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| **Client Name:** Cosmopolitan Industries Pvt. Ltd. (CIPL) | | |
| **Accounting period:** 01 July 2020 to 30 June 2021 | | |
| **Prepared by:** Syed Muhammad Ali | | **Date:** 07 June 2021 |
| **Reviewed by:** Humaun Ahamed |  | **Date:** 09 June 2021 |
| **Final Reviewed by:** Faruk Uddin Ahammed, FCA, CISA |  | **Date:** 09 June 2021 |
| **Subject:** Foreign exchange gain and loss process | | |

**Objective:** The objective of this memo is to document **Foreign exchange gain and loss process** of the Cosmopolitan Industries Private Limited.

**Process performed:** On Foreign exchange gain and loss process of the Epic Group Limited following process is performed which is noted from the discussion with Mr. Md. Khayer Uddin (Deputy General Manager-Finance & Accounts).

A transaction can occur by using different base currency. A transaction is recorded on initial recognition in the functional currency and translated automatically into SAP to other currency at the date of transaction by applying end of previous month foreign currency exchange rate. At the end of the month central finance team extract GL balance, calculated and posted exchange gain and loss manually and posted entry is checked and approved monthly by CFO. No exchange gain and loss is recognized, if the received and payment made within the month of transaction.

At the end of each reporting period, foreign currency monetary items (trade receivables and payables or loans) are translated into the functional currency using the closing exchange rate as per **IAS 21: The Effects of Changes in Foreign Exchange Rates** and posted into SAP manually and reviewed by Central DGM and approved by Head of Central Finance.

At the end of each reporting period, foreign currency non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates that prevailed at the date when the fair value was measured as per **IAS 21: The Effects of Changes in Foreign Exchange Rates.**

**Step by step process is described below:**

* In the beginning of the month, currency rate of last date of last month is inputted in the system;
* In SAP system we observed that there is two way currency system to generate accounting entry, one is USD and other is BDT. If there is any transaction in BDT, it inputted in the system as BDT initially but after the end of month the closing conversion rate of previous month used to convert that amount to USD for reporting;
* Management records transaction in USD on spot basis although transactions are occurred in other than USD and BDT;
* The management at the ending of that month updates the actual rate of currency;
* As a result, the foreign currency exchange gain or loss is occurred and the journal entry posted by management.

**What could go wrong? :**

Exchange gain or loss charged in the accounts may be inaccurate because of wrong calculation.

**Controls points:**

For each month an opening rate is taken from bank and that rate is recorded in the system. System automatically takes the rate while converting BDT to USD or USD to BDT; at the end of the month actual closing rate is used for the conversion of balance sheet figures and monthly average rate is taken to compare the difference in profit and loss figure conversion. That difference is posted as exchange gain or loss. A sheet for this difference is prepared by Senior Manager and approved by Finance head.