

## ILLUSTRATION AND ACCOUNTING ENTRIES

For clarification and to guide the concerned taxpayers in recording and reporting foreign currency transactions, hereunder are illustrations involving foreign currency denominated transactions together with the corresponding accounting entries.

### ILLUSTRATION NO. 1

Company A is a VAT-registered domestic entity engaged in the export sale of goods. Company B is a non-resident foreign corporation (NRFC) which is a regular customer of Company A.

On December 1, 2022, Company A sold goods to B worth \$1,000,000.00 and issued the corresponding zero-rated sales invoice for the same amount. On January 10, 2023, Company B remitted \$1,000,000.00 to Company A for which the latter issued the corresponding collection receipt. On the same day, Company A's bank credited the corresponding collection of \$1,000,000.00 into its Peso account using the prevailing spot rate of exchange.

Below are the forex rates on the following dates:

Measurement Date	Date	Forex Rate
Initial Measurement	December 1, 2022	US\$ 1.00 : PhP 50.00
Subsequent Measurement	December 31, 2022	US\$ 1.00 : PhP 51.00
Settlement Date	January 10, 2023	US\$ 1.00 : PhP 50.50

Based on the foregoing, A should have the following entries in its books:

A. To record the sale of goods of Company A to Company B on December 1, 2022

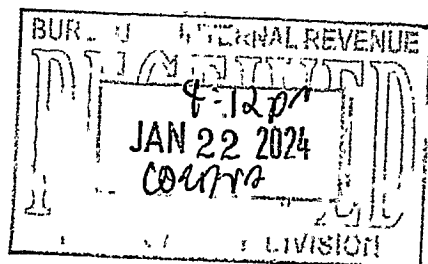
Particulars	Debit	Credit
Accounts Receivable (\$1,000,000 x P50)	P 50,000,000.00	
Sales		P 50,000,000.00

B. To record the subsequent measurement on balance sheet date on December 31, 2022

Particulars	Debit	Credit
Accounts Receivable (\$1,000,000 x P1)	P 1,000,000.00	
Unrealized Forex Gain		P 1,000,000.00

C. To record the deferred tax entry on the temporary difference on forex (assuming corporate income tax rate of 25%) for year 2022

Particulars	Debit	Credit
Income Tax Expense – Deferred	P 250,000.00	
Deferred Tax Liability (P1,000,000 x 25%)		P 250,000.00



D. To record income tax payable for Year 2022. Assuming, Company A has a corresponding Cost of Sales amounting to P30,000,000.00 and operating expenses of P5,000,000.00, gross of unrealized forex loss. Net Taxable Income for the year is P15,000,000.00.

Particulars	Debit	Credit
Income Tax Expense (P15,000,000 x 25%)	P 3,750,000.00	
Income Tax Expense Deferred	P 250,000.00	
Income Tax Payable		P 3,750,000.00
Deferred Tax Liability (P1,000,000 x 25%)		P 250,000.00

For income tax purposes, income tax payable is P3,750,000.00.

E. To record the collection of payment on the sale of goods (year 2023)

Particulars	Debit	Credit
Cash (\$1,000,000 x P50.50)	P 50,500,000.00	
Realized Forex Loss (1,000,000 x P0.50)	P 500,000.00	
Accounts Receivable		P 51,000,000.00

F. To record the realization of unrealized forex gain upon collection (year 2023)

Particulars	Debit	Credit
Deferred Tax Liability (P1,000,000 x 25%)	P 250,000.00	
Income Tax Expense - Deferred		P 250,000.00

G. To record income tax payable for Year 2023

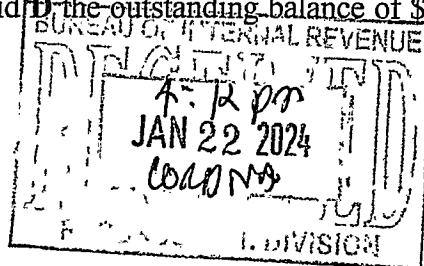
Particulars	Debit	Credit
Deferred Tax Liability (P1,000,000 x 25%)	P 250,000.00	
Income Tax Expense – Current (P500,000 x 25%)	P 125,000.00	
Income Tax Expense - Deferred		P 250,000.00
Income Tax Payable		P 125,000.00

For income tax purposes, income tax payable is P125,000.00.

