

NEWSLETTER

**JANUARY
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Happy new Year

2024

As the clock ticks into the new year, people everywhere have their own special ways to welcome it. In Japan, they ring temple bells 108 times on New Year's Eve in a tradition called "Joya-no-Kane." It's like a cleansing ritual, washing away the past and bringing in clarity. This unique tradition shows how people around the world celebrate with hope for a fresh start.

As we dive into the new year, let's imagine these traditions as threads weaving us all together. Whether it's temple bells in Japan or other customs, may our shared hopes create a beautiful tapestry of togetherness. Here's to a year full of progress, understanding, and endless possibilities.

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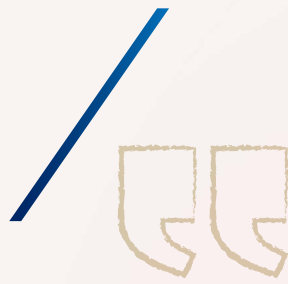
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Hello From Us



Dear Friends,

The celebration and emphasis on the word "New" can be attributed to several factors deeply ingrained in human psychology and societal dynamics. The allure of the new is often associated with the ideas of progress, improvement, and innovation. The word "New" is frequently associated with fresh ideas, technological advancements, and innovative solutions. Newness brings the promise of change and signifies the possibility of overcoming challenges and finding novel solutions to existing problems. However, it's essential to recognize the value of the "Old" as well. Tradition, heritage, and historical perspectives contribute significantly to our understanding of the world and shape our identity. While the celebration of the new is often linked to progress, it's crucial to strike a balance and appreciate the wisdom and experiences gained from the past. As we bid adieu to the cheers, the moments, the struggles, and the triumphs of the previous year, we reflect on the lessons learned and the experiences shared. These have shaped us and fortified our commitment to the excellence of our client services.



VIJAYA MOHAN
Managing Partner
Evas International

On that note, on behalf of Evas International, I extend our warmest greetings to all our readers for a joyous and prosperous New Year 2024! As we stand at the threshold of this new year, we eagerly welcome the opportunities and possibilities it brings. The year 2024 holds the promise of fresh challenges, innovative solutions, and continued growth, and we are excited to navigate this dynamic landscape alongside our valued clients and partners.

Over the past 12 months, the UAE has been a witness to a myriad of changes and accomplishments that have contributed to the strengthening of the national economy and the development of advanced services. The notable achievement of the UAE entering the top ten in the World Competitiveness Ranking for 2023, as published by the World Competitiveness Centre of the International Institute for Management Development (IMD), marks a significant milestone in the nation's economic journey. Securing the first position in the Middle East and North Africa region underscores the UAE's commitment to fostering competitiveness and innovation on a global scale. As the UAE continues on this trajectory of economic growth and competitiveness, it reinforces its status as a regional and global hub for business, innovation, and investment. The achievements of the past year serve as a testament to the nation's resilience, adaptability, and commitment to excellence on the world stage. Evas International extends heartfelt wishes to the United Arab Emirates and its esteemed leaders for a prosperous and successful year ahead. Evas stands in solidarity with the UAE in its pursuit of excellence, and we look forward to contributing to the nation's continued success.

Hello From Us



As we reflect on the past year, we are thrilled to share that Evas International has reached important milestones, further solidifying our position as a prestigious CA professional organization. The dedication of our team and our unwavering commitment to excellence have been instrumental in our notable success across various facets of our operations. Our clients remain at the center of everything we do. We are proud to have delivered exceptional service, addressing the unique needs and challenges of each client. At Evas International, we take great pride in upholding the highest professional and ethical standards, a commitment that lies at the core of our values. As a leading entity in the realms of finance and business, we recognize the pivotal role we play in ensuring compliance with ever-changing regulations and ethical standards. With the advent of Corporate Tax Law in UAE, we are happy to announce that we are resourceful and equipped to provide comprehensive guidance and expertise to ensure the seamless compliance and optimal tax strategies of the business communities.

We take pride in presenting to you a diverse and enriching academic experience through our new edition of Evas International Plus Newsletter, January 2024. Our commitment to providing a well-rounded experience is reflected in the depth and breadth of the subjects covered. We aim to offer a platform that resonates with a variety of interests and disciplines. As you embark on this journey of exploration and knowledge acquisition, we extend our heartfelt wishes for a happy reading experience. May the insights gained from this edition of our Newsletter contribute to your intellectual growth and professional development. Thank you for being a part of our academic community. Your continued support and engagement inspire us to strive for excellence in delivering valuable content.

Happy Reading !





NEOM

THE WORLD'S MOST AMBITIOUS PROJECT



Launched in 2017 by His Royal Highness Prince Mohammed bin Salman bin Abdulaziz, Crown Prince, and Prime Minister of Kingdom of Saudi Arabia, NEOM is a futuristic region in northwest Saudi energized entirely by renewable sources. Under the guidance of the Public Investment Fund, NEOM is a place that prioritizes people and nature, creating a new model for sustainable living, working, and prospering. It is a place where humanity can progress without compromising the health of the planet.

Neom will cover 26,500 square kilometres in northwestern Saudi Arabia, will contain 10 distinct developments that it terms regions.

