**Foreign Currency Translation Reserve (FCTR)**

FCTR in consolidated financial statements represents

1. Resulting difference on translation of Non-Integral Foreign Operations in Reporting Currency

In term of para 24 of Accounting Standard -11, the operations of foreign subsidiaries are translated in following manner:

“*24. In translating the financial statements of a non-integral foreign operation for incorporation in its financial statements, the reporting enterprise should use the following procedures:*

1. *the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation should be translated at the closing rate;*
2. *income and expense items of the non-integral foreign operation should be translated at exchange rates at the dates of the transactions; and*
3. *all resulting exchange differences should be accumulated in a foreign currency translation reserve until the disposal of the net investment*.”

In our case, since all the subsidiaries are non-integral foreign operation, for translation and incorporation of financial statements of subsidiaries in consolidated financial statements of VGL, closing rate is applied on assets and liabilities and average rate is applied for income and expenditure of foreign subsidiaries. The resultant difference is accumulated in FCTR.

It is worth mentioning that for the year 2012-2013, there was considerable difference between the closing rate and average rate and the same has resulted in material amount being accumulated in FCTR.

Amount accumulated in FCTR is a resultant difference on account of application of closing and average rate on different items of financial statements of subsidiaries and therefore the corresponding effect of FCTR is on all the items of the financial statement of foreign subsidiaries.

1. FCTR is also generated on elimination of VGL Investment and corresponding equity in the books of foreign subsidiaries. In terms of para 13 of Accounting Standard-21, in consolidation process one of following adjustment is carried out

*“13 (a) the cost to the parent of its investment in each subsidiary and the parent’s portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, should be eliminated”*

In the books of VGL, the investments are accounted for on historical cost basis and therefore represent the cost of investments at the date of which investment was made in the subsidiaries. These investments in foreign subsidiaries are not restated at the rate appearing on the reporting date. However, in translating the financial statement of foreign subsidiaries the equity/ premium is translated at closing rate.

Consequently, on elimination the difference between the cost to the parent (VGL) of its investment and equity/ premium of the subsidiary is accumulated in FCTR.