→ EXPORTS - INCOME TAX PROVISIONS

Tax Liability under Income Tax

The tax liability of a person under the Income-tax Act depends upon his residential status in the financial year in which the income accrues or arises to him or is received by him.

Residential Status: - The test of determining residential status of a person is laid down in section 6 of the Income-tax Act.

Financial Year: - Financial year means the period of twelve months commencing on the 1st day of April every year

WHO IS A RESIDENT? - Individual

- An individual is said to be resident in India in any financial year if he has been in India during that year:
- for a period or periods of 182 days or more; or
- for a period or periods of 60 days or more and
- has also been in India within the preceding four years for a period or periods of 365 days or more
- However, the period of 60 days is increased to 182 days
- (i) in the case of a citizen of India or a person of Indian origin who has been outside India and comes on a visit to India, and
- (ii) in a case when a citizen of India leaves India for purposes of employment outside India or as a member of the crew of an Indian ship.

Hindu Undivided family

- A Hindu undivided family or
- a firm or
- all association of persons
- is said to be resident in India in every case
- except where the control and management of its affairs is situated wholly outside India, during the financial year.

Company

- A company is said to be resident in India
- if it is an **Indian company** Or
- its place of effective management (POEM),
- in that year, is in India during the financial year.

Categories of Residents

- Residents are divided into two categories
- (a) resident and ordinarily resident, and
- (b) resident but not ordinarily resident.
- The status of 'resident but not ordinarily resident' is available only to the individuals and Hindu undivided families.

NON Resident

A person who is not resident in India as above, is a non-resident

Extent of tax liability for various residential status

- Resident and Ordinary Resident: all income from whatever source and where-ever derived in any financial year is taxable
- Resident and Not Ordinary resident: the income which accrues or arises to him outside India is not to be included in his total income unless it is derived from a business controlled in or a profession set up in India
- Non Resident: Only income which accrue/arise or deemed to accrue/arise in India is only taxable.

Income deemed to accrue or arise in India.

- Section 9 of the Income-tax Act contains provisions in respect of income deemed to accrue or arise in India, these are :-
- (a) through or from any business connection in India;
- (b) through or from any property in India;
- (c) through or from any asset or source of income in India;
- (d) through the transfer of a capital asset situated in India
- "business connection": It is not defined under the Act and has a wide meaning.
- It admits of no precise definition.

Meaning of 'Turnover/Gross receipts' under Income Tax

- 'Turnover' is not defined in the Act, thereby leading to different interpretations.
- As per 'Guidance Note on Terms Used in Financial Statement' published by the ICAI, the meaning of 'Turnover' shall be the aggregate amount for which sales are affected by an enterprise.

Income Tax Provisions - Imports

TDS Provisions under Income Tax for Import Transaction

Liability to Deduct TDS

Any person responsible for paying to a non-resident, not being a company, or to a foreign company, shall deduct income-tax thereon at the rates in force.

Any person who makes any payment (other than salary or interest referred to in sections 194LB, 194LC and 194LD) taxable in India to a non-resident must deduct tax under this section.

When to Deduct TDS under Section 195

- At the time of credit of such income to the account of payee or at the time of payment, whichever is earlier.
- For this purpose, "payment" can be in cash or by issue of a cheque or draft of by any other mode.
- If interest is payable by the Government or a public sector bank or a public financial institution, then tax deduction shall be made only at the time of payment thereof in cash or by cheque or draft or any other mode.

Thresh-hold limit to deduct TDS : -

There is no threshold limit to deduct TDS under Section 195.

 However, the payer must deduct tax only when the payment made to a nonresident is taxable in India.