THE LINE

The Line, which will run 170 kilometers across the nation's north, is the biggest project in the Neom development. It is intended to house nine million people in a city. The entire city will be kept inside two parallel, mirrored façade, 500-meter-tall linear skyscrapers 200 meters apart.

OXAGON

To facilitate connections with ships passing through the Suez Canal, Oxagon is designed as a floating port city. Part of the distinctive octagonal port will be on land, and a sizable floating structure will extend into the water. Neom's developers claim that when this offshore portion is finished, it will be the "world's largest floating structure".

TROJENA

About 50 kilometers from the Gulf of Aqaba, in the Saudi Arabian mountains of the Tabuk region, is where Trojena, a planned ski and adventure resort, is located. The announcement in 2022 that the resort had been awarded the right to host the Asian Winter Games in 2029 brought it international attention. The development will be centered on an artificial lake, with a ski resort atop one of the mountains. The Discovery Tower, a 330-meter-tall skyscraper, will also be part of the development.

SINDALAH

Constructed in the Red Sea close to the proposed location of The Line, Sindalah is a luxurious island resort. The resort will have 333 apartments arranged around a marina and multiple golf courses, in addition to three large hotels with 413 rooms and 88 villas.



LEYJA

There will be three "luxury high-end boutique hotels" in Leyja. The hotels will be set inside walls that rise to a height of 400 meters. The Adventure hotel will consist of a sequence of stepped volumes that cling to the side of a rock.

EPICON

Epicon is going to be a tourist destination with two connected skyscrapers. The angular, steel-clad skyscrapers, rising to heights of 225 and 275 meters, will house luxurious hotels and residences. There will be a beach resort with 45 beach villas and a 120-room hotel next to the skyscrapers.

SIRANNA

The hotel at Siranna, another tourist attraction on the Gulf of Aqaba, will be shaped like a hexagonal pillar. The 65-room hotel and 35 private residences are intended to "blend into the adjoining mountain" and will only be accessible by sea.

UTAMO

Utamo by Ricardo Bofill Taller de Arquitectura is an immersive events space that Neom describes as the "theatre of the future". The venue will be accessed from a 64-metre-high entrance clad in staggered stone blocks.

NORLANA

On the Gulf of Aqaba's coast, the 3,000-person coastal yachting town of Norlana is also planned. A 120-berth marina will be encircled by many hotels and apartments in the town. With an emphasis on sports, the development will also include an 18-hole golf course, a tennis club, and an equestrian club.

AQUELLUM

Described as an "ultra-luxury upside-down skyscraper", Aquellum will contain hotels, shops and apartments wrapped around an "underwater open square".

NEOM is a combination of the Greek word NEO (new) and M both the first letter of the Arab word Mustakbal (the Future) and of Crown Prince Mohammed bin Salman. Neom's official website promised that some people would live there from 2024 but said it would be 2030 before it would be home to a million people, and 2045 before it targets nine million population.

THE TRANSFORMATIVE POWER OF ARTIFICIAL INTELLIGENCE IN FINANCE

Artificial Intelligence (AI) has marked in a new era for the finance industry, reshaping traditional practices and unlocking unprecedented opportunities. As financial institutions embrace technological advancements, AI emerges as a key player, revolutionizing processes, enhancing decision-making, and redefining customer interactions. Let's analyze the various impact of AI on the finance sector and explore the ways it is being used to drive innovation and efficiency.



ALGORITHMIC TRADING AND MARKET INSIGHTS

One of the most prominent applications of AI in finance is algorithmic trading. AI algorithms, equipped with machine learning capabilities, analyze vast datasets in real-time, identifying patterns and trends that human traders might overlook. This not only enables lightning-fast trade executions but also provides valuable market insights. Hedge funds and institutional investors employ AI algorithms for algorithmic trading. These algorithms, driven by machine learning, analyze real-time market data, identifying patterns. This not only enables rapid trade execution but also provides valuable insights, empowering traders to make informed decisions in dynamic markets.

FRAUD DETECTION AND RISK MANAGEMENT

The rapid processing of large datasets by AI is extremely helpful in identifying and stopping fraudulent activity. Machine learning models examine transaction patterns, instantly identifying anomalies and possible threats. Financial institutions use artificial intelligence (AI) into the development of their risk management plans to protect themselves and their clients from the constantly changing financial threats.

CUSTOMER SERVICE AND PERSONALIZATION

AI-powered virtual assistants and chatbots have redefined customer service in the finance sector. These intelligent systems employ Natural Language Processing (NLP) to understand and respond to customer queries, streamline account management, and offer personalized financial advice.



CREDIT SCORING AND LOAN APPROVAL

Traditional credit scoring models often fall short in capturing the full financial picture of individuals. AI steps in by considering a broader range of data points, including non-traditional sources. Fintech companies utilize machine learning to assess creditworthiness, allowing for more accurate and inclusive loan approval processes. This approach opens doors for individuals with limited credit histories.

AUTOMATED COMPLIANCE AND REGULATORY REPORTING

The financial sector is governed by a complex set of rules, which makes compliance difficult. AI solutions automate compliance checks, ensuring that financial institutions adhere to ever-evolving regulatory frameworks. By efficiently generating regulatory reports, AI not only minimizes the risk of errors but also frees up resources for strategic decision-making.

