

# Latest Clarification of MCA on Para 46A of AS 11

## “Good News for Indian Companies”



Clarification of Ministry of Corporate Affairs is welcomed by majority of Indian companies having huge amount of long-term foreign currency borrowings and facing the trouble of disclosing huge losses in the current year's statement of profit and loss due to fluctuations in foreign exchange market. The article discusses the implication of MCA's clarification on Para 46A of AS 11 on 'The Effects of Changes in Foreign Exchange Rates' with respect to long-term foreign currency borrowings. The implication has been discussed in four different scenarios based on the purpose for which long-term foreign currency borrowings were raised. The article also discusses the earlier situation (i.e., before MCA's clarification on Para 46A of AS 11). Analysis of the accounting under the earlier situation *vis-a-vis* the accounting under the present situation has also been done. The benefit to Indian companies can be clearly seen in all the four scenarios discussed in the article.



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### Introduction

In today's arena of globalisation, activities involving foreign exchange are very common. Companies have transactions in foreign currencies as well as have foreign operations. Since such transactions or financial statements of foreign operations are in foreign currency, these have to be expressed/ translated in the reporting currency of an enterprise (e.g., INR for Indian companies). ICAI being a premier accounting body formulated AS 11 on 'The Effects of Changes in Foreign Exchange Rates' which was later being notified by Ministry of Corporate Affairs (MCA) on 7<sup>th</sup> December, 2006 in consultation with National Advisory Committee on Accounting Standards

(NACAS). AS 11 now forms a part of 'Companies (Accounting Standards) Rules, 2006.

In recent times, due to wide fluctuations in foreign exchange market and with rupee depreciating, a need was felt to bring few changes to AS 11 so as to give some relief to Indian companies, having huge amount of long-term foreign currency borrowings, e.g., MCA coming up with notifications to insert Para 46 & Para 46A in AS 11.

### Amendments in Companies (Accounting Standard) Rules, 2006: Insertion of Para 46 and Para 46A of AS 11

On 31<sup>st</sup> March, 2009, MCA makes an amendment in the Companies (Accounting Standard) Rules, 2006 by inserting Para 46 under AS 11 on 'The Effects of Changes in Foreign Exchange Rates' vide Notification No. G.S.R. 225(E), which gives an enterprise to exercise the option under Para 46 upto 31<sup>st</sup> March, 2011.

On 11<sup>th</sup> May, 2011, MCA makes another amendment in the Companies (Accounting Standard) Rules, 2006 by extending the option under Para 46 for one more year, i.e., upto 31<sup>st</sup> March, 2012, vide Notification No. G.S.R. 378(E).

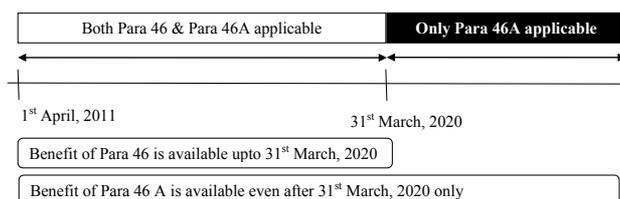
On 29<sup>th</sup> December, 2011, MCA makes another amendment in the Companies (Accounting Standard) Rules, 2006 by extending the option under Para 46 for eight more years, i.e., upto 31<sup>st</sup> March, 2020, vide Notification No. G.S.R. 913(E).

Also, on 29<sup>th</sup> December, 2011, MCA makes an amendment in the Companies (Accounting Standard) Rules, 2006 by inserting Para 46A under AS 11 vide Notification No. G.S.R. 914(E).

### Major differences between Para 46 of AS 11 and Para 46A of AS 11

Basis	Para 46 of AS 11	Para 46A of AS 11
<b>Starting date</b>	On or after 7 <sup>th</sup> December, 2006	On or after 1 <sup>st</sup> April, 2011
<b>Ending date</b>	Ending on or before 31 <sup>st</sup> March, 2020	No such date

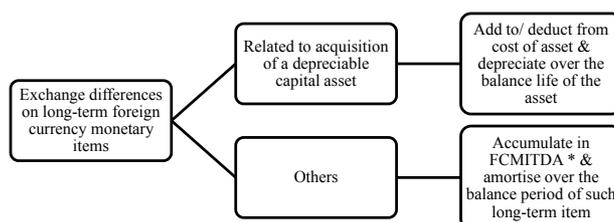
#### Comparison of Para 46 & Para 46A of AS 11



### Accounting under Para 46A of AS 11

In respect of accounting periods commencing on or after 1<sup>st</sup> April 2011, Para 46A of AS 11 gives an enterprise an irrevocable option to account for the exchange differences on all long-term foreign currency monetary items as under:

“exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they are initially recorded during the period, or reported in previous financial statements, in so far 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 amortized over the balance period of such long-term asset/liability, by recognition as income or expense in each of such periods” (text taken from Para 46A of AS 11)



#### \* FCMITDA = Foreign Currency Monetary Item Translation Difference Account

**The Only Exception to Para 46A:** Exchange differences arising on a long-term monetary item that, in substance, forms part of an enterprise’s net investment in a non-integral foreign operation

**Long-term Foreign Currency Monetary Item:** The asset or liability that is expressed in a foreign currency and has a term of 12 months or more at the date of origination of the asset or liability

#### Disclosure requirements:

An entity exercising the option under Para 46A of AS 11 should disclose the following:

- fact of such option being exercised
- amount remaining to be amortised in the financial statements of the period in which such option is exercised

**Note:** The above disclosure should be made in every subsequent period so long as any exchange differences remains unamortised.

### Purpose of inserting Para 46A under AS 11

Purpose of inserting Para 46A under AS 11 seems to minimise the impact of huge foreign exchange losses faced by Indian Companies on profits of these companies in the current year.

### Problem faced

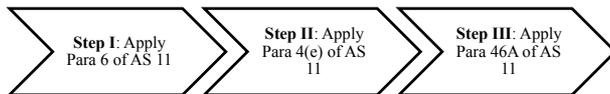
Para 6 of AS 11 provides that AS 11 does not deal with exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The same should be accounted under Para 4(e) of AS 16 on 'Borrowing Costs'.

According to Para 4(e) of AS 16, borrowing costs includes exchange differences which arise on the amount of principal of the foreign currency borrowings to the extent of the difference between interest on local currency borrowings and interest on foreign currency borrowings. The remaining exchange difference, if any, is accounted for under AS 11.

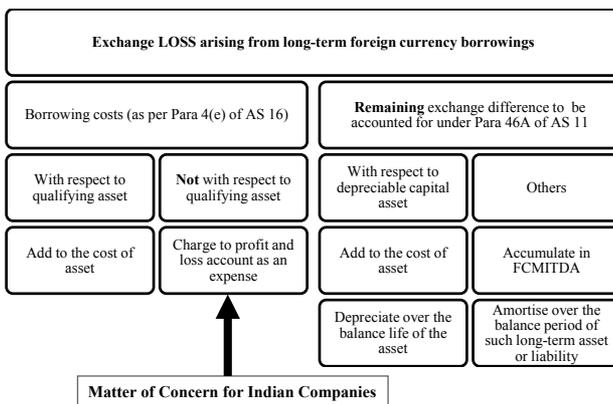


**Interest rate for local currency borrowings:** The rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings.

Thus, it implies the following steps to be followed:



**Analysis of Para 4(e) of AS 16 and Para 46A of AS 11 can be seen in the following diagram (assuming the company opts for Para 46A of AS 11):**



**Qualifying Asset:** A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

**Substantial period of time:** A period of *12 months* is considered as substantial period of time *unless* a shorter or longer period can be justified on the basis of facts and circumstances of the case.

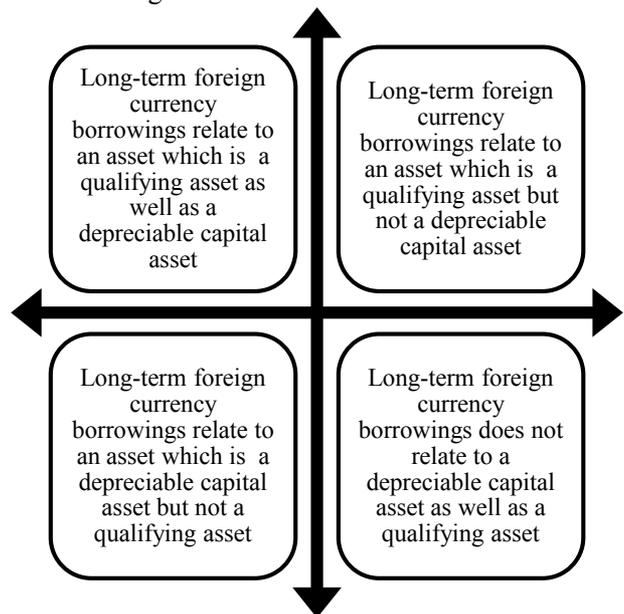
**Conclusion of the analysis:** Seeing the above table, one can make out that the purpose of inserting Para 46A in AS 11 gets defeated by following Para 6 of AS 11 and Para 4(e) of AS 16 which may lead to charging a significant part of foreign exchange losses to current year profit and loss account instead of being deferred for a reasonable period, i.e., the balance life of the asset or the balance period of long-term foreign currency borrowings, as the case may be.