Rates of deduction of TDS:

- TDS is deducted at either of the following rates, whichever is more beneficial to the payee:
- Rates as per the Finance Act of the given year
- Rates contained in the Double Taxation Avoidance Agreement (DTAA) between India and the country of residence of such non-resident

TDS rates under the Finance Act 2023

Particulars	Rates
Income from the investment made by an NRI (Interest/Dividend)	20%
Long-term capital gains arising from the transfer of the following assets as per Section 115E: • Shares of an Indian Company • Debentures and deposits of a Public Company in India • Securities issued by the government	10%
Long-term capital gain from listed shares and securities referred to in Section 112A	10%
Any other long-term capital gain	20%
Short-term capital gains under section 111A	15%
Interest payable by the Government or an Indian concern on the money borrowed in foreign currency	20%
Royalty and Fees for technical services payable by the Government or an Indian concern	20%
 Winnings from: Card games, lotteries, crossword puzzles, and other games of any sort Horse races Online games 	30%
Any other income	30%

FORM 15CA & FORM 15CB

- when a person desires to make any payment or remit any money to non-resident, the bank will require to check whether the tax was paid or not.
- Form 15CA is a declaration of remitter which is used as a mechanism for collecting information in respect of payments which are liable to tax on behalf of recipient nonresident.
- This form assists the Income Tax Department in keeping eye on foreign remittances & their tax accountability.
- 15CB is the Tax Determination Certificate where the CA verifies the remittance with respect to the liability provisions under Income Tax Act read with the provisions of Double Tax Avoidance Agreements.

Transfer Pricing

Indian Government introduce the Transfer Pricing (TP) Regulations via The Finance Bill (2001).

In the Income Tax Act, 1961 (IT Act) sections 92A to 92F relating to Transfer Pricing were inserted along with definitions to some key terms like associated enterprise, international transactions, and Arm's Length Price (ALP).

The process to determine the ALP along with other Compliance Procedures and Documentations required were also laid down in lines with International practices

Section 92 (Computation of Income from International transactions at Arm's Length Price)

- All International transactions and
- specified domestic transactions
- entered between associated enterprises
- for the purpose of allocation of cost or expense
- incurred/to be incurred
- for benefit, service or facility undertaken or to be undertaken
- then such cost or expense must be according to Arm's Length Price.

Associated Enterprises

- For the purpose of Sections 92, 2B, 92C, 92D, 92E, and 92F the term associated enterprises in relation to another enterprise shall mean, an enterprise
- A) Which participates either directly or indirectly or through one or more intermediaries in the control or management or capital of the other enterprise.
- B) In respect of one or more persons that participate either directly or indirectly or through one or more intermediaries in the control or management or capital
- are the same persons that participate either directly or indirectly or through one or more intermediaries in the control or management or capital of the other enterprise.

- For the purpose of sub-section (1), two enterprises will be deemed to be associated enterprises if any time during the previous year at any time-
- One enterprise holds directly or indirectly, shareholding carrying not less than 26% of the voting power in another enterprise.
- Any individual or an enterprise holds directly or indirectly not less than 26% of the voting power in each of such enterprises.
- Any loan advanced from one enterprise to the other company constitutes not less than 51% of the book value of the total assets of the other enterprise.
- The guarantees of one enterprise is not less than 10% of the overall borrowings of the other enterprise.
- More than half of the board of directors or the governing board, or the executive members or directors are appointed by the other enterprise.
- One enterprise has a dependency in terms of know-how, patents, trademarks, rights or any other business or commercial rights or any data, documentation, drawing or specification relating to any such patent, invention, model or design for manufacturing or processing of goods, and the other enterprise holds the rights to such patents.
- 90% or more of the raw materials or consumables are supplied by the other enterprise or by persons specified by the other enterprise, and the prices and other conditions relating to supply are influenced by such other enterprises.

- The goods or articles required by one enterprise are supplied by another enterprise, and the prices and other several conditions relating to supply are influenced by such other enterprises.
- Where one enterprise is controlled by an individual and the other enterprise is also in control of the same individual or his relative jointly.
- Where one enterprise is controlled by an undivided Hindu family, the other enterprise is controlled by a member of such Hindu undivided family or by a relative of a member of such Hindu undivided family or jointly by such member and his relative.
- Where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than 10% interest in such a firm, an association of persons or body of individuals.
- There exists between the two enterprises, any relationship of mutual interest, as may be prescribed.