PORTFOLIO MANAGEMENT WITH ROBO-ADVISORS

AI-driven robo-advisors have democratized wealth management, making investment advice accessible to a broader audience. These automated systems analyze market trends, risk tolerance, and financial goals to construct and manage personalized investment portfolios. This shift towards AI-assisted portfolio management enhances diversification and optimizes returns for individual investors.

PREDICTIVE ANALYTICS FOR FINANCIAL FORECASTING

The predictive analytics capabilities of AI are harnessed for financial forecasting. By analyzing historical data and market trends, AI systems make accurate predictions about stock prices, currency fluctuations, and other financial indicators. Investors benefit from these insights, making more informed decisions in an ever-changing market landscape.

So, in short:

As AI continues to evolve, its influence on the finance sector is poised to grow exponentially. From algorithmic trading to customer service and regulatory compliance, AI is not merely a technological add-on but a catalyst for transformation. Financial institutions embracing these advancements stand to gain a competitive advantage, providing better services, managing risks more effectively, and ultimately shaping the future of finance. The journey towards a more intelligent and adaptive financial ecosystem has only just begun, and the impact of AI is set to leave an inerasable mark on the industry.

Unraveling the Financial Web:

THE ROLE OF AML IN THE FIGHT AGAINST TERRORISM



One of the most powerful weapons in the endless global fight against terrorism is found in the complex world of finance, not on the battlefield. Countering illicit financial activities and combating terrorism are closely related, with Anti-Money Laundering (AML) emerging as a powerful tool in cutting off the financial support networks that give rise to terrorist groups. Let's examine the fascinating and complex role that AML plays in the larger plan to combat terrorism.



1. FOLLOW THE MONEY

The old phrase "follow the money" is extremely applicable to counterterrorism efforts. Terrorist groups require funding to function and survive, just like any other organization. The cautious design of anti-money laundering (AML) procedures allows for the methodical tracking and tracing of financial transactions. They are essential in exposing the underground routes terrorists use to transfer money across international borders and fund their evil operations. AML procedures serve as a tactical repellent, hindering the covert financial networks that fund terrorism. Authorities try to destroy the financial infrastructure that supports and facilitates international terrorism by closely examining and interfering with these illicit flows.



2. FINANCIAL INTELLIGENCE

An essential source of financial intelligence in the fight against terrorism is AML. Financial institutions, outfitted with sophisticated monitoring systems, closely examine transactions to detect any unusual patterns or anomalies that may indicate the possibility of financing terrorism. The insights gained from these analyses contribute to a better understanding of the financial networks that support terrorism and allow for more effective countermeasures to be implemented to disrupt sources of illicit funding.



3. DISRUPTING FUNDING CHANNELS

Financial institutions obstruct terrorist organizations' funding channels, both established and emerging, by enforcing stringent anti-money laundering regulations. This involves fighting money laundering, blocking access to trustworthy financial institutions, and preventing money from being transformed into resources for terrorist acts. Preventive measures of this kind are essential in stopping terrorist organizations from receiving the financial support they require to continue and expand their goals.



4. KNOW YOUR CUSTOMER (KYC)

The implementation of Know Your Customer (KYC) procedures is a fundamental aspect of AML. These procedures ensure that financial institutions have a comprehensive understanding of their clientele, posing a barrier to terrorists looking to covertly take advantage of the financial system. KYC is a preventative measure that strengthens financial institutions' integrity and fortifies their first line of defense against illicit financing.



5. INTERNATIONAL COOPERATION

The battle against terrorism is an international struggle, much like the free flow of money. Global cooperation and information sharing are key factors in the success of AML initiatives. Financial institutions collaborate across national boundaries, sharing intelligence and working together to demolish transnational financial networks that support terrorism. The effectiveness of initiatives to counter the global reach of terrorist financing is increased by this cooperative approach.



6. STRATEGIC REPORTING

Financial institutions are required by AML to notify relevant authorities of suspicious transactions as soon as possible. Reports that are accurate and timely are crucial in providing law enforcement with leads that enable them to investigate and block possible terrorist plots. This cooperation between law enforcement and financial institutions is essential to proactively stopping terrorist acts, highlighting the importance of information sharing and alertness in preventing the flow of illegal funds to terrorist organizations.



7. ADAPTING TO CRYPTOCURRENCIES

The difficulties in tracking down illicit funds are changing in line with the changing financial scene. AML programs are adapting to the rise of cryptocurrencies by adding controls to keep an eye on and manage transactions in the virtual world. This flexibility guarantees that the financial trail is not lost in the ongoing fight against terrorism, even in the age of decentralized currencies. It emphasizes how crucial it is to keep up with technological developments to preserve the effectiveness of anti-money laundering initiatives in the face of growing financial complexity.



8. STRIKING A BALANCE

AML procedures aim to achieve a delicate balance even as they prioritize tracking terrorists down via financial channels. It is a continuous challenge to make sure that the policies in place do not obstruct legal financial activities. AML specialists are guided in their work by ethical considerations, which highlight the significance of preserving accessible and secure financial systems.

