ANNOUNCEMENT

Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956

1. The revised Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates, was published in the March 2003 issue of the Institute's Journal, 'The Chartered Accountant', (pp. 916 to 922). Revised AS 11 will come into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date. The revised Standard will supersede Accounting Standard (AS) 11, Accounting for the Effects of Changes in Foreign Exchange Rates (1994), except that in respect of accounting for transactions in foreign currencies entered into by the reporting enterprise itself or through its branches before the date this Standard comes into effect, AS 11 (1994) will continue to be applicable.

2. In this context, it may be noted that Schedule VI to the Companies Act, 1956, provides, inter alia, that where the original cost and additions and deductions thereto, relate to any fixed asset which has been acquired from 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 repayment 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 effects), 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.

3. The revised AS 11 (2003), however, does not require the adjustment of exchange differences in the carrying amount of the fixed assets, in the situations envisaged in Schedule VI to the Companies Act, 1956 (see para 13 of revised AS 11). As per revised AS 11 (2003), such exchange differences are required to be recongised 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.

4. It may be mentioned that the Institute has decided to take up this aspect with the Government to consider the same in the revision of Schedule VI to the Companies Act, 1956. It may be noted that where a requirement of an accounting standard is different from the applicable law, the law prevails. Accordingly, a requirement of an accounting standard is not applicable to the extent it is in conflict with the requirement of the relevant law. Thus, pending the amendment, if any, to Schedule VI to the Companies Act, 1956, in respect of the matter, a company adopting the treatment described in paragraph 2 above will still be considered to be complying with AS 11 for the purposes of section 211 of the Act. Accordingly, the auditor of the company should not assert non-compliance with AS 11 (2003) under section 227(3)(d) of the Act in such a case and should not qualify his report in this regard on the true and fair view of the state of the company's affairs and profit or loss of the company under section 227(2) of the Act.