

SCOPE		TRANSLATE FOREIGN CURRENCY TRANSACTIONS INTO FUNCTIONAL CURRENCY															
Apply to: <ul style="list-style-type: none">Accounting for transactions and balances in <i>foreign currencies</i> (EXCEPT derivatives within scope of IAS 39).Translating results and financial position of <i>foreign operations</i> included in entity's F/S through consolidation/equity method.Translating results and financial position into a <i>presentation currency</i>.	FUNCTIONAL CURRENCY <ul style="list-style-type: none">Currency of primary economic environment in which entity operates (normally where primarily generates and expends cash) → use judgment where not obvious.Consider currency that mainly influences:<ul style="list-style-type: none">Sales prices for goods/services (often what goods/services are denominated and settled in) and currency of country whose competitive forces and regulations mainly determine sales prices of its goods/services.Labour, material and other costs of providing goods/services (often what costs are denominated and settled in).Other indicators to provide supporting evidence → currency in which funds from financing activities are generated; or receipts from operating activities are usually retained.		INITIAL RECOGNITION <ul style="list-style-type: none">Amount X spot exchange rate between <i>functional</i> and <i>foreign currency</i> on date that