In short, the interaction between AML and the fight against terrorism highlights how intertwined global security is. In addition to military strength and intelligence operations, the analysis of financial flows becomes a powerful tool in breaking up the complex webs that terrorists build. AML procedures continue to advance as a crucial part of the comprehensive plan to shield societies from the threat of terrorism, highlighting the necessity of flexibility in responding to new risks in order to maintain a strong defense against the dynamic field of illicit financial activities.



ISA 560

Subsequent Events

In the dynamic realm of auditing, the usage of international standards on auditing has a paramount importance. One such standard is ISA 560 "Subsequent Events". Subsequent events are events that occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report. This standard outlines procedures to identify, evaluate, and respond to such events, ensuring that the financial statements remain relevant and reliable. Subsequent events require either adjustments to or disclosures in the financial statements.



Examples of subsequent events that require adjustments to the financial statements include the following:

ITEMS	DESCRIPTION
Legal proceeding	Subsequent to the date of the financial statement, the company becomes involved in a significant legal dispute that could materially affect its financial position.
Loss of Key Customer or Supplier	If the company experiences loss of a major customer or supplier, that may affect the supply chain.
Technology Advancements	Technological developments that affect the carrying value of the company's intangible assets, such as patents or software, occur after the date of the financial statements.
Substantial Changes in Asset Values	Significant changes in the fair value of investments or other assets after the date of the financial statement due to market fluctuations, economic conditions, or other factors may require adjustments in the financial statements.

SCENARIO – 1

ABC LLC is a company engaged in chemical manufacturing. The audit for the year ended 31 December 2022 is under progress as on. During the final stage of the audit, on 4 February 2023, a court verdict has come on an ongoing lawsuit filed against ABC LLC for non-compliance with the environmental laws of the country. The management after having a discussion with the lawyer, understood that an unfavorable financial impact is probable for such violations and the estimated loss will have a material impact on the financial position of the company.

The above scenario require an adjustment in the financial statements since the estimated loss will have a material impact on the financial position of the company.

Examples of subsequent events that require disclosures in the financial statements include the following:

ITEMS	DESCRIPTION
Change in ownership structure	Subsequent to the date of the financial statement, a change in the ownership structure of the company has a significant impact on the financial statement and require disclosures in the financial statements to reflect the new ownership structure.
Change in Legislation	A significant change in laws or accounting practices subsequent to the date of the financial statement require disclosure in the financial statements in order to reflect the impact of such changes.
Natural disasters or catastrophic events	If a significant natural disaster or catastrophic event occurs after the financial statement date but before the auditor's report is issued, and it has a material impact on the entity's financial position, results of operations, or cash flows.
Issuance of financial guarantees	If the entity provides financial guarantees after the financial statement date but before the auditor's report is issued, and these guarantees have a material impact on the financial statements, disclosure may be required to inform users of the subsequent event.

SCENARIO – 2

XYZ LLC is a general trading company. The paid up share capital of the company is \$300,000 having 30,000 shares of \$10 each. Mr. X, Mr. Y and Mr. Z are the shareholders of the company holding equal number shares. The books of account of the company for the year ended 31 December 2022 have been closed and the audit is under progress. On 31 January 2023, the shareholding structure of the company has been changed, where Mr. Z has transferred his entire shares to Mr. X and Mr. Y in equal proportion. The transfer of shares has a material impact on the financial statements of the company.

The auditor after identifying the events on discussion with management and recommends that XYZ LLC discloses the details of the change in ownership structure in the notes to the financial statements.

OBJECTIVE OF ISA 560

The auditor's objectives are:

- (a) To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework; and
- (b) To respond appropriately to facts that become known to the auditor after the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

IDENTIFYING SUBSEQUENT EVENTS

ISA 560 emphasizes the importance of the auditor maintaining a continuous awareness of events occurring after the date of the financial statement. This involves a continuous capturing of events that are occurring till the finalization of the auditor's report. The auditor shall perform procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

EVALUATING THE EFFECT OF SUBSEQUENT EVENTS IDENTIFIED

The standard requires the auditor to evaluate the impact of the subsequent events on the entity's financial statement in order to determine whether the subsequent events identified require adjustment of, or disclosure in the financial statements and ensure whether each such event is appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. This aspect of ISA 560 provides a reflection of the entity's current economic condition.

With reference to Scenario – 1 discussed above, the auditor assesses the impact of the impending lawsuit on the financial statements. The auditor estimated a financial impact of \$10 million after discussing with legal experts and reviewing the verdicts of recent similar cases. The financial impact of \$10 million is considered material and likely to have a significant effect on the results of the company and company's financial position. Based on the information obtained, the auditor determines that an adjustment is necessary to reflect the estimated legal expense of \$10 million in the financial statements by which the financial statements accurately represent the company's financial position.