### A Good Step taken by MCA

MCA vide its Circular No. 25/2012 dated 9<sup>th</sup> August, 2012 clarified that the companies applying Para 46A of AS 11 should not apply Para 6 of AS 11 and Para 4(e) of AS 16.

### Implication of MCA's circular

Let us understand the earlier and the current position in the following scenarios:



**Scenario I (Long-term foreign currency borrowings relate to an asset which is a qualifying asset as well as a depreciable capital asset)**

*A Ltd., dealing in manufacture of luxury cars, takes a loan of US \$ 1,00,000 @ ₹50/ US \$ on 1<sup>st</sup> April,*

2012 repayable after 4 years. The said loan was taken for construction of a machinery having life of 5 years (assuming the machinery as a qualifying asset as well as a depreciable capital asset).

Following information is also provided:

Interest for the period (payable annually)	US \$ 8,000
Interest on local currency borrowings, i.e., the rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings	₹6,00,000
Exchange rate as on 31 <sup>st</sup> March, 2013	₹55/ US \$
Time period when construction was suspended during the year	3 months
Luxury car (the qualifying asset) is sold in the year	2014-15

The company has decided to opt for Para 46A of AS 11.

#### Earlier situation

As discussed above, before applying Para 46A of AS 11, A Ltd. has to apply Para 4(e) of AS 16.

S. No.	Particulars	Basis	Amount (₹)
(a)	Total exchange differences (on principal amount)	US \$ 1,00,000 x (₹55/US \$ – ₹50/US \$)	5,00,000
(b)	Interest for the period	US \$ 8,000 x ₹55/US \$	4,40,000
(c)	Interest that would have resulted if the loan was taken in Indian currency	–	6,00,000

S. No.	Particulars	Basis	Amount (₹)
(d)	Borrowing costs as per Para 4(e) of AS 16	(c) – (b)	1,40,000
(e)	Exchange differences to be accounted for under Para 46A of AS 11	(a) – (d)	3,60,000
(f)	Borrowing costs eligible for capitalisation	1,40,000 x 9/ 12	1,05,000
(g)	Borrowing costs not eligible for capitalisation	1,40,000 x 3/12	35,000
(h)	Exchange differences under Para 46 A relating to depreciable capital asset	-	3,60,000
(i)	Exchange differences under Para 46A relating to other than depreciable capital asset	-	-

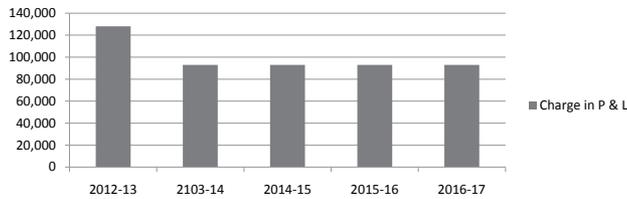
#### Exchange loss of ₹5,00,000

Borrowing costs (as per Para 4(e) of AS 16) = ₹1,40,000		Remaining exchange difference to be accounted for under Para 46A of AS 11 = ₹3,60,000	
Eligible for capitalisation = ₹1,05,000	Not eligible for capitalisation = ₹35,000	With respect to depreciable capital asset = ₹3,60,000	Others = Nil
Add to the Cost of Asset = ₹1,05,000	Charge to profit and loss account as an expense = ₹35,000	Add to the cost of asset = ₹3,60,000	Accumulate in FCMITDA = Nil
Depreciate over the balance life of the asset = ₹21,000 p.a.		Depreciate over the balance life of the asset = ₹72,000 p.a.	Amortise over the balance period of such long-term borrowing = Nil

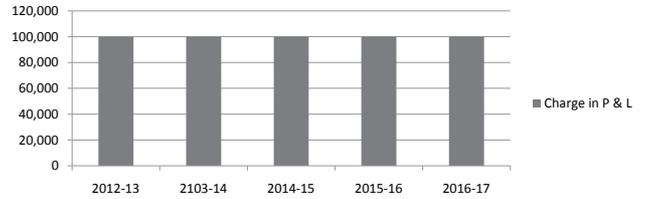
Therefore, exchange loss of ₹5,00,000 should be charged to profit and loss account as under: ←

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	₹	₹	₹	₹	₹	₹
Borrowing costs eligible for capitalisation	21,000	21,000	21,000	21,000	21,000	1,05,000
Borrowing costs not eligible for capitalisation	35,000	-	-	-	-	35,000
Exchange difference under Para 46 A of AS 11 (relating to depreciable capital asset)	72,000	72,000	72,000	72,000	72,000	3,60,000
Exchange difference under Para 46 A of AS 11 (others)	-	-	-	-	-	-
<b>Total</b>	<b>1,28,000</b>	<b>93,000</b>	<b>93,000</b>	<b>93,000</b>	<b>93,000</b>	<b>5,00,000</b>