International Transaction – Section 92 B

- This section defines international transaction(s) for the purpose of this Section and the Section(s) 92, 92C, 92D and 92E
- as a transaction between two or more associated enterprises, wherein either one or both the enterprises are non-residents.
- transactions shall be recorded through a mutual agreement or arrangement.
- If can be a
- purchase, sale or lease of tangible or intangible assets,
- provision of services,
- borrowing or lending of money or any other transaction
- which has some effect on the profit or income or loss or assets of the enterprises and
- the enterprises have mutually agreed to apportion cost or expense incurred in the process of such transactions.

Arm's Length Principle – Why Required

- The arm's length principle can be defined as:
- "entities that are related via management, control or capital in their controlled transactions
- should agree the same terms and conditions
- which would have been agreed between non-related entities
- for comparable uncontrolled transactions".
- If this principle is met, one can conclude that the terms and conditions of the particular transaction are 'at arm's length'.

Specified Domestic Transaction under transfer pricing regulations in India:

- As per section 92BA of Act, specified domestic transactions for an assessee means any of following transaction, not being an international transaction, namely:
- Any transaction referred in section 80A
- Any transfer of goods/services referred in section 80 IA (10)
- Any business transacted between assessee and person referred in section 80 IA (10)
- Any transaction referred to in any other section under Chapter VI or section 10AA, to which provision of 80 IA (10) (8) are applicable
- Any business transacted between the persons referred to in sub-section (6) of section 115BAB.
- any other transaction as may be prescribed.

- Sale of accomplished goods;
 - **Suying fixed assets**;
- The sale or buy machinery etc.
- Purchase of raw ingredients;
- Buy or sale of Intangibles.
- Return of expenses paid/received;
- Support services;
- Corporate Guarantee fees;
- Software Development service;
- IT services;
- Technical Service fees;
- Management fees;
- Royalty fee;
- Loan received or paid
- Any other transaction having an impact on the profit, income, losses or assets of enterprises.

Documentation for Transfer Pricing

- Section 92D(1) of the act says "Every person who has entered into an international transaction or specified domestic transaction shall keep and maintain such information and document in respect thereof, as may be prescribed in Rule 10D;
- Transfer Pricing Documentation requirement as per Rule 10D of the Indian Income Tax Rules, 1962 include:
- 1) Entity related
- /2) Price related
- 3) Transaction related

Transfer Pricing ('TP') Methodology

- The Indian Transfer Pricing Regulations have prescribed mainly six TP methods that can be used to determine accurate arm's length price for international transactions. These are:
- 1) Cost Plus Method ('CPM')
- 2) Resale Price Method or Resale Minus Method ('RPM')
- 3) Comparable Uncontrolled Price ('CUP') method
- 4) Profit Split Method ('PSM')
- 5) Transactional Net Margin Method ('TNMM')
- 6) Other Method

Cost Plus Method

- This method can be adopted in following cases:
- 1. Transfer of Goods
- 2. Provision of Services
- 3. Intangibles
- 4. Loan and Provision of Financial Services
- Çósts to Consider:

Direct costs

Indirect costs

Gross Profit Mark-up

Resale Price Method or Resale Minus Method

- Rule 10B(1)(b) of the <u>IncomeTax</u> Rules, lays down the following transfer pricing regulations on resale price method:
- The Price at which property purchased or services obtained is resold or are provided to an unrelated enterprise, is identified;
- Such resale price is reduced by the amount of a normal gross profit margin
- The price is further reduced by the expenses incurred in connection with the purchase of property or obtaining of services;
- The price further adjusted for functional and other differences which could materially affect the amount of gross profit margin in the open market;
- The adjusted price arrived above is taken to be an arm's length

When to use the Resale Price Method

- Distributor Companies
- Reliable calculation of Cost of Goods Sold
- No Major Value Addition by Distributing Enterprise
- When the Cost Plus Method is not reliable

Comparable Uncontrolled Price Method (CUP)

- Comparable uncontrolled transaction can be used as CUP if one of the following two conditions is met:
- None of the differences (if any) between the transactions being compared or between the
 enterprises undertaking those transactions could materially affect the price in the open market;
 or
- Reasonably accurate adjustments can be made to eliminate the material effects of such differences.