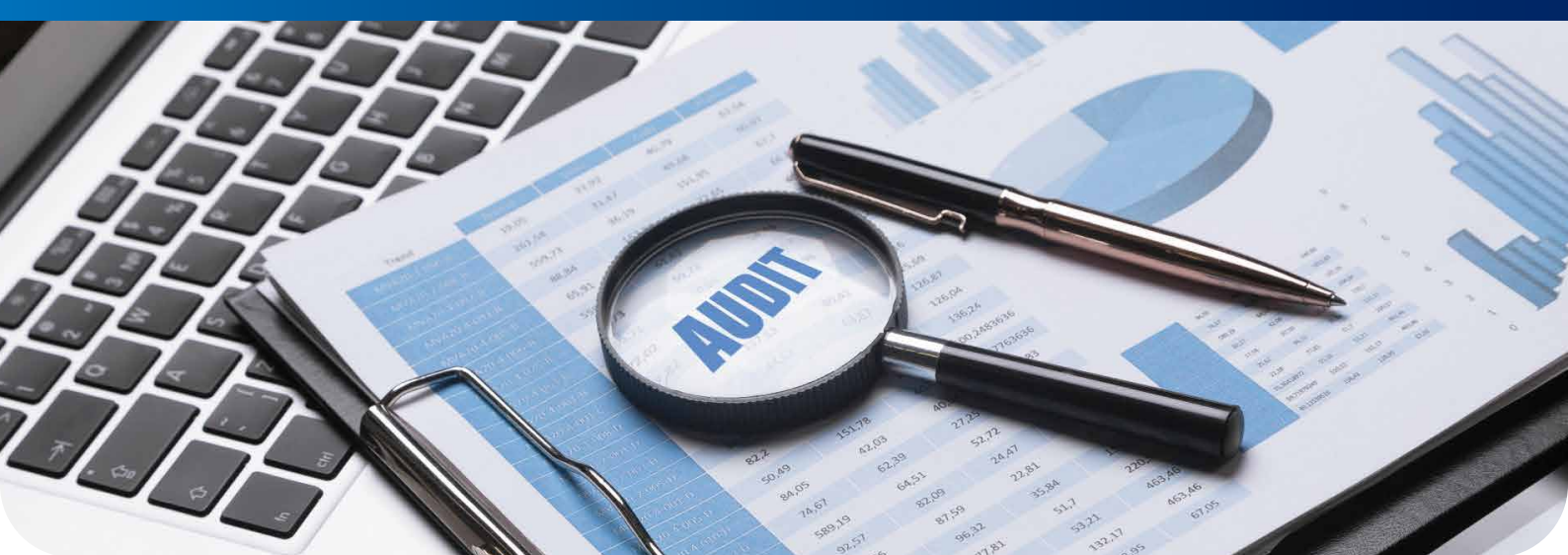
RESPONSIBILITIES OF THE MANAGEMENT AND THE AUDITOR

The standard outlays the requirement of effective communication of facts between the management and the auditor that come to light after the date of the financial statement but before the issuance of the auditor's report. The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

AMENDMENT TO THE AUDITOR'S REPORT (DUAL DATING)

Where law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events. In such cases the auditor shall either amend the auditor's report to include an additional date restricted to that

amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements or provide a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph or Other Matter paragraph that conveys that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.



RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES

Understanding management procedures for identifying subsequent events:

The auditor shall obtain an understanding of any procedures management has established to ensure that subsequent events are identified and reviewed them for evidence of events or transactions that may require adjustments or disclosures in the financial statements.

Inquiry of management: The auditor shall make specific inquiries of management about whether any events have occurred after the date of the financial statements that might affect the financial statements. These inquiries may include discussions about significant transactions, litigation, or other events that could have a material impact.

Reading minutes or contracts: : The auditor shall read the minutes of meetings of shareholders, board of directors, and committees and review any relevant agreements or contracts entered into after the date of the financial statements. This helps identify events that may have financial statement implications.

Reading the entity's latest subsequent interim financial statements:

If the company has issued interim financial statements after the date of the financial statements, the auditor should review the interim financial statements in order to obtain evidence for subsequent events or transactions that may require adjustments or disclosures in the financial statements.

Considering the Risk of Fraud: The auditor should consider the risk of fraud when evaluating the impact of subsequent events. Fraudulent financial reporting or misappropriation of assets may involve events or transactions occurring after the date of the financial statements.

Communication with management and those charged with governance:

The auditor should communicate with management and, where appropriate, those charged with governance to obtain information about events after the date of the financial statements that may affect the financial statements. This communication ensures that the auditor is informed of any relevant information.

Any external information: Any news, occurrence of event, natural calamity which has direct or indirect impact on the running of the company to be checked and evaluated. Also, any specific market news concerning the company to be factored.

AUDITOR'S RESPONSES TO ASSESSED RISK



Perform additional audit procedures:

If the existence of material subsequent events have been identified, the auditor should perform additional audit procedures to obtain sufficient and appropriate audit evidence. This may involve gathering more information, conducting interviews, or obtaining confirmations.



Adjusting the financial statements:

If the subsequent events identified requires adjustments to the financial statements, the auditor shall ensure that such adjustments has been appropriately made in the financial statements.



Dual dating of the auditor's report:

Dual dating involves dating the auditor's report as of the date of the original report and a later date to reflect the subsequent event's impact on the financial statements.



Modifying the auditor's opinion:

The auditor may need to modify the auditor's opinion, if the auditor concludes that a material misstatement exists in the financial statements due to subsequent events and the financial statements are not adjusted.



