher share of exports in our GDP and free import of every thing from potato to aeroplane, Indian corporates actively prowling the international market for takeovers and acquisitions, Indian accountants and tax authorities will have to gear up to take the challenge and constantly update their knowledge, skills and also related standards and legislations, keeping pace with developments in other countries.

Today India is an attractive investment destination and most of the developed and even developing countries are looking for investment opportunities here

Annexure

		Date			
Date of Transaction of Sale		15.12.2004		45.50	Spot Rate
Contract booked on		31.12.2004		45.65	Spot Rate
Contracted rate				45.17	
Reporting Date		31.03.2005		45.21	Spot Rate
Date of Settlement		18.04.2005		45.78	Spot Rate
Contract Period-31.12.2004 to 18.04.2005			108	Days	
Days up to 31.03.2005			90	Days	
Days from 01.04 to 18.04.2005			18	Days	
On Purchase					
Dr.	Purchases	45.50			
Cr.	Supplier		45.50		
On Taking Forex Cover on 31.12.2004					
Dr.	Receivable	45.17			
Dr.	Discount on Forex Cover	0.48			45.65-45.17
Cr.	Payable		45.65		
		45.65	45.65		
On Date of Balance Sheet on 31.03.2005					
Dr.	Supplier	0.29			45.5-45.21
Dr.	Receivable	0.04			45.21-45.17
Dr.	Exchange Loss		0.33		
		0.33	0.33		
Assets & Liabilities restated on the spot rate of 31.03.2005					
On Date of Balance Sheet on 31.03.2005					

Dr.	Exchange Loss/Gain	0.40			0.48/108*90
Cr.	Discount on Forex Cover		0.40		
		0.40	0.40		
Prorata discount charged to P&L account					
On Settlement on 18.04.2005					
Dr.	Supplier	45.21			
Dr.	Payable	45.65			
Cr.	Receivable		45.21		
Cr.	Exchange Gain		0.48		
Cr.	Bank		45.17		
		90.86	90.86		
On Settlement on 18.04.2005					
Dr.	Exchange Loss/Gain	0.08		0.48/108*18	
Cr.	Discount on Forex Cover		0.08		
		0.08	0.08		
Prorata discount charged to P&L account					
	Ledger Accounts				
	Supplier	Dr.	Cr.		
	15.12.2004		45.50	Purchases Booked	
	31.03.2005	0.29		Restated on the spot rate of the day	
	18.04.2005	45.21		Payment made	
		45.50	45.50		

	Receivable				
	31.12.2004	45.17		Contracted rate	
	31.03.2005	0.04		Restated on the spot rate of the day	
	18.04.2005		45.21	Payment made	
		45.21	45.21		
	Payable				
	31.12.2004		45.65	Spot rate on the date of FEC	
	18.04.2005	45.65		Payment made	
		45.65	45.65		
	Premium on Forex Cover				
	31.12.2004	0.48		45.65-45.17	
	31.03.2005		0.40	Charged to P&L	
	18.04.2005		0.08	Charged to P&L	
		0.48	0.48		
	Exchange Loss/Gain				
	31.03.2005		0.33	Assets/liabilities restated on the spot rate of the day	
	31.03.2005	0.40		Discount charged to P&L	
	31.03.2005	0.37		Transferred to P&L	
	18.04.2005		0.48	Gain on Settlement	
	18.04.2005	0.08		Discount charged to P&L	
	18.04.2005		0.04	Transferred to P&L	
		0.85	0.85		
	Profit and loss account				
	31.03.2005		-0.37		
	18.04.2005		0.04		
			-0.33		
	Profit cross verification				
	Purchased booked at		45.50		
	Payment made at		45.17		
	Profit		0.33		