

Currency Transactions (1).

Introduction

In this section you will learn basics of currency operations in Kazakhstan.

Learning Objectives

This tutorial will help you to learn:

- Basics rules for conducting currency operations in Kazakhstan
- How to correctly reflect export operations

Step-by-Step tasks

1. General order of carrying out operations in foreign currency.

The main documents regulating the order of carrying out operations in foreign currency on the territory of Kazakhstan are:

- Tax Code
- Law on Currency regulation
- Article 282 of the Civil Code
- Customs Legislation
- IAS 21 "The Effects of Changes in Foreign Exchange Rates"

Starting from January 1, 2002, all contracts on operations within the territory of the Republic of Kazakhstan should be signed in tenge.

Long-term contracts in foreign currency on operations within the Kazakhstan that were signed before January 1, 2002 are still valid.

The National Bank is no longer establishing the currency exchange rate as it was before. Currency exchange rate is determined as average rate from the last two trades on Kazakhstan's Stock Exchange. This average rate is published by the National Bank.

Working as an accountant you should distinguish between two similar terms: Exchange Difference and "Exchange Skew" (NOTE: IFRSs do not contain definition of Exchange Skew, but still it is used by Kazakhstan's companies in situations involving purchase of foreign currency by bank and transfer of this currency to company's currency settlement account).

- Exchange Difference - positive or negative difference arising from re-evaluation of the same sum in foreign currency on the company's currency accounts. This operation is normally conducted by company's serving bank (re-evaluation of currency on currency settlement account). After receiving bank's excerpt accountant should record appropriate journal entries to reflect these operations. Expenses arising from unfavorable exchange difference are recorded on group **7430**, gains from favorable exchange difference - on group **6250**.
- "Exchange Skew" - arises when currency is purchased on the stock exchange on one rate, but transferred to company's currency account at different rate. Unfavorable "exchange skew" is shown on group **7480**, favorable "exchange skew" - on group **6290**.

Next important definition is Transit Currency Account. Normally, before funds in foreign currency are transferred to company's Currency Account, they are stored in the bank's transit account. Banks have these accounts to work with numerous clients. Currency for several companies at a time can be purchased by the bank and then transferred to companies' currency accounts.

2. Export operations.

Let's consider a typical example of export operation.

Local company Triade+ signed a contract with foreign company for shipping 25,000 units of finished goods (trinkets). Cost: 15 tenge/unit. Total amount of the contract: \$2,000.

1) On March 3, 2022 Triade+ received a prepayment for goods in the amount \$1,000. Exchange rate: 400 tenge/\$.

Debit 1030 Credit 3510 – transaction amount 400,000 tenge / \$1,000

2) On March 10 Triade+ shipped all goods to the foreign firm. Exchange rate: 406 tenge/\$.

Our company should compute the exchange difference on advance payment received (when shipping goods):

Debit 7430 Credit 3510 – exchange difference:
(\$1,000*406 - \$1,000*400 = 6,000 tenge)

We should also record closing entry on advance, as well as show COGS and income:

Debit 3510 Credit 1210 – transaction amount: 406,000 tenge

Debit 7010 Credit 1320 – transaction amount 375,000 tenge (at cost)

Debit 1210 Credit 6010 – transaction amount 812,000 tenge / \$2,000 –
recognized income at the moment of shipping goods
(accrual basis of accounting).

3) On March 11 the remained portion of payment in the amount \$1,000 was received. Exchange rate: 410 tenge/\$.

Debit 1030 Credit 6250 – exchange difference:
(\$1,000*410 - \$1,000*400 = 10,000 tenge)

.. and recognize gain on exchange difference for receivables:

Debit 1210 Credit 6250 – recognizing favorable exchange difference:
4,000 tenge.

Debit 1030 Credit 1210 – transaction amount 410,000 tenge /\$1,000