Disclosures in the Auditor's Report:

If there are material subsequent events that have been properly recognized or disclosed by management, the auditor may need to include a separate section in the auditor's report addressing these events.

CONCLUSION

The application of ISA 560, "Subsequent Events," in auditing offer substantial benefits that enhances the financial statement reliability by addressing the potential impact of subsequent events. Adherence to international standards on auditing, particularly ISA 560 fosters the shareholder confidence. Investors, regulators, and creditors are reassured by our commitment to upholding stringent standards in financial reporting. Timely identification and consideration of subsequent events form a proactive risk mitigation strategy, ensuring that financial statements are not only accurate but also resilient to unforeseen changes.

IAS 21

ACCOUNTING TREATMENT FOR THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES



Globalization brought major uplift to the world economy. The expansion was significant from local scale to international businesses under one roof. This resulted in many complexities in not only the operational aspects but also as a presentation of business transactions. In the complex global economy, the relevance of foreign currency and foreign operations are of high importance.

To overcome these complexities, the International Accounting Standard Board issued International Accounting Standard 21. This standard deals with how to account for foreign currency transactions and operations in financial statements, and also how to translate financial statements into a presentation currency.

This article explores the underlying principles of foreign exchange and its effects and strategies in accounting treatments.

CURRENCIES

Before delving into the accounting treatments, we should start with understanding the distinction between Functional currency and Presentation currency.

FUNCTIONAL CURRENCY

An entity's functional currency is the currency of the primary economic environment in which it operates. When determining the appropriate functional currency, management should give priority to the following factors:

PRIMARY FACTORS:

- ▶ Currency that mainly influences sales prices for goods and services
- ▶ Currency of country whose competitive forces and regulations determine sale prices
- ▶ Currency that most influencing operating costs

If functional currency is not determined using primary factors, then certain secondary factors can be utilized:

- ▶ Currency in which funds from financing activities are generated
- ▶ Currency in which receipts from operating activities are generated



If an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity (Foreign operation) rather than applying the rule for functional currencies simply use the same functional currency as of its reporting entity only when:

- ▶ The foreign operation operates as an extension of the reporting entity, rather than having significant autonomy
- ▶ Frequent transactions with reporting entity
- ▶ The cashflows are readily available for remittance to its reporting entity
- ▶ The foreign operation has sufficient cashflows to service its debts without needing funds from its reporting entity

PRESENTATION CURRENCY

Currency in which an entity presents its financial statements. This can be different from functional currency.

For example: ABC Ltd is a company having significant autonomy with operations in United Arab Emirates, which is the subsidiary of an US based company XYZ Ltd (Foreign operation) whose functional currency is US Dollar. Labour costs of ABC Ltd is paid in United Arab Dirhams and payments to the suppliers as well. But for the requirement of the parent company ABC Ltd need to present its financial statements in US Dollar.

So here, Functional currency of ABC Ltd is United Arab Dirhams and US Dollar is the Presentation currency.

Functional currency can also be determined by the judgement of the management.

CASE SCENARIO

ABC Ltd is an entity located in a country whose currency is in Dollars. All its equity shares are owned by an entity whose functional currency is the Euro. ABC Ltd has very few transactions with its parent and acts with significant autonomy. 70% of its sales are denominated in dollar and 30% of them are denominated in Euro.

ABC Ltd do not convert the receipts from customers into other currencies. They buy most of its inventory and pays for a large proportion of operating costs in Euro.

It has two bank loans outstanding; both of the loans are denominated in Dollars and do not have intra-group loan.

Here the Functional currency of ABC Ltd is Dollar because,

It does not qualify to follow same functional currency as that of its parent because it is having significant autonomy and not having any intra group loans (independent funding) so they need to check for primary and secondary factors for determining functional currency.

While checking the primary factors the sales is determined by Dollar, but large portion of operating cost is paid using Euro so functional currency is also not clear from the primary factors, so we need to go for secondary factor.

They do not convert the receipts from customers into other currencies, so the fund from operations are both in Euro and Dollar but the funds from financing activities are generated in Dollar that is, both of the bank loans are denominated in Dollar. Therefore, functional currency of ABC Ltd will be Dollar.

INITIAL RECOGNITION

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount, the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

A rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items (the average exchange rate over a specific period). However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

ABC Ltd is company having United Arab Dirham as functional currency, purchased an asset from France for 1,000 Euro on 20 December 2023 at an Exchange Rate (ER) of 1 Euro=4.02 AED. This transaction is recorded in the books of ABC Ltd on the converted value $1,000 \times 4.02 = 4,020$ AED that is translated into functional currency at the exchange rate prevailing as on the date of transaction (spot exchange rate)

SUBSEQUENT RECOGNITION AT THE CLOSING DATE OF BOOKS OF ACCOUNTS

Monetary items Units of currency held and assets/liabilities to be received/paid in a fixed or determinable amount of money (cash, trade receivables, trade payables) will be translated at closing rate at the reporting date any gain or loss arising from it will be recognised in the statement of comprehensive income. Non-monetary item that is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency (non-current assets, Inventory, investments) will not be translated. It will be recorded at the rate in the transaction date (Historic rate) if the item is carried at fair value should be translated on the date in which fair valuation takes place.