Internal CUP Method:

In this method of CUP the buyer entity is the subsidiary of the selling entity and the seller also sells the product to some other external entity in the same geographical market as of its subsidiary entity.

External CUP Method:

When two unrelated entities do business of sale and purchase it is known as external CUP.

CUP Method - Rule 10B(1)(a) of the <u>Income</u> Tax Rules, 1962

- Rule 10B(1)(a) of the Income Tax Rules, 1962 lays down the regulations for the Comparable Uncontrolled method that must be complied with.
- They state as follows:
- (i) The price charged or paid for property transferred or services provided in a comparable uncontrolled transaction, or a number of such transactions, is identified
- (ii) Such price is adjusted to account for differences, if any, between the international transaction and the comparable uncontrolled transactions or between the enterprises entering into such transactions, which could materially affect the price in the open market
- (iii) The adjusted price arrived at under sub-clause (ii) is taken to be an arm"s length price ("ALP") in respect of the property transferred or services provided in the international transaction

Profit Split Method

- This method begins with identifying the profits sharing ratio between the associated enterprises relative to the contribution that each enterprise has made to the transaction.
- To apply the total profit split method, related companies must determine the combined net profit arising from the transactions
- Such profits represent the profits earned from third parties due to the combined efforts of the related companies.
- The residual profit split method looks at total profits,
- removes the profits made by the routine functions of both parties,
- computed using the comparable profits method, and residual profits are split, generally based on each party's investments and relative spending.

Profit Split Method Rule 10b(1)(d) of the Income Tax Rules

- Rule 10b(1)(d) of the <u>Income Tax</u> Rules, lays down the Indian Transfer Pricing Regulation for the Profit Split Method as following:
- 1) The combined net profit arising from the international transaction, is determined;
- 2) The relative contribution made by each to the earning of combined net profit,
 - is then evaluated
 - on the basis of the functions performed, assets employed or to be employed and risks assumed by each enterprise
 - and
 - on the basis of reliable external market data
- 3) The combined net profit is then split amongst the enterprises in proportion to their relative contributions,

Transactional Net Margin Method

- Steps
- Computation of Net Profit Margin from transaction under consideration
- Identification of Comparable Uncontrolled Transaction
- Computation of Net Profit Margin for comparable uncontrolled transaction
- Adjustment to Net Profit Margin of Comparable Uncontrolled transactions
- Computation of Arm's Length Price

Selecting Most Appropriate Method (MAM)

- no specific hierarchy of methods for transfer pricing.
- It insists on applying the 'Most Appropriate Method' (MAM) along with Rule 10C of the Income Tax Rules 1962.
- where more than one arm's-length price is determined by applying the MAM, the arithmetic mean (average) of such prices shall be the arm's-length price
- if the variation between the arm's-length price and the price at which the transaction has actually been undertaken does not exceed the specified range of the latter (3%)
- the price at which the transaction has actually been undertaken shall be deemed to be the arm's-length price.

Rule 10C(2) of the Income Tax Rules

- However, Rule 10C(2) of the Income Tax Rules provides for following factors which can be considered for selecting the most appropriate method.
 - the nature and class of the international transaction [or the specified domestic transaction];
 - the class or classes of associated enterprises entering into the transaction and the functions performed by them taking into account assets employed or to be employed and risks assumed by such enterprises;
 - the availability, coverage and reliability of data necessary for application of the method. Nature of data available helps in determining the method of computation of ALP.
 - the degree of comparability existing between the international transaction and the uncontrolled transaction and between the enterprises entering into such transactions
 - extent to which reliable and accurate adjustments can be made on account of difference in international transactions and the comparable uncontrolled transaction.
 - the nature, extent and reliability of assumptions required to be made in application of a method.

Secondary Adjustments under transfer pricing

Situations/Conditions requiring Secondary Adjustment

- An Indian entity is required to make a secondary adjustment, under the following situations:
- Suo motu by the Indian Entity in their return of income;
- An Adjustment by the assessing officer (AO) during assessment proceedings, and has been accepted by the Indian Entity
- An adjustment determined by an Advance Pricing Agreement (APA) entered into by the taxpayer;
- An adjustment made as per the safe harbour rules (SHR); or
- An adjustment arising as a result of the resolution of an assessment by way of mutual agreement procedure (MAP).