## ILLUSTRATION NO. 2

Company C is a VAT-registered domestic entity engaged in manufacturing of electronic parts. Company D is a NRFC engaged in supplying machine and equipment used in manufacturing electronic parts.

On November 15, 2022, Company C purchased a capital equipment worth \$2,000,000.00, of which \$500,000.00 was paid as downpayment, from D which the latter issued the corresponding invoice and receipt. On February 6, 2023, the imported equipment arrived in the Philippines for which C paid the corresponding taxes in the customs. On the same day, Company C paid D the outstanding balance of \$1,500,000.00 on the purchase of the said equipment.



Below are the forex rates on the following dates:

Measurement Date	Date	Forex Rate
Initial Measurement	November 15, 2022	US\$ 1.00 : PhP 49.50
Subsequent Measurement	December 31, 2022	US\$ 1.00 : PhP 51.00
Settlement Date	February 06, 2023	US\$ 1.00 : PhP 51.25

Based on the foregoing, C should have the following entries in its books:

- A. To record the purchase of imported equipment by Company C to Company D on November 15, 2022. Assuming, it is the practice of Company C to record its equipment based on the date of the invoice.

Particulars	Debit	Credit
Equipment (\$2,000,000 x P49.50)	P 99,000,000.00	
Cash (\$500,000 x P49.50)		P 24,750,000.00
Accounts Payable (\$1,500,000.00 x P49.50)		P 74,250,000.00

- B. To record the subsequent measurement on balance sheet date on December 31, 2022

Particulars	Debit	Credit
Unrealized Forex Loss	P 2,250,000.00	
Accounts Payable (\$1,500,000.00 x P1.50)		P 2,250,000.00

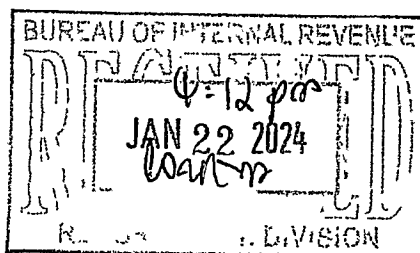
- C. To record the deferred tax entry on the temporary difference on forex (assuming corporate income tax rate of 25%) for year 2022

Particulars	Debit	Credit
Deferred Tax Asset (P2,250,000 x 25%)	P 562,500.00	
Income Tax Benefit – Deferred		P 562,500.00

- D. To record income tax payable for Year 2022. Assuming, Company C has a net income from operations amounting to P60,000,000.00, gross of unrealized forex loss.

Particulars	Debit	Credit
Income Tax Expense (P60,000,000 x 25%)	P 15,000,000.00	
Deferred Tax Asset (P2,250,000 x 25%)	P 562,500.00	
Income Tax Benefit – Deferred		P 562,500.00
Income Tax Payable		P 15,000,000.00

For income tax purposes, income tax payable is P15,000,000.00.



- E. To record the payment of taxes on customs and the payment of outstanding balance on the purchase of equipment. Assuming the other taxes is P200,000.00 (year 2023)

Particulars	Debit	Credit
Accounts Payable	P 76,500,000.00	
Realized Forex Loss (\$1,500,000 x P0.25)	P 375,000.00	
Input VAT (99,000,000 x 12%)	P 11,880,000.00	
Other Taxes (Customs Duties, etc.)	P 200,000.00	
Cash		P 88,955,000.00

- F. To record the realization of unrealized forex loss upon payment (year 2023)

Particulars	Debit	Credit
Income Tax Benefit – Deferred	P 562,500.00	
Deferred Tax Asset (P2,250,000 x 25%)		P 562,500.00

- G. To record income tax payable for Year 2023. Assuming, Company C has gross income of P5,000,000.00 during the year.

Particulars	Debit	Credit
Income Tax Expense - Current	P 543,750.00	
Income Tax Benefit – Deferred	P 562,500.00	
Deferred Tax Asset (P2,250,000 x 25%)		P 562,500.00
Income Tax Payable		P 543,750.00

$$\text{Income Tax Expense - Current} = [P5,000,000 \text{ (GI)} - P375,000 \text{ (2023 Realized Forex Loss)} - P200,000 \text{ (Other Taxes)} - P2,250,000 \text{ (2022 Forex Loss Realized in 2023)}] \times 25\%$$

For income tax purposes, income tax payable is P543,750.00.