Allocation of Exchange Differences



Allocation of Exchange Differences

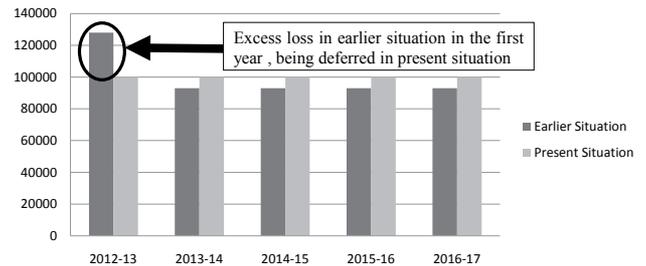


## Present Situation

S. No.	Particulars	Basis	Amount (₹)
(a)	Total exchange differences (on principal amount)	US \$ 1,00,000 x (Rs. 55/ US \$ – Rs. 50/ US \$)	5,00,000
(b)	Exchange differences under Para 46 A relating to depreciable capital asset	-	₹5,00,000
(c)	Exchange differences under Para 46 A relating to other than depreciable capital asset	-	-

## Analysis of the earlier and present situations

Allocation of Exchange Differences in P&amp;L Account



**Scenario II** (Long-term foreign currency borrowings relate to an asset which is a qualifying asset but not a depreciable capital asset, e.g., inventory)

A Ltd., dealing in manufacture of luxury cars, takes a loan of US \$ 1,00,000 @ ₹50/ US \$ on 1<sup>st</sup> April, 2012 repayable after 4 years. The said loan was taken for production of 5 luxury cars (assuming the cars as qualifying assets).

Following information is also provided:

Interest for the period (payable annually)	US \$ 8,000
Interest on local currency borrowings, i.e., the rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings	₹6,00,000
Exchange rate as on 31 <sup>st</sup> March, 2013	₹55/US \$
Luxury cars are sold in the year	2014-15

Exchange loss of ₹5,00,000	
Exchange difference to be accounted for under Para 46A of AS 11 = Rs. 5,00,000	
With respect to depreciable capital asset = ₹5,00,000	Others = Nil
Add to the cost of asset = ₹5,00,000	Accumulate in FCMITDA = Nil
Depreciate over the balance life of the asset = ₹1,00,000 p.a.	Amortise over the balance period of such long-term borrowing = Nil

Therefore, exchange loss of ₹5,00,000 should be charged to profit and loss account as under:

The company has decided to opt for Para 46A of AS 11.

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	₹	₹	₹	₹	₹	₹
Exchange difference under Para 46 A of AS 11 (relating to depreciable capital asset)	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000	5,00,000
Exchange difference under Para 46 A of AS 11 (others)						
Exchange difference under Para 46 A of AS 11 (others)	-	-	-	-	-	-
<b>Total</b>	<b>1,00,000</b>	<b>1,00,000</b>	<b>1,00,000</b>	<b>1,00,000</b>	<b>1,00,000</b>	<b>5,00,000</b>

**Earlier situation**

As discussed above, before applying Para 46A of AS 11, A Ltd. has to apply Para 4(e) of AS 16.

S. No.	Particulars	Basis	Amount (₹)
(j)	Total exchange differences (on principal amount)	US \$ 1,00,000 x (₹55/ US \$ – ₹50/ US \$)	5,00,000
(k)	Interest for the period	US \$ 8,000 x ₹55/ US \$	4,40,000
(l)	Interest that would have resulted if the loan was taken in Indian currency	–	6,00,000
(m)	Borrowing costs as per Para 4(e) of AS 16	(c) – (b)	1,40,000
(n)	Exchange differences to be accounted for under Para 46A of AS 11	(a) – (d)	3,60,000
(o)	Borrowing costs relating to qualifying asset	-	1,40,000

S. No.	Particulars	Basis	Amount (₹)
(p)	Borrowing costs relating to other than qualifying asset	-	-
(q)	Exchange differences under Para 46 A relating to depreciable capital asset	-	-
(r)	Exchange differences under Para 46 A relating to other than depreciable capital asset	-	3,60,000