- Where, as a result of primary adjustment there is an increase in the total income or reduction in the loss of an Indian Entity then,
- excess money which is available with its foreign associated enterprise (AE),
- if not repatriated to India within the time as prescribed,
- will be deemed to be an advance made by the Indian Entity to such AE
- and
- the interest on that advance will be computed as the income of the Indian Entity, in the manner prescribed.
- A secondary adjustment would not be applicable, if the amount of a primary adjustment made did not exceed INR 10 million.

Related party transaction under GST

- Section 15 of <u>CGST</u> Act, <u>2017</u> deals with provisions of Determination of value of Goods and services.
- As per section 15, where <u>supply</u> is made between related parties then value of supply shall be:
 - Open Market Value of Such Supply
 - If Open Market value is not available, value of supply of like kind and quality;
 - If the value is not determinable under clause (a) or (b), be the value as determined by the application of rule 30 or rule 31.
- In case where the recipient is eligible for Input Tax Credit then value declared in Invoice shall be considered to be Open Market Value.
- Further, as per Schedule I of <u>CGST Act</u>, supply made between related persons without consideration is still considered as supply and therefore is liable to GST.
- Scope of <u>related party</u> is wide under GST and covers domestic transactions as well.

Documentation for Transfer Pricing

- India adopted a three- tiered approach by envisaging
 - a master file;
 - a local file and
 - a country-by-country report

- The master file is to be furnished by a constituent entity of an international group having consolidated group revenue exceeding 500 crore rupees and the aggregate value of international transaction exceeding 50 crore rupees
- the local file provides more detailed information relating to the specific intercompany transactions supplementing the master file.
- The country-by-country report is to be furnished by a parent entity or an alternate reporting entity or any other constituent entity resident in India.

Returns under Transfer Pricing

	Particulars	Section	Details
	Transfer Pricing Audit	Section 92E	Form 3CEB by 30th November
	Return of Income	Section 139	ITR 1/2/3/4/5/6/7
	Master File	Section 92D	Form 3CEAA by 30th November
	Intimation by a designated constituent	Section 92D (4)	Form 3CEAB
	Intimation by a designated constituent	Section 286 (1)	Form 3CEAC to be filed 2 months prior to the due date of CbCr
	Country by Country Report	Section 286 (2) & (4)	Form 3CEAD to be filed in 12 months from end of reporting Accounting year.



Benefits of Transfer Pricing

Reduction in Duty Payable on Import

reduce income taxes in countries that have comparatively high tax rates

Risks Associated with Transfer Pricing

- determining the pricing policy for intangibles like services is very difficult
- not possible to find independent uncontrolled transactions

Some More Concepts in Transfer Pricing

- Arm's Length Range : -
- Comparability of Arm's Length Price : -
- Special situation for certain Transaction
- Burden of Proof
- Safe Harbour Rules

Dispute Resolution Mechanism under Transfer Pricing

- Dispute resolution mechanisms applicable
 - a) domestic mechanisms and
 - b) the mutual agreement procedures under the tax treaties.

If variation in Income or loss not acceptable to tax payer he can file his objections to the Dispute Resolution Panels (DRP) based in Delhi and Mumbai.

Mutual Agreement Procedure (MAP) V/s Advance Pricing Agreement (APA)

- Mutual Agreement Procedure provides an alternative mechanism to Dispute resolution mechanism.
- MAP is intended to resolve disputes in respect of unintended double non-taxation and taxation not in accordance with the provisions of a tax Convention
- Advance Pricing Agreement: arrangement in respect of certain specified transactions that determines in advance for a specified period, the appropriate criteria for determining the arm's length price or specifies the manner in which such price is to be determined.

This is a dispute prevention mechanism rather than dispute resolution mechanism

Three Types of APA

- There are three types of APAs, namely,
- 1) unilateral,
- 2) bilateral and
- 3) multilateral.

