

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (for entities that apply IAS 39), IFRIC 22 Foreign Currency Transactions and Advance Consideration







Effective Date
Periods beginning on or after 1 January 2005

IAS 21 The Effects of Changes in Foreign Exchange Rates

FUNCTIONAL CURRENCY

An entity's functional currency is the currency of the primary economic environment in which it operates.

Determine functional currency of each entity within a group - currency of primary economic environment in which entity operates.

START

Primary factors

When determining the appropriate functional currency, management should give priority to the following factors:

- Currency influencing sales prices for goods and services
- Currency of country whose competitive forces and regulations determine sale prices
- Currency mainly influencing input costs.

Secondary factors

can be selected

The primary indicators may be determinative. However, the following two indicators serve as supporting evidence.

Accounting records must be kept in functional currency

KEY PRINCIPLES

▶ No need to present financial statements in functional currency. A presentation currency

A group does not have a functional currency. Functional currency is assessed separately

Currency in which funds/receipts:

for each entity in the group.

- from financing activities are generated
- from operating activities are retained.

Is the entity a foreign operation?

If yes, is the foreign operation 'integral' to its 'parent'? That is, does it carry on business as if it is an extension of the parent's own operations?

If it is 'integral' to its 'parent', the foreign operation has the same functional currency as the parent.

> (Parent: the entity that has the foreign operation as its subsidiary, branch associate or joint arrangement).

Translation method

Initial recognition

Spot rate at transaction date

Subsequent measurement

- Assets & liabilities closing rate
- Income and expenses rate at transaction date (for practical purposes a monthly or quarterly rate might approximate the transaction date rates)
- The resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve).

FOREIGN CURRENCY TRANSACTIONS

FUNCTIONAL CURRENCY ESTABLISHED

CONSOLIDATION OF FOREIGN ENTITIES AND

TRANSLATION OF FINANCIAL STATEMENTS TO A

PRESENTATION CURRENCY

Monetary items

Units of currency held and assets/ liabilities to be received/paid in a fixed or determinable amount of money.

- Translated at closing rate at reporting date
- Gain or loss is recognised in profit or loss.

Non-monetary items

- Rate at transaction date (if item at historical cost)
- Rate at revaluation date (if item carried at revalued amount).

Impairment test

► Measure non-monetary assets at the lower of either:

- Carrying amount x historical rate
- Net realisable value/recoverable amount x closing rate at the end of the period.

Translation gains or losses on asset/liability recognised in profit or loss.

Loan forming part of net investment in foreign operation

 Exchange gains and losses to equity on consolidation only. Recorded in profit or loss in the separate (entity only) financial statements.

Disposal of a foreign operation

The cumulative amount of exchange differences that was recognised in equity is reclassified to profit and loss (recycled).

General principle

Foreign exchange gain or loss to profit or loss

xception

Where a gain or loss on a non-monetary item is recognised in equity, the foreign exchange gain or loss is also recognised in equity.

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Contact

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