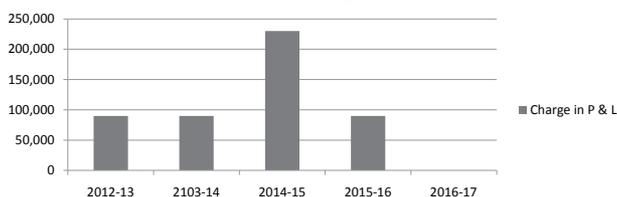
**Exchange loss of ₹5,00,000**

Borrowing costs (as per Para 4(e) of AS 16) = ₹1,40,000		Remaining exchange difference to be accounted for under Para 46A of AS 11 = ₹3,60,000	
With respect to qualifying asset = ₹1,40,000	Not with respect to qualifying asset = Nil	With respect to depreciable capital asset = Nil	Others = ₹3,60,000
Add to the Cost of Asset = ₹1,40,000	Charge to profit and loss account as an expense = Nil	Add to the cost of asset = Nil	Accumulate in FCMITDA = ₹3,60,000
	Depreciate over the balance life of the asset = Nil	Amortise over the balance period of such long-term borrowing = ₹90,000	

Therefore, exchange loss of ₹5,00,000 should be charged to profit and loss account as under:

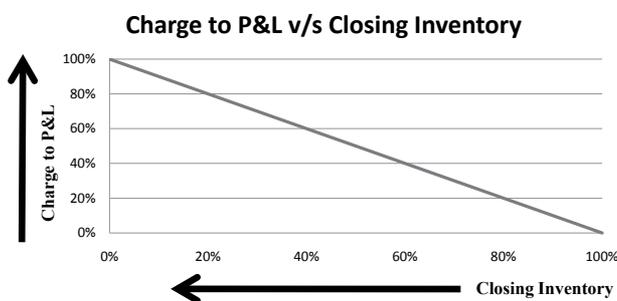
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	₹	₹	₹	₹	₹	₹
Borrowing costs (relating to qualifying asset)	-	-	1,40,000	-	-	-
Borrowing costs (others)	-	-	-	-	-	-
Exchange difference under Para 46 A of AS 11 (relating to depreciable capital asset)	-	-	-	-	-	-
Exchange difference under Para 46 A of AS 11 (others)	90,000	90,000	90,000	90,000	-	3,60,000
<b>Total</b>	<b>90,000</b>	<b>90,000</b>	<b>2,30,000</b>	<b>90,000</b>	<b>-</b>	<b>5,00,000</b>

**Allocation of Exchange Differences**



However, impact on profit and loss in this case will coincide with the sale of inventory, i.e., till the time the inventory (qualifying asset) is in stock, there will not be any impact on statement of profit and loss. The exchange loss will hit statement of profit and loss at

the time of sale of inventory. The relationship between 'impact on profit and loss' and 'closing inventory' is explained with the help of the following:



**Present Situation**

S. No.	Particulars	Basis	Amount (₹)
(d)	Total exchange differences (on principal amount)	US \$ 1,00,000 x (₹55/ US \$ – ₹50/ US \$)	5,00,000
(e)	Exchange differences under Para 46 A relating to depreciable capital asset	-	-
(f)	Exchange differences under Para 46 A relating to other than depreciable capital asset	-	₹5,00,000

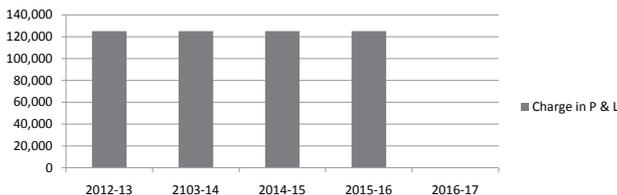
Exchange loss of ₹5,00,000

Exchange difference to be accounted for under Para 46A of AS 11 = ₹5,00,000

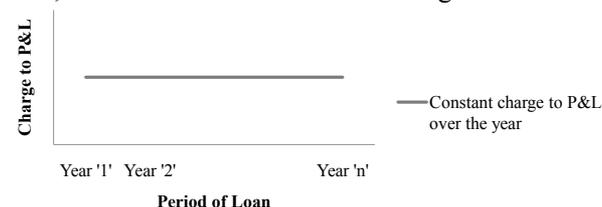
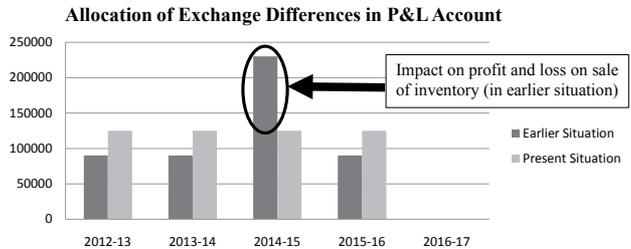
With respect to depreciable capital asset = Nil	Others = ₹5,00,000
Add to the cost of asset = Nil	Accumulate in FCMITDA = ₹5,00,000
Depreciate over the balance life of the asset = Nil	Amortise over the balance period of such long-term borrowing = Nil

Therefore, exchange loss of ₹5,00,000 should be charged to profit and loss account as under:

