HMRC - CFM26050 - Basic Principles: Profit And Loss Account

Amount recognised in profit or loss

In accordance with all of accounting standards applicable in the UK, exchange gains and losses arising on translating monetary items are generally recognised in profit or loss (ie. in the profit and loss account or the income statement).

You will normally find exchange gains and losses arising from trading transactions, such as the £20 loss in the example at CFM26030 and the £150 profit in the first example at CFM26040, under ‘other operating income or expense’.

Exchange gains or losses from financing arrangements (such as the £10,000 exchange loss on the bank borrowing in the first example at CFM26040) will normally come under ‘other interest receivable (payable) and similar income (expense)’.

There is no requirement for the company to disclose in its statutory accounts what exchange differences are contained within these items. However, where a company submits a detailed profit and loss account with its corporation tax return, exchange differences will usually be separately identified.

The effect is that the company will recognise, as part of its normal operating profit, not only exchange gains or losses on settled transactions (as in the CFM26030 example), but also exchange gains and losses on unsettled items (as in the CFM26040 examples). It could be argued that it is not prudent to recognise exchange gains before they have actually been realised. There is more about this at CFM26060.

Under IFRS, New UK GAAP and FRS23 of Old UK GAAP there is one exception to this general rule that exchange gains and loss form part of normal operating profits. Where the liability or derivative hedges a net investment in a foreign operation or a future cash flow, the company may be able to designate the instrument as a net investment or cashflow hedge, with exchange movements recognised in reserves (in the STRGL or as other comprehensive income).

SSAP 20 under Old UK GAAP contained two exceptions to this general rule:

where there are doubts about the convertibility of the currency - see CFM26060.

where a liability (or a currency contract) hedges the company’s interest in a foreign operation - see CFM26120.

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