Valuation of Imported Goods Under Customs Act

Value: Can either be Tariff Value or Transaction Value

Tariff Value:

- For any class of imported goods or export goods, 'Tariff Value' can be fixed by CBI&C (Board)
- Tariff Value under GATT (General Agreement on trade and tariff
- Can Transaction value be adopted if tariff value has been notified?

Transaction Value

- Section 14(1) of Customs Act states that 'value' of imported goods will be 'transaction value' of such goods i.e.
- the price actually paid or payable for the goods
- when sold for export to India for delivery at the time and place of importation,
- where the buyer and seller of the goods are not related and
- price is the sole consideration for the sale,
- subject to such other conditions as may be specified in the rules made in this behalf.

- Price should be at the time and place of importation.
- Place of importation Place of importation means the customs station, where the goods are brought for being cleared for home consumption or for being removed for deposit in a warehouse – rule 2(da) of Customs Valuation (Determination of Value of Imported Goods) Rules, 2017 as amended on 26-9-2017.
- Price should be for delivery at the place of importation Value at the place of importation does not mean that only expenses till goods enter Indian Customs water should be included.
- Price must be the sole consideration

Price should be sole consideration for sale. If there is other consideration, it should be added to the transaction value.

Addition to transaction value:

- First proviso to section 14(1) states that transaction value in the case of imported goods shall include,
- in addition to the price as aforesaid
- any amount that the buyer is liable to pay for costs and services,
- including commissions and brokerage, engineering, design work, royalties and licence fees,
- costs of transportation to the place of importation, insurance, loading,
- unloading and handling charges
- to the extent and in the manners specified in the Rules.

Determination of the method of valuation – Rule 3

- Rule 3(1)
- Subject to rule 12, the value of imported goods shall be the transaction value adjusted in accordance with provisions of rule 10;
- Rule 3(2)
- Value of imported goods under sub-rule (1) shall be accepted:
- Provided that -
- (a) there are no restrictions as to the disposition or use of the goods by the buyer other than restrictions which –
- (i) are imposed or required by law or by the public authorities in India; or
- (ii) limit the geographical area in which the goods may be resold; or
- (iii) do not substantially affect the value of the goods;

Rule 3(2)

- (b) the sale or price is not subject to some condition or consideration for which a
 value cannot be determined in respect of the goods being valued;
- (c) no part of the proceeds of any subsequent resale, disposal or use of the goods by the buyer will accrue directly or indirectly to the seller, unless an appropriate adjustment can be made in accordance with the provisions of rule 10 of these rules; and
- (d) the buyer and seller are not related, or where the buyer and seller are related, that transaction value is acceptable for customs purposes under the provisions of sub-rule (3) below.

Accounting Of Import Transactions

Accounting Standards

Scope of Ind AS -21

- This Standard shall be applied:
- (a) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of Ind AS 109, Financial Instruments;
- (b) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method; and
- (c) in translating an entity's results and financial position into a presentation currency.

Important Definition under IND- AS 21

- Closing rate is the spot exchange rate at the end of the reporting period.
- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Ind AS 13, Fair Value Measurement.).
- Foreign currency is a currency other than the functional currency of the entity.
- Foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
- Functional currency is the currency of the primary economic environment in which the entity operates.
- A group is a parent and all its subsidiaries.
- Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
- Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

Indian Accounting Standard - 21

- Reporting foreign currency transactions in the functional currency
- A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency,
- including transactions arising when an entity:
- (a) buys or sells goods or services whose price is denominated in a foreign currency;
 (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
- (c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.
- A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Translation At end of each reporting period:

At end of each reporting period:

1) Foreign currency monetary items

- 2) Foreign currency non-monetary items measured in terms of historical cost

 translate using the rate at the date of the transaction;

- translate using closing rate;

3) Foreign currency non-monetary items that are measured at Fair Value

translate using the rate when the fair value was measured;

Recognition of exchange differences

A) Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise,

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.

Change in Functional Currency

When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

Use of a presentation currency other than the functional currency

If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.