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	₹	₹	₹	₹	₹	₹
Exchange difference under Para 46 A of AS 11 (relating to depreciable capital asset)	-	-	-	-	-	-
Exchange difference under Para 46 A of AS 11 (others)	1,25,000	1,25,000	1,25,000	1,25,000	-	5,00,000
<b>Total</b>	<b>1,25,000</b>	<b>1,25,000</b>	<b>1,25,000</b>	<b>1,25,000</b>	<b>-</b>	<b>5,00,000</b>

**Allocation of Exchange Differences**

In the present situation, the charge to statement of profit and loss is allocated equally over the period of loan, which can also be seen in the diagram below:

**Analysis of the earlier and present situations**

**Scenario III** (Long-term foreign currency borrowings relates to an asset which is a depreciable capital asset but not a qualifying asset)

A Ltd., dealing in manufacture of luxury cars, takes a loan of US \$ 1,00,000 @ Rs. 50/ US \$ on 1st April, 2012 repayable after 4 years. The said loan was taken for acquisition of a machinery having life of 5 years (assuming the machinery as a depreciable capital asset, but not a qualifying asset).

Following information is also provided:

Interest for the period (payable annually)	US \$ 8,000
Interest on local currency borrowings, i.e., the rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings	₹6,00,000
Exchange rate as on 31 <sup>st</sup> March, 2013	₹55/US \$

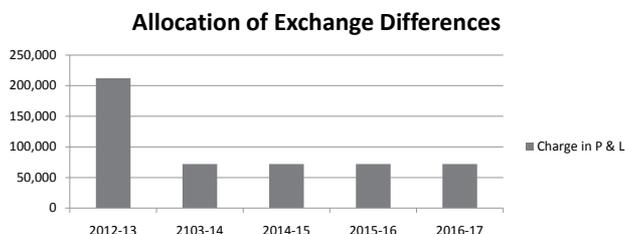
The company has decided to opt for Para 46A of AS 11.

**Earlier situation**

As discussed above, before applying Para 46A of AS 11, A Ltd. has to apply Para 4(e) of AS 16.

S. No.	Particulars	Basis	Amount (₹)
(s)	Total exchange differences (on principal amount)	US \$ 1,00,000 x (₹55/ US \$ – ₹50/ US \$)	5,00,000

S. No.	Particulars	Basis	Amount (₹)
(t)	Interest for the period	US \$ 8,000 x ₹55/ US \$	4,40,000
(u)	Interest that would have resulted if the loan was taken in Indian currency	-	6,00,000
(v)	Borrowing costs as per Para 4(e) of AS 16	(c) – (b)	1,40,000
(w)	Exchange differences to be accounted for under Para 46A of AS 11	(a) – (d)	3,60,000
(x)	Borrowing costs relating to qualifying asset	-	-
(y)	Borrowing costs relating to other than qualifying asset	-	₹1,40,000
(z)	Exchange differences under Para 46 A relating to depreciable capital asset	-	₹3,60,000
(aa)	Exchange differences under Para 46 A relating to other than depreciable capital asset	-	-

**Present Situation**

S. No.	Particulars	Basis	Amount (₹)
(g)	Total exchange differences (on principal amount)	US \$ 1,00,000 x (₹55/ US \$ – ₹50/ US \$)	5,00,000
(h)	Exchange differences under Para 46 A relating to depreciable capital asset	-	₹5,00,000
(i)	Exchange differences under Para 46 A relating to other than depreciable capital asset	-	-

Exchange loss of ₹5,00,000			
Borrowing costs (as per Para 4(e) of AS 16) = ₹1,40,000		Remaining exchange difference to be accounted for under Para 46A of AS 11 = ₹3,60,000	
With respect to qualifying asset = Nil	Not with respect to qualifying asset = ₹1,40,000	With respect to depreciable capital asset = ₹3,60,000	Others = Nil
Add to the Cost of Asset = Nil	Charge to profit and loss account as an expense = ₹1,40,000	Add to the cost of asset = ₹3,60,000	Accumulate in FCMITDA = Nil
		Depreciate over the balance life of the asset = ₹72,000 p.a.	Amortise over the balance period of such long-term borrowing = Nil

Exchange loss of ₹5,00,000	
Exchange difference to be accounted for under Para 46A of AS 11 = Rs. 5,00,000	
With respect to depreciable capital asset = ₹5,00,000	Others = Nil
Add to the cost of asset = ₹5,00,000	Accumulate in FCMITDA = Nil
Depreciate over the balance life of the asset = ₹1,00,000 p.a.	Amortise over the balance period of such long-term borrowing = Nil

