

Currency Transactions (2).

Introduction

In this session you will learn more advanced concepts of accounting for currency operations and their implication in 1C: Accounting 8.3.

Learning Objectives

This tutorial will help you to learn:

- How to properly reflect operations on purchase of currency
- How to account for employees leaving to business trips abroad
- How to compute and show currency exchange differences
- How to conduct re-evaluation of currency by means of 1C: Accounting 8.3
- How to record operations on selling of currency
- How to work with credits from foreign parties
- How to pay customs duties and fees
- How to reflect import operations

Step-by-Step tasks

1. Purchase of Currency.

To conduct operations related to obligations on contracts with foreign parties, or for sending employees to business trips abroad companies need to purchase foreign currency.

Usually company writes a request to the serving bank for purchasing the requested amount of currency. Bank purchases currency and transfers it to the company's Currency Settlement Account. Some commission (e.g. 0.2% from the total amount of transaction) is also taken by the bank for its services.

A simple example of such operation is presented below (**NOTE: 1031 – Settlement Account (in tenge), 1032 – Currency Settlement Account (USD); 1012 – Currency Cash Register (USD)**):

On March 31, 2022 company requested its serving bank to purchase \$2,000. Currency exchange rate: 400 tenge/\$.

The first transaction:

Debit 1020 Credit 1031 – transaction amount 800,000 tenge / \$2,000

Next transaction shows transfer of money to company's currency account:

Debit 1032 Credit 1020 – transaction amount 800,000 tenge / \$2,000

The last transaction shows charge of bank's commission:

Debit 7210 Credit 1031 – amount: 800,000 tenge * 0.2% = 1600 tenge

2. Business Trips Abroad.

Company wants to send director to the business trip abroad (USA). Required sum for business trip: \$2,000 (before receiving money from the bank a preliminary computation should be done using the following sums: \$150/day - hotel, \$80 - daily allowance, + tickets). Company's serving bank purchased currency on April 1, 2022 at rate 402 tenge/\$. Money was transferred at market rate 400 tenge/\$. Bank's commission: 0.2%.

1) April 1, 2022 – Purchase of currency

Transaction to reflect payment from the Settlement account:

Debit 1020 Credit 1031 – amount 804,000 tenge / \$2,000 at 402 tenge/\$

Bank's commissions:

Debit 7210 Credit 1031 – amount: 804,000 tenge * 0.2% = 1608 tenge

a) Unfavorable "exchange skew":

Debit 7480 Credit 1020 – amount 804,000 - 800,000 tenge = 4,000 tenge.

Transfer of money to company's currency account:

Debit 1032 Credit 1020 – amount 800,000 tenge / \$2,000 at 400 tenge/\$

b) If money would be transferred at rate 404 tenge/\$ instead of 400 tenge/\$ the following scenario would take place:

...

Favorable "exchange skew":

Debit 1020 Credit 6290 – amount 808,000 - 804,000 tenge = 4,000 tg.

Transfer of money to company's currency account:

Debit 1032 Credit 1020 – amount 808,000 tenge / \$2,000 at 404 tenge/\$

2) April 4, 2022 – Getting currency to the cash register; giving it out to the employee

Before receiving cash from the currency account, chief accountant should write off a cheque to the bank. This cheque should be signed by the Chief Accountant and Director. After that cash is received from the bank. Currency exchange rate at that day was 410 tenge/\$:

Debit 1012 Credit 1032 – amount: 820,000 tenge / \$2,000

Then currency is given to the employee (expenses order should be also written):

Debit 1251 Credit 1012 – amount: 820,000 tenge

To leave abroad, employee should also get two visas: Kazakhstan's that permits leaving the country (it is usually given by the Ministry of Foreign Affairs for the period of 1 year) and visa from the accepting country (usually opened for 1-3 month; during the period stated in visa employee should visit USA). In our case director should first receive an invitation from the inviting firm, then go to the US Embassy, pay for (\$120) and successfully pass the interview, stating his reasons for leaving the country.

Business trip certificate should be also written off to the employee (4 seals should be putted: from our firm when employee leaves, from foreign firm when he arrives there, from foreign party when he leaves, and from our firm when he comes back).