Example: XYZ Ltd with its functional currency as United Arab Dirhams, at the reporting date (31-03-2023) ABC has some monetary and non-monetary items denominated in foreign currency, the Euro.

Item	Amount in Euro	As on date
Cash at bank	1,000	31-03-2023
Property, plant and equipment 1	50,000	Purchased on 25-02-2021
Accounts payables	5,000	31-03-2023
Bank loan	20,000	31-03-2023
Property, plant and equipment 2	20,000	Purchased on 01-02-2020, the same is revalued as on 31-12-2022 at 25,000 Euro

AED to Euro Exchange rates:

As on Date	In Euro
31-03-2023	4.02
25-02-2021	4.00
31-12-2022	4.01

The presentation of these items will be:

Cash at bank, accounts payable and bank loan are monetary items, it will be translated at the closing rate that is exchange rate as on 31-03-2023,

Cash at bank = $1,000 * 4.02 = 4,020$ AED

Accounts payable = $5,000 * 4.02 = 20,100$ AED

Bank loan = $20,000 * 4.02 = 80,400$ AED

Property plant and equipment 1 is recorded at rate at the time of purchase of PPE that is 25-02-2021 the reportable amount will be $50,000 * 4.00 = 200,000$ AED.

Property plant and equipment 2 even if it is a non-monetary item, it is revalued as on 31-December 2022, then as on the reporting date it will be translated at the rate existed at the date on which revaluation of asset takes place, that is; **Euro $25,000 * 4.01$ AED = 100,250 AED.**

It's important to note that exchange differences arising from the translation of monetary items are recognized in the income statement. While exchange differences on non-monetary items are generally not recognized unless they are part of a hedging relationship. The details of these translations and any resulting exchange differences should be disclosed in the notes to the financial statements as required by the IAS 21.

RECOGNITION OF EXCHANGE RATE DIFFERENCES

MONETARY ITEMS

Exchange rate differences arising from monetary items are recognized in the income statement as part of the entity's profit or loss for the period.

- ▶ Suppose ABC Ltd company has a trade payable of 10,000 Euros at the beginning of the year, and the exchange rate was 1 Euro = 4.02 AED, resulting in a liability of 40,200 AED.
- ▶ At the end of the year, the exchange rate has changed to 1 Euro = 4.00 AED.
- ▶ The liability is retranslated using the new exchange rate: $10,000 \text{ Euros} * 4.00 = 40,000$.
- ▶ The exchange rate difference of 200 AED ($40,200 \text{ AED} - 40,000 \text{ AED}$) is recognized as income in the statement of comprehensive income.

In the context of consolidated financial statements, exchange differences arising from the translation of the financial statements of a foreign operation into the presentation currency are also recognized in the income statement.

Exchange rate differences are typically presented as a separate line item in the income statement, often under the heading of "Foreign Exchange Gain/Loss" or a similar description.

NON-MONETARY ITEMS

If a non-monetary item is measured at fair value (e.g., fair value through profit or loss), changes in fair value due to exchange rate fluctuations may be recognized in the income statement.

Non-monetary items carrying the values at historic cost are translated using historical exchange rates at the time of acquisition.

In the context of consolidated financial statements, exchange differences arising from the translation of the financial statements of a foreign operation into the presentation currency are generally recognized in other comprehensive income and accumulated in the foreign currency translation reserve.

Let us discuss an example,

ABC Ltd is the Parent Company having USD (U.S Dollar) as Presentation Currency and XYZ Ltd is the Foreign Subsidiary, operating in Europe with EUR (Euros) as its functional currency and they prepare its financial statements in EUR, including assets, liabilities, revenues, and expenses.

Exchange Rates as at different period are:

At the beginning of the year: 1 EUR = 1.20 USD

At the end of the year: 1 EUR = 1.15 USD

At the beginning of the year, XYZ Ltd has total equity of **1,000,000 EUR (1,000,000 EURO * 1.20 USD = 1,200,000 USD)** and at the end of the year, XYZ Ltd translates its financial statements into USD for consolidation purposes.

Total equity at the end of the year: 1,000,000 EUR * 1.15 USD = 1,150,000 USD.

The exchange difference is the change in the translated equity compared to the initial equity in USD.

The Exchange Difference will be 1,150,000 USD - 1,200,000 USD = (50,000 USD).

The foreign exchange loss of 50,000 USD is recognized in other comprehensive income in the consolidated financial statements.

The journal entry will be:

Other Comprehensive Income	Dr	50,000 USD
To Foreign currency translation reserve	Cr	50,000 USD

The recognized exchange difference is accumulated in the Foreign Currency Translation Reserve, which is presented as a separate component of equity, and it is part of the equity section on the consolidated balance sheet and consolidated statement of equity.

In subsequent periods, the exchange rates fluctuations would result in additional exchange differences, which would also be recognized in other comprehensive income and accumulated in the Foreign Currency Translation Reserve.



IAS 21

It's important to note that these exchange differences in the Foreign Currency Translation Reserve are not reclassified to the income statement unless the foreign operation is sold, in which case the cumulative amount in the reserve related to that operation is transferred to the income statement as part of the gain or loss on the sale.

