UNIFORM ACCOUNTING TREATMENT OF GAINS AND LOSSES RESULTING FROM CHANGES IN FOREIGN EXCHANGE RATES

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In order to maintain a uniform corporate accounting treatment of income and losses brought about by changes in foreign exchange rates, this Commission prescribes the following accounting procedures for all corporations covered by its regulatory authority.

1. When a corporation maintains a foreign currency deposit or has a foreign currency receivable, and at the same time owes a foreign currency obligation, the peso income on the deposit or receivable resulting from the change in foreign exchange rate shall be offset against the peso losses resulting from such change in rate on the liability account. Should there be an excess loss after the process, the same shall be deferred and charged to income from operation of the following year (in the case where inventories or other current assets were acquired) or amortized over the remaining life of the fixed assets purchased.

2. When a company does not have a foreign currency bank account or receivable, but has a foreign currency liability, the accounting for the peso loss shall be made, as follows:

a. If the dollar liability relates to acquisition of inventories or other current assets, the peso loss therefrom shall be charged to income from operation.

b. If the dollar liability relates to the purchase of fixed assets, the peso loss therefrom shall be capitalized or added as part of the cost of the fixed assets, provided that the increased amount of the assets shall not exceed their present replacement cost or market selling price. The excess loss thereon, if any, shall be charged to income from operation.

This circular is issued for the purpose of making the corporate community reflect the results of their foreign transactions under one accounting system for the guidance of this Commission and the investing public in general.

This circular shall take effect on financial statements ending December 31, 1997.

Adopted: 9 March 1998

(SGD.) PERFECTO R. YASAY, JR
Chairman

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