After returning from the business trip an employee should prepare an advance report showing sums spent and attach all the required confirming documents (2 tickets, quittance from the hotel etc.).

3) **April 7, 2022** – Employee returns from the business trip. Currency exchange rate at that date: 408 tenge/\$. We will consider two possible cases: director has an over-expenditure of the advance sum confirmed by documents, or he did not spend the whole sum.

a) An employee spent \$2,200 while on business trip, after returning back he showed all the confirming documents. This sum should be compensated. We will assume that our company has some funds on its currency account.

Getting money from the currency account to the cash register:

Debit 1012	Credit 1032	– transaction amount:
		$\$200 * 408 = 81,600$ tenge

Now employee receives money from the cash register:

Debit 1251	Credit 1012	– transaction amount: 81,600 tenge
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... and show the unfavorable exchange rate difference: (company has $820,000 + 81,600 = 901,600$ tenge on Debit of account **1251**, and 897,600 tenge on Credit of account **1251**)

Debit 7430	Credit 1251	– amount: 4,000 tenge
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We should also prepare journal entries to close the business trip:

Debit 7210	Credit 1251	– transaction amount:
		$\$2,200 * 408 = 897,600$ tenge

b) An employee spent \$1,800 while on business trip, after returning back he showed all the confirming documents. This sum should be returned to company's cash register, and then transferred to the currency settlement account.

Employee returns money to the cash register at current exchange rate 408 tenge/\$:

Debit 1012	Credit 1251	– transaction amount:
		$\$200 * 408 = 81,600$ tenge

Currency is transferred to the company's currency settlement account:

Debit 1032 Credit 1012 – transaction amount: 81,600 tenge

... and showing unfavorable exchange rate difference:

Debit 7430 Credit 1251 – amount: 4,000 tenge

Journal entries to close the business trip:

Debit 7210 Credit 1251 – transaction amount:
\$1,800 * 408 = 734,400 tenge

3. Re-evaluation of Currency.

On April 1, 2022 company purchased \$2,000. This currency was transferred to the company's currency account at rate 400 tenge/\$. On April 4, 2022 currency exchange rate changed to 410 tenge/\$. On April 5, 2022 currency exchange rate became 406 tenge/\$. There were no operations on company's currency account.

1) **April 1, 2022** Rate: 400 tenge/\$

Debit 1020 Credit 1031 – transaction amount: 800,000 tg.
Debit 1032 Credit 1020 – transaction amount: 800,000 tg.

2) **April 4, 2022** Rate: 410 tenge/\$

Company should show favorable exchange rate difference:

Debit 1032 Credit 6250 – amount: $\$2,000 * 410 - \$2,000 * 400 =$
 $= 820,000 - 800,000 = 20,000$ tenge

3) **April 5, 2022** Rate: 406 tenge/\$

Company should show unfavorable exchange rate difference:

Debit 7430 Credit 1032 – amount: $\$2,000 * 410 - \$2,000 * 406 =$
 $= 820,000 - 812,000 = 8,000$ tenge.

3.1 Accounting for Exchange Rate Differences in 1C: Accounting 8.3.

Book-keeping of property and obligations of the organization, which are kept in foreign currency, has its unique features. The cost of this property and obligations is taken into account both in a foreign currency, and in tenge at the rate announced by the National bank of the Republic of Kazakhstan. At operations with property and obligations that are expressed in a foreign currency, recalculation is made.

If the rate announced by the National bank of the Republic of Kazakhstan for date of recalculation differs from the rate for date of the previous operation with the given property and obligation, there will be exchange rate differences. Since accounting for property and obligations is conducted on accounts, then, actually, reminders on accounts are subject to recalculation.

In this configuration recalculation is made for currency accounts 1030 "Money on Bank Accounts", and 1010 "Cash" (currency transactions are distinguished by their subconto).

Recalculation of money in cash register, banks and other credit establishments, payment documents, short-term securities (including loan obligations) with any legal entity and physical person, reminders of target financing, money from the budget or foreign sources within the technical or other aid to the Republic of Kazakhstan according to contracts, expressed in a foreign currency, in tenge should be made on the date of conducting the operation in a foreign currency, and also on the date of accounting reporting.