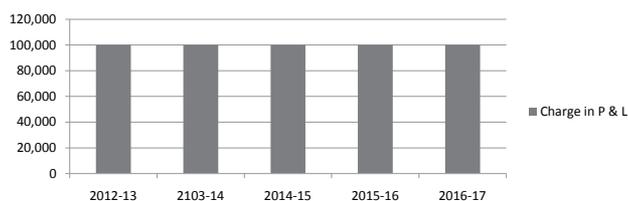
Therefore, exchange loss of ₹5,00,000 should be charged to profit and loss account as under:

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	₹	₹	₹	₹	₹	₹
Borrowing costs (relating to qualifying asset)	-	-	-	-	-	-
Borrowing costs (others)	1,40,000	-	-	-	-	1,40,000
Exchange difference under Para 46 A of AS 11 (relating to depreciable capital asset)	72,000	72,000	72,000	72,000	72,000	3,60,000
Exchange difference under Para 46 A of AS 11 (others)	-	-	-	-	-	-
<b>Total</b>	<b>2,12,000</b>	<b>72,000</b>	<b>72,000</b>	<b>72,000</b>	<b>72,000</b>	<b>5,00,000</b>

Therefore, exchange loss of ₹5,00,000 should be charged to profit and loss account as under:

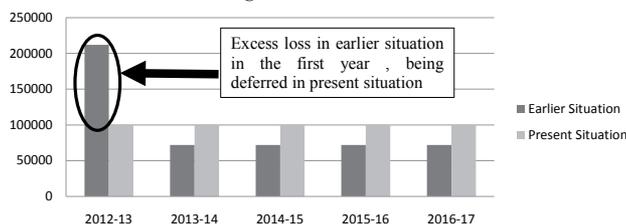
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	₹	₹	₹	₹	₹	₹
Exchange difference under Para 46 A of AS 11 (relating to depreciable capital asset)	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000	5,00,000
Exchange difference under Para 46 A of AS 11 (others)	-	-	-	-	-	-
<b>Total</b>	<b>1,00,000</b>	<b>1,00,000</b>	<b>1,00,000</b>	<b>1,00,000</b>	<b>1,00,000</b>	<b>5,00,000</b>

Allocation of Exchange Differences



### Analysis of the earlier and present situations

Allocation of Exchange Differences in P&L Account



**Scenario IV** (Long-term foreign currency borrowings does not relate to a depreciable capital asset as well as a qualifying asset)

A Ltd., dealing in manufacture of luxury cars, takes a loan of US \$ 1,00,000 @ ₹50/ US \$ on 1<sup>st</sup> April, 2012 repayable after 4 years. The said loan was taken for general purpose.

Following information is also provided:

Interest for the period (payable annually)	US \$ 8,000
Interest on local currency borrowings, i.e., the rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings	₹6,00,000
Exchange rate as on 31 <sup>st</sup> March, 2013	₹55/US \$

The company has decided to opt for Para 46A of AS 11.

### Earlier situation

As discussed above, before applying Para 46A of AS 11, A Ltd. has to apply Para 4(e) of AS 16.

S. No.	Particulars	Basis	Amount (₹)
(bb)	Total exchange differences (on principal amount)	US \$ 1,00,000 x (₹55/ US \$ – ₹50/US \$)	5,00,000
(cc)	Interest for the period	US \$ 8,000 x ₹55/US \$	4,40,000
(dd)	Interest that would have resulted if the loan was taken in Indian currency	-	6,00,000
(ee)	Borrowing costs as per Para 4(e) of AS 16	(c) – (b)	1,40,000
(ff)	Exchange differences to be accounted for under Para 46A of AS 11	(a) – (d)	3,60,000
(gg)	Borrowing costs relating to qualifying asset	-	-
(hh)	Borrowing costs relating to other than qualifying asset	-	₹1,40,000
(ii)	Exchange differences under Para 46 A relating to depreciable capital asset	-	-
(jj)	Exchange differences under Para 46 A relating to other than depreciable capital asset	-	₹3,60,000

## Present Situation

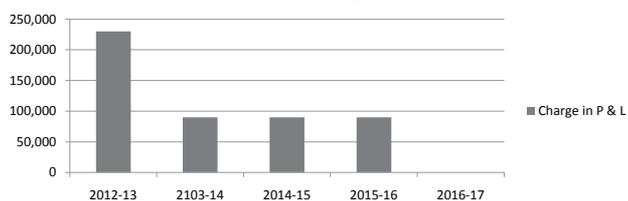
Exchange loss of ₹5,00,000			
Borrowing costs (as per Para 4(e) of AS 16) = ₹1,40,000		Remaining exchange difference to be accounted for under Para 46A of AS 11 = ₹3,60,000	
With respect to qualifying asset = Nil	Not with respect to qualifying asset = ₹1,40,000	With respect to depreciable capital asset = Nil	Others = ₹3,60,000
Add to the Cost of Asset = Nil	Charge to profit and loss account as an expense = ₹1,40,000	Add to the cost of asset = Nil	Accumulate in FCMITDA = ₹3,60,000
		Depreciate over the balance life of the asset = Nil	Amortise over the balance period of such long-term borrowing = ₹90,000

