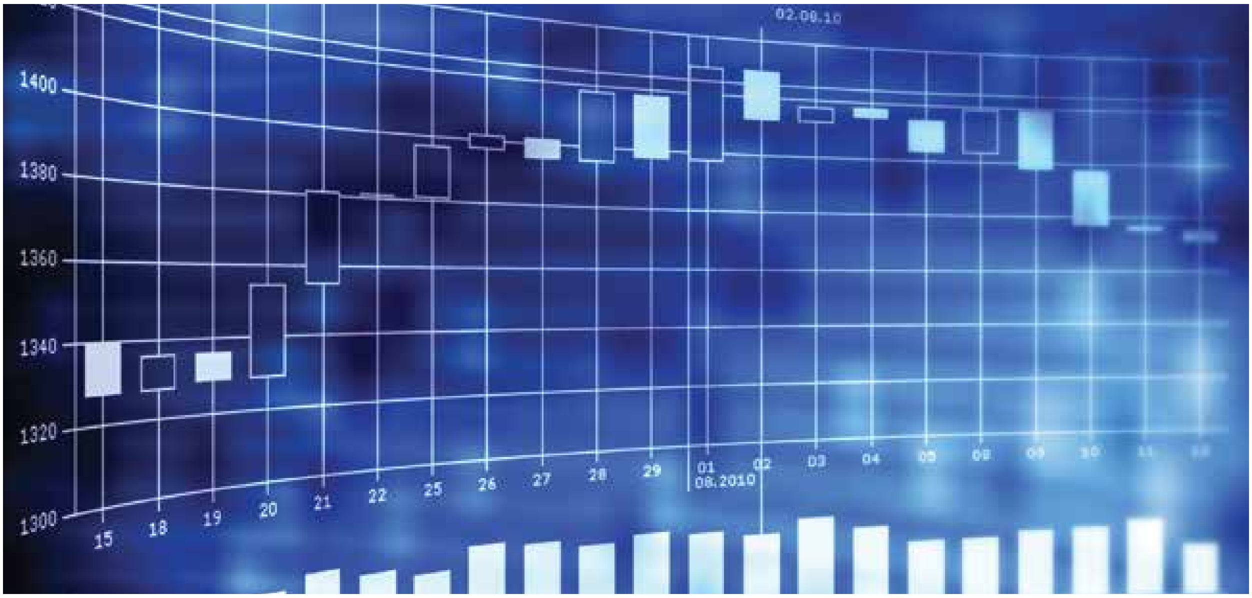
# Presentation of Forex Transactions in Revised Schedule VI




**The Ministry of Corporate Affairs, Government of India issued a Notification No. S.O. 447(E) amending the Schedule VI to the Companies Act, 1956 on 28th February, 2011, thereby providing a fresh and revised Schedule VI, prescribing a specific format for Balance Sheet, Statement of Profit & Loss Account and the disclosures to be made therein. Revised Schedule VI derives its importance statutorily through Section 211 of the Companies Act, 1956 which prescribes that the financial statements should comply with the requirements of Schedule VI, as far as they are applicable thereto. As per the amendment made by Notification No. S.O. 653(E) dated 30th March, 2011, the revised Schedule VI is applicable for the financial years commencing on or after 1st April, 2011. For the companies engaged in transactions in foreign currency, there are some specific presentation and disclosure requirements which include 'Presentation of Foreign Currency Monetary Item Translation Difference Account,' `Classification and Presentation of Foreign Exchange Fluctuation Loss/Gain,' `Disclosure of Expenditure in Foreign Currency,' `Disclosure of Dividend Remitted in Foreign Currency,' `Disclosure of Earnings in Foreign Currency' etc. Read on…**

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## Applicability of the Revised Schedule VI

The revised Schedule VI is primarily based on the presentation principles in the so-contemplated universal accounting language, International Financial Reporting Standards (IFRS).