AMENDMENT TO IAS 21

On 15 August 2023, the IASB issued amendments to IAS 21 to help entities to assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking.

An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose, in such a case the spot exchange rate needs to be estimated. The objective in estimating the spot exchange rate at a measurement date is to determine the rate at which an orderly exchange transaction would take place at that date between market participants under prevailing economic conditions. The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date using:

An observable exchange rate without adjustment

- (i.) a spot exchange rate for a purpose other than that for which an entity assesses exchangeability; or
- (ii.) the first exchange rate at which an entity is able to obtain the other currency for the specified purpose after exchangeability of the currency is restored.

Another estimation technique, for example, that could be any observable exchange rate adjusted as necessary to meet the objective of the new requirements.

The new requirements will be effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted.

CONCLUSION

In conclusion, International Accounting Standard 21 (IAS 21) plays a crucial role in guiding entities through the complex landscape of foreign currency transactions and translation. As we've explored in this article, IAS 21 provides a comprehensive framework for the determination of exchange rates, the accounting treatment of foreign currency transactions, and the translation of financial statements into a presentation currency. The standard not only ensures consistency in financial reporting but also facilitates a better understanding of an entity's financial performance on a global scale. Adhering to IAS 21's principles is not merely a regulatory requirement; it is a strategic imperative for organizations engaged in international business. As businesses continue to expand globally, the significance of IAS 21 becomes increasingly evident. It stands as a cornerstone for financial transparency and integrity, providing a universal language for businesses operating in diverse markets. The standard not only ensures consistency in financial reporting but also facilitates a clear understanding of a company's financial performance across borders.

Events

New Year and Christmas Celebrations



Achievements



Evas International Chartered Accountants is honored and proud to receive the award and recognition from the Ministry of Industry & Advanced Technology, UAE (MoIAT) for our contribution towards advancing Emiratization. We would like to extend our gratitude towards the MoIAT for supporting us with Emiratization goals. We will continue to hire required highly talented Emiratis in our organization.

10 INTERESTING FACTS IN CORPORATE WORLD

LARGEST FAST-FOOD CHAIN

McDonald's serves over 69 million customers daily in more than 100 countries, making it the largest fast-food chain in the world.

THE COCA-COLA SECRET RECIPE

Coca-Cola's original formula, created in 1886 by John Pemberton, is one of the most closely guarded trade secrets. The recipe is stored in a vault at the World of Coca-Cola museum in Atlanta.

AMAZON'S DIVERSE VENTURES

Amazon started as an online bookstore in 1994. Today, it has expanded its business to include e-commerce, cloud computing, artificial intelligence, and entertainment.

APPLE'S GARAGE STARTUP

Apple Inc. was founded in a garage by Steve Jobs and Steve Wozniak in 1976. The company started by selling homemade computer kits before evolving into the tech giant we know today.

GOOGLE'S UNIQUE OFFICE SPACES

Google's offices are known for their unconventional designs. Some features include nap pods, slides, and themed rooms, reflecting the company's commitment to creativity and innovation.

LEGO'S INTERLOCKING SUCCESS

The word "LEGO" is derived from the Danish words "leg godt," meaning "play well." LEGO bricks, first modern brick design was introduced in 1958, are designed to interlock consistently, contributing to the company's global success.

WARREN BUFFETT'S \$1 SALARY

Warren Buffett, one of the world's wealthiest investors, takes a salary of \$1 as the CEO of Berkshire Hathaway. His wealth comes primarily from his ownership of company shares.

THE OLDEST OPERATING COMPANY

The Kongo Gumi construction company in Japan holds the record for being the oldest continuously operating business in the world, established in 578 AD and run by the same family for over 1,400 years.

FACEBOOK'S BLUE COLOR SCHEME

Mark Zuckerberg is red-green colorblind, which influenced Facebook's blue color scheme. Blue is one of the colors he can see most vividly.

LAMBORGHINI'S ORIGIN

Ferruccio Lamborghini, the founder of Lamborghini, initially started the company as a result of dissatisfaction with his Ferrari. Lamborghini switched from making tractors to high-performance sports cars, creating a brand synonymous with luxury and speed.

*The aforesaid data are compiled based on various searches and user discretion is required for any interpretation.

THE UAE'S NATIONAL RAILWAY NETWORK

Etihad Rail is a 1200km railway infrastructure project, established to manage the development, construction and operation of the UAE's national freight and passenger railway network. The railway transforms logistics and transport in the region, providing a modern, safe, efficient and sustainable network that connects the seven emirates together and the UAE to its neighbouring GCC countries. The railway line runs from the Saudi border all the way across the UAE to Fujairah on the Indian Ocean coast. It is being developed with an estimated investment of AED40bn (\$11bn). By replacing traffic on the roads, Etihad Rail is projected to reduce CO2 emissions from the transport sector by 21 per cent.



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GGi
INDEPENDENT MEMBER

AUDIT & ASSURANCE | TAX | ADVISORY | COMPLIANCE | ACCOUNTING
CONSULTING | ICV CERTIFYING BODY | LRIP / ETIP CERTIFYING BODY