२

ACCOUNTING OF INTERNATIONAL TRANSACTIONS AND OPERATIONS

Ashish Arun Mulay
Assistans Professor, Head of Department of Commerce
Samyak sankalpa college, Kalyan(e).

ABSTRACT

Accountancy is the systematic and comprehensive recording of financial transactions pertaining to a business. Transactions between two or more countries are known as international transactions. In India AS-11 guides the accounting treatment for the effects of changes in foreign exchange rates. International transactions involve two currencies viz. Reporting Currency and Foreign Currency. The value of international transactions depends on the prices of the various currencies. The exchange rate is the price of a country's currency in terms of another country's currency. International transactions are classified in Import and Export. International operation refers to the transactions with Foreign Branch / Subsidiaries which is classified as Integral Foreign Operation and Non – Integral Foreign Transaction. Different rates are use to record the international transactions such as Fixed Rate and Floating Rate for Import and Export; Average Rate, Opening Rate, Closing Rate for consolidating Foreign Branch Accounts with the Head Office Accounts.

INTRODUCTION

Globalisation implies opening of local and nationalistic perspective to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods and services across national frontiers. However it does not include unhindered movement of lobour.

Now a days, due to globalization international transactions has enormous demand in the market. All such foreign transactions and operations have to be accounted properly to find out the foreign exchange gain or loss. Hence the traditional accounting procedures have to be modified as per the requirement.

A type of change in the specific rules in the accounting that go past the enforcing of standard accounting practices with the intention of keeping economies on a more national level. This will help the accountants to treat in a proper manner all such foreign transaction.

International transactions creates new market structure arising from digitalization, deregulation, globalization and open standards that are shifting the balance of economic power from the sellers to the buyers. To compete in these scenarios, a firm must adopt new process based information technologies and must keep a close watch on the price, quality and convenience trends.

Learning Objectives:

- Understand the concept of Accounting.
- International Transactions
- Accounting treatment of International Transaction
- Advantages of Accounting of International Transactions and Operation

Meaning:

A) Accounting:

"The systematic and comprehensive recording of financial transactions pertaining to a business." Accounting is called as 'language of the business. It is the measurement, processing and communication of financial information about economic entities.

B) International Transaction:

International transaction is the exchange of capital, goods and services beyond the national boundaries or territories. In other words, transaction between two countries is known as international transaction.

Accounting Treatment:

The end products of financial accounting are the financial statements which are used by several users for making economic decisions. In order to ensure transparency, consistency, comparability, adequacy and correctness for financial statements, Accounting Standards are have been framed.

In India Accounting Standard 11 (AS 11), The Effect of Changes in Foreign Exchange Rates (revised 2003), issued by the council of the Institute of Chartered Accountants of India came in to effect in respect of accounting periods commencing on or after 1.4.2004 and is mandatory from that date. As 11 provide guidelines to an accountant about how to deal with the international transactions. The rules and rates have to be apply are mention in AS 11, discussed later.

Currencies:

Reporting currency

It is a currency of the country in which the business is operating. e.g. If an organization operating in India, it has to present its all reports in Indian currency. Hence ` is reporting currency.

Foreign Currency

Currency of any other country than reporting is known as foreign currency. If business is operates in India then currency of any other country in the world is foreign currency for such business.

International Transactions:

International transaction is the exchange of capital, goods and services beyond the national borders or territories. International transactions are broadly classifies in Trade and Operations.

International Trade:

Import:

An import is a goods brought in to a jurisdiction especially across a national border, from an external source.

Export:

In international trade, export refers to selling goods and services produced in the home country to other market i.e. foreign market.

International Operations [Foreign Branch / Subsidiaries]:

Integral Foreign Operation-IFO (Dependent Branch):

Dependent Foreign Branch is a branch the activities of which are an integral part of those of the reporting enterprise. Generally IFO carries on business in a single foreign currency i.e. of the country where it is located. Thus, it makes sale of goods imported from Head Office and remits the proceeds to the head office in the same currency.

Non Integral Foreign Operation-NFO (Independent Branch):

Business of NFO is carried on in a substantially independent way by accumulating cash and other monetary items, incurring expenses, generating income and arranging loans in its local currency. An example of NFO may be production in Foreign Currency out of the resources available in such country of the head office.

Exchange Rates:

Foreign exchange is the name given to any foreign currency. The exchange rate is the price of a country's currency in terms of another country's currency. Accounting of international trade is done in two types of exchange rates viz. Floating Exchange Rate System and Fixed Exchange Rate System.

The system of exchange rate in which the value of a currency is allowed to adjust freely or to float as determined by demand for and supply of foreign exchange is called a flexible or floating exchange rate system.

The exchange rate, instead of being determined by demand for and supply of foreign exchange is fixed by the Government, is called as the fixed exchange rate system.

Recording of international operations is done through considering the opening and closing rates at the beginning and end of the financial year as well as average rate. All these rates have to be adopted properly for consolidating the foreign branch financial statements with head office financial statements.

Advantages of Accounting of International Transactions and Operations:

- Promotes international trade.
- Easy valuation of foreign debtors and creditors at the year end.
- Presents true and fair view of accounting records of foreign transactions.
- Consolidation of accounts becomes easy.
- Users of Financial Statements can understood it properly.

Conclusion:

Due to Globalization there is an enormous increase in the number of foreign transactions and operations. Hence it becomes the need of an accountant to have a particular knowledge about international accounting.

Reference:

- www.google.com
- Ahuja H. L. (2007) "Macro Economics Theories and Policies" S. Chand & Co. Ltd. (P.N. 647, 648)
- Gupta R.L. and Radhaswamy M. (2007) "Advanced Accountancy" Sultan Chand & Sons (P.N. II.16.1, II.18.74, II.18.75-76, II.18.77-78)

...