Arising currency exchange differences between the re-calculated amount and the amount which has been recorded on concrete object of the analytical accounting (balance at the moment of reevaluation) are recognized as profit or loss of the organization and credited to account **6250** "Income from exchange rates difference" and debited to account **7430** "Expenses from exchange rates difference". However, the corresponding amount in currency does not change.

To automatically form journal entries on recognition of arising exchange rates differences on the date of reporting (the end of the month) use document "Closing of the Month":

Заккрытие месяца: Новый *

Действия ▾

Номер: [] от: 31.03.2010 12:00:00 []

Организация: ТОО "FashionWalk" []

Выполняемые действия

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Список	БУ	НУ
<input type="checkbox"/> Начисление амортизации	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Списание резерва по переоценке ОС	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> Переоценка валютных средств	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Списание расходов будущих периодов	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Заккрытие производственных счетов	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Заккрытие счетов бухгалтерского учета	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Зачет НДС к возмещению	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Заккрытие подотчетных сумм	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Зачет авансовых платежей по налогам и сборам	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Регламентные операции налогового учета	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Расчеты по налогам на прибыль	<input type="checkbox"/>	<input type="checkbox"/>

Состояние: **Не выполнено**

Ответственный: Бухгалтер []

Комментарий: Заккрытие месяца за Март 2010

Бухгалтер Все операции Печать ▾ OK Записать Закрыть

It worth mentioning that this document makes recalculation of all accounts (in a view of concrete objects of the analytical accounting), which have currency account attribute. Such recalculation normally needs to be made only once, at the end of the month.

Within the month recalculation should be made only on those accounts and objects of the analytical accounting, on which there were flows of property and obligations expressed in a foreign currency. Such recalculations are done automatically by the program through documents Cash Receipt Order, Cash Expenses Order, Advance Report and Payment Order. Alternatively they can be carried out manually or with the help of typical operation.

Posting the document "Closing of the Month" implies recalculation of the rests of property and obligations those cost is expressed in a foreign currency, in tenge at the rate, announced by the National Bank for the given currency.

For proper recalculations information from directory "Currency" is used. For correct recalculation of property and obligations it should be updated regularly with up-to-date currency exchange rates.

NOTE: Already posted document can be processed again. In this case previously formed journal entries will be deleted and new entries will be formed.

4. Selling Foreign Currency.

On March 31, 2022 company received proceeds from exporting goods in the amount \$10,000. This currency was received at Transit Currency account at rate 404 tenge/\$ and then transferred to company's Currency Settlement Account at the same rate, according to the Bank's Excerpt.

On April 1, 2022 company gives an order to the bank to sell \$5,000 and transfer proceeds to company's Settlement Account. Bank's commissions: 0.2% from the amount of currency sold. Exchange rate: 406 tenge/\$.

On April 4, 2022 currency was sold. Bank purchased currency from the company at rate 408 tenge/\$. Official currency exchange rate: 410 tenge/\$.

To accomplish this task you may create accounts:

1032 – Currency Settlement Account
1033 – Transit Currency Account

1) **March 31, 2022** Rate: 404 tenge/\$

The first transaction to reflect receipt of money to the transit currency account:

Debit 1033 Credit 1210 – transaction amount:
\$10,000 * 404 = 4,040,000 tenge

Now funds are transferred to company's Currency Settlement Account:

Debit 1032 Credit 1033 – amount: 4,040,000 tenge

2) **April 1, 2022** Rate: 406 tenge/\$

No operations on company's currency account at that date. Re-evaluation of currency is not required.

3) **April 4, 2022** Bank's purchase rate: 404 tenge/\$, official rate: 410 tenge/\$.

Company should conduct re-evaluation of currency:

Debit 1032	Credit 6250	–	$\$10,000 * 410 - \$10,000 * 404 =$
			$= 4,100,000 - 4,040,000 = 60,000 \text{ tenge}$

Currency in the amount of \$5,000 was sold at 410 tenge/\$:

Debit 1020	Credit 1032	–	transaction amount:
			$\$5,000 * 410 = 2,050,000 \text{ tenge}$

This transaction shows expenses on "exchange skew":

Debit 7480	Credit 1020	–	amount: $2,050,000 - 2,040,000 = 10,000$
			tenge.