Revised Schedule VI derives its importance statutorily through Section 211 of the Companies Act, 1956 which prescribes that the financial statements should comply with the requirements of Schedule VI, as far as they are applicable thereto. Hence, the revised format is supposed to be applicable to all the companies registered under the Act except Banking, Insurance and Electricity Companies, whether the converged Indian Accounting Standards (Ind-AS) are applicable to the company or not. Further, where a specific exemption has been provided to the company to comply with the provisions of Schedule VI, the exemption would prevail.

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For the companies engaged in transactions in foreign currency, there are some specific presentation and disclosure requirements[1] which are as follows:

1. Presentation of Foreign Currency Monetary Item Translation Difference Account
2. Classification and Presentation of Foreign Exchange Fluctuation Loss/Gain
3. Disclosure of Expenditure in Foreign Currency
4. Disclosure of Dividend Remitted in Foreign Currency
5. Disclosure of Earnings in Foreign Currency

These requirements are being discussed in brief below.

**While the Revised Schedule VI has retained certain disclosures as in pre-revised Schedule VI, many new disclosures have been added in the 'old wine' of Revised Schedule VI. By adding current/non-current classification, the lawmakers have focused on the liquidity aspect of the financial statements. Such classification and the new added disclosures are expected to help in presenting the same set of information in more fresh and more useful information.**

## Presentation of Foreign Currency Monetary Item Translation Difference Account

In a major respite to the Corporate India, the Ministry of Corporate Affairs had extended the earlier allowed relaxation vide Para 46 of AS-11 to immediately debit/credit the foreign exchange translation differences on long term foreign currency monetary items to the statement of profit & loss till 31st March, 2020 vide Notification No. GSR 913(E) dated 29th December, 2011 and further allowed the entities which did not opt for such relaxation earlier to opt for such relaxation, by inserting a new Para 46A in AS-11 and allowing them to defer the foreign exchange translation differences on long term foreign currency monetary items.

In terms of Para 46 and Para 46A of AS-11, if the borrowing was taken for acquisition of a depreciable capital asset, such translation differences had to be adjusted in the cost of the concerned asset to be depreciated over the balance life of the asset and in other cases, such differences had to be accumulated in "Foreign Currency Monetary Items Translation Difference Account" (FCMITD A/c) and amortised over the balance period of such long term monetary items.

ASB Guidance in the form of FAQs on AS-11 Notification had further clarified various issues in the application of Para 46 of AS-11, when the relaxation was provided for the first time. One of such issues was regarding the presentation of "Foreign Currency Monetary Item Translation Difference Account" in the financial statements. In this regard, it was clarified that *"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."*

On the principles enunciated in the ASB Guidance which was based on pre-revised Schedule VI, the FCMITD A/c created as per Para 46/46A of AS-11 can be presented in line with the presentation requirements of Deferred Tax Asset/Liability, which has to be classified as non-current only. Further, the final XBRL taxonomy released by the Ministry of Corporate Affairs for the financial year 2011-12 as per revised Schedule VI also places FCMITD Asset/Liability A/c immediately below the deferred tax asset/liability and classifying it as non-current, thereby substantiating the interpretation.

## Classification and Presentation of Foreign Exchange Fluctuation Loss/Gain

According to the General Instructions for Preparation of Statement of Profit & Loss issued by Ministry of Corporate Affairs, Government of India, net exchange gain/loss on foreign currency borrowings to the extent considered as an adjustment to interest cost needs to be disclosed separately as finance cost. Dealt in Para 4(e) of AS-16 and Accounting Standard Interpretation, it covers exchange differences on the amount of principal of the foreign currency borrowings to the extent of difference between interest on local currency borrowings, had such foreign currency borrowings

[1] *The list may not be treated as exhaustive.*

not taken place and interest on such foreign currency borrowings. Any such exchange differences would need to be disclosed under this head.

The net loss on foreign currency translation (other than considered as finance cost) should be classified as 'Other Expenses' and disclosed separately. Alternatively, such loss can be shown as a separate line-item on the face of Statement of Profit & Loss taking into account the materiality concept. Guidance Note on Revised Schedule VI further states that net foreign exchange gain should be classified as Other Income. This is because, such gain or loss arises purely on account of fluctuation in exchange rates and not on account of sale of products or services rendered, unless the business of the company is to deal in foreign exchange.