Therefore, exchange loss of ₹5,00,000 should be charged to profit and loss account as under:

S. No.	Particulars	Basis	Amount (₹)
(j)	Total exchange differences (on principal amount)	US \$ 1,00,000 x (₹55/US \$ – ₹50/US \$)	5,00,000
(k)	Exchange differences under Para 46 A relating to depreciable capital asset	-	₹5,00,000
(l)	Exchange differences under Para 46 A relating to other than depreciable capital asset	-	-

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	₹	₹	₹	₹	₹	₹
Borrowing costs (relating to qualifying asset)	-	-	-	-	-	-
Borrowing costs (others)	1,40,000	-	-	-	-	1,40,000
Exchange difference under Para 46 A of AS 11 (relating to depreciable capital asset)	-	-	-	-	-	-
Exchange difference under Para 46 A of AS 11 (others)	90,000	90,000	90,000	90,000	-	3,60,000
<b>Total</b>	<b>2,30,000</b>	<b>90,000</b>	<b>90,000</b>	<b>90,000</b>	<b>-</b>	<b>5,00,000</b>

## Allocation of Exchange Differences

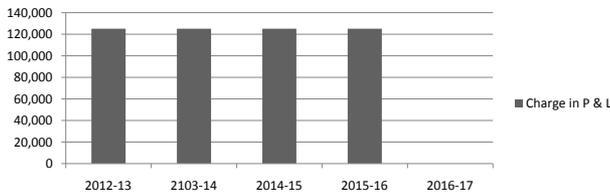


Exchange loss of ₹5,00,000	
Exchange difference to be accounted for under Para 46A of AS 11 = ₹5,00,000	
With respect to depreciable capital asset = Nil	Others = ₹5,00,000
Add to the cost of asset = Nil	Accumulate in FCMITDA = ₹5,00,000
Depreciate over the balance life of the asset = Nil	Amortise over the balance period of such long-term borrowing = ₹1,25,000

Therefore, exchange loss of ₹5,00,000 should be charged to profit and loss account as under:

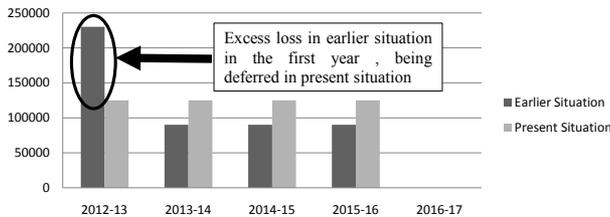
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	₹	₹	₹	₹	₹	₹
Exchange difference under Para 46 A of AS 11 (relating to depreciable capital asset)	-	-	-	-	-	-
Exchange difference under Para 46 A of AS 11 (others)	1,25,000	1,25,000	1,25,000	1,25,000	-	5,00,000
<b>Total</b>	<b>1,25,000</b>	<b>1,25,000</b>	<b>1,25,000</b>	<b>1,25,000</b>	<b>-</b>	<b>5,00,000</b>

### Allocation of Exchange Differences



### Analysis of the earlier and present situations

#### Allocation of Exchange Differences in P&L Account



### Conclusion

MCA's circular has given the following advantages to Indian companies in respect of long-term foreign currency borrowings which are opting for Para 46A of AS 11:

- Deferment of certain portion of foreign exchange losses
- No consequence of suspension and cessation of capitalisation under AS 16

However, there is a disadvantage too which is as follows:

- Current ratio will be affected in the case of an inventory (lying in stock) which is a qualifying asset as per AS 16

With a limited disadvantage and a lot of advantages, MCA's clarification on Para 46A of AS 11 will be very useful to Indian companies facing the burden of disclosing huge foreign exchange losses in current year profit and loss emerging out of long-term foreign currency borrowings. The use of the said clarification can be seen in the financial statements of various companies in upcoming reporting periods.

### Latest update: A step by ICAI towards improvement in presentation of financial statements

ICAI vide its announcement dated 30<sup>th</sup> March, 2013 (which supersedes Frequently Asked Questions (question no. 14) issued by ICAI on Para 46 of AS 11) considered the issue regarding the presentation of FCMITDA in the Balance Sheet prepared under the revised Schedule VI. As per ICAI, debit or credit balance of FCMITDA should be shown on the "Equity and Liabilities" side of the balance sheet under the head "Shareholders' Funds" under the sub-head "Reserves and Surplus" as a separate line item. ■