Proceeds from selling the currency were transferred to the company's settlement account at rate 308 tenge/\$:

Debit 1031	Credit 1020	–	transaction amount:
			$\$5,000 * 408 = 2,040,000 \text{ tenge}$

Next two transactions show bank's commission charges:

Debit 3310	Credit 1031	–	amount: $2,040,000 * 0.2\% = 4,080 \text{ tenge}$
Debit 7210	Credit 3310		

5. Taking a Credit (Loan) in Foreign Currency.

On May 6, 2022 according to the credit contract company received a short-term 2-month credit from Citibank in the amount of \$20,000 for purchase of Inventory. Currency exchange rate at that moment was 400 tenge/\$. According to the contract's terms company should pay 12% annual interest. Interest payment is calculated monthly. In the first month interest is charged, but not paid. In the second month interest payments are made and credit is repaid to the bank.

1) **May 6, 2022** Rate: 400 tenge/\$

The first transaction reflects receipt of bank's credit:

Debit 1032	Credit 3010	–	transaction amount:
			$\$20,000 * 400 = 8,000,000 \text{ tenge}$

2) **June 6, 2022** Rate: 410 tenge/\$

Company should conduct re-evaluation of credit according to the current exchange rate:

Debit 7430	Credit 3010	– transaction amount: $\$20,000 * 410 - \$20,000 * 400 =$ $= 8,200,000 - 8,000,000 = 200,000$ tenge
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... and charge 1% (12% / 12 month) at the same day:

Debit 7310	Credit 3050	– transaction amount: $\$20,000 * 0.01 * 410 = \$200 * 410 =$ $= 82,000$ tenge
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3) **July 6, 2022** Rate: 412 tenge/\$

Company should charge a new 1% for the credit (at 412 tenge/\$), and also conduct re-evaluation of 1% from previous month (that was at rate 410 tenge/\$):

Re-evaluation of the previous month's 1%:

Debit 7430	Credit 3050	– transaction amount: $\$200 * 412 - \$200 * 410 = 400$ tenge
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Charging 1% for the second month:

Debit 7310	Credit 3050	– transaction amount: $\$20,000 * 0.01 * 412 = \$200 * 412 =$ $= 82,400$ tenge
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Re-evaluation of credit:

Debit 7430	Credit 3010	– transaction amount: $\$20,000 * 412 - \$20,000 * 410 =$ $= 40,000$ tenge
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On July 6, 2022 company is obliged to return credit to the bank at current exchange rate:

Debit 3010	Credit 1032	– transaction amount: $\$20,000 * 412 = 8,240,000$ tenge
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... and also pay off interest on credit:

Debit 3050	Credit 1032	– transaction amount: $\$20,000 * 0.02 * 412 = \$400 * 412 =$ $= 164,800$ tenge.
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6. Paying Customs Duties and Fees.

While conducting import / export operations companies have to pay customs duties and fees to the budget. Below is a typical transaction that can be used in this case:

Transfer of customs duties and fees to the budget:

Debit 3560 Credit 1031

7. Import Operations.

Here is a simple example of import operations. Principles of import operations are the same as for export operations. Here we will assume that local company has resources on its currency settlement account and there were no changes in the currency exchange rate.

Local company signed a contract for purchasing motor oils from abroad. Total amount of the contract: \$10,000. Payment is made upon delivery.

1) **April 4, 2022** Exchange ate: 400 tenge/\$

Motor oils were received:

Debit 1330 Credit 3310 – transaction amount: 4,000,000 tenge

2) **April 5, 2022** Exchange ate: 400 tenge/\$

Payment is made to the foreign company:

Debit 3310 Credit 1032 – transaction amount: 4,000,000 tenge



Recommended Readings:

- 1) IAS 21 "The Effects of Changes in Foreign Exchange Rates" + Methodological Recommendations to IAS (web).
- 2) Комментарии к корреспонденциям счетов типовых операций – pp. 6-10 (handout).
- 3) 1С: Предприятие 8.0 – Конфигурация Бухгалтерия для Казахстана, редакция 1.0 – Руководство по ведению учета (KIMEP Library).