### Disclosure of Expenditure in Foreign Currency

Clause (b) of Note 5(viii) of General Instructions for Preparation of Statement of Profit & Loss issued by the Ministry of Corporate Affairs, Government of India provides for a disclosure of expenditure in foreign currency during the financial year, on account of royalty, know-how, professional and consultation fees, interest, and other matters. It should be noted that the disclosure is to be given on the basis of accrual system of accounting which is the amount of expenditure incurred & recorded in the books and not on the cash basis, by disclosing the actual amount of foreign exchange remitted during the year. For the provisions made for foreign exchange expenditure, appropriate translation in rupee terms may be done for the purpose of this disclosure requirement in accordance with Indian GAAP, which would normally be the closing rate on the reporting date.

Further, it has been suggested in the Guidance Note on the Revised Schedule VI that in cases where deduction of tax at source is involved, the preferable course would be to disclose the gross expenditure that has been incurred by the company. However, the author has the opinion that since the tax has been deducted from source, and this liability will ultimately be settled in the local currency, the disclosure of "expenditure in foreign currency" should be strictly limited to the amount remitted/to be remitted in foreign currencies. This opinion further gains strength from Para 11.2.7

of the Guidance Note on the Revised Schedule VI which states that *"disclosure is to be limited only to those cases where the company itself incurs a foreign currency expenditure. Where an expenditure involves foreign currency but the original payment by the company itself is in rupees, no disclosure is necessary."*

### Disclosure of Dividend Remitted in Foreign Currency

Clause (d) of Note 5(viii) of General Instructions for Preparation of Statement of Profit & Loss issued by the Ministry of Corporate Affairs, Government of India provides for a disclosure of total amount remitted during the year in foreign currencies on account of dividends with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related. Since the disclosure requirement is with regard to the "amount remitted" during the year, the disclosure has to be made in the year of actual payment rather than in the year in which the provision has been made in the books of accounts. Further, it has been clarified in the Guidance Note that if the dividend has been paid to the non-resident shareholder in Indian Rupees, this disclosure would not be necessary.

### Disclosure of Earnings in Foreign Currency

Clause (e) of Note 5(viii) of General Instructions for Preparation of Statement of Profit & Loss issued by the Ministry of Corporate Affairs, Government of India provides for a disclosure of earnings in foreign exchange. Foreign exchange earnings have to be classified under the following heads:

1. Export of goods calculated on F.O.B. basis
2. Royalty, know-how, professional and consultation fees
3. Interest and dividends, and
4. Other income (indicating the nature thereof)

The disclosure in respect of the above has also to be made on the accrual basis of accounting and subsequent receipt of the accruals should be ignored.

Further, in line with the issue arising in case of disclosure related to expenditure in foreign currency in cases of tax deducted at source by the payer, the issue has been addressed in the Guidance Note on the Revised Schedule VI by stating that the more appropriate basis of disclosure would be disclosing the earnings amount gross of tax, with a mention of net of tax earnings and tax deducted at source. This opinion seems logical, in the view that the Income Tax statute and various judgements have also held that the tax deducted at source is the deemed receipt of income.

**Further, Revised Schedule VI has also maintained the supremacy of the Companies Act, including Accounting Standards as applicable for the companies over itself which is expected to make the path to convergence of Indian Financial Statements towards Ind-AS would become a lot smoother, and such a transition to not even call for any further amendment in the Schedule VI. Hence, the farsightedness of the regulatory authorities has to be appreciated.**


### Revised Schedule VI - New Wine in New Bottle

While the Revised Schedule VI has retained certain disclosures as in pre-revised Schedule VI, many new disclosures have been added in the 'old wine' of Revised Schedule VI. By adding current/ non-current classification, the lawmakers have focused on the liquidity aspect of the financial statements. Such classification and the new added disclosures are expected to help in presenting the same set of information in more fresh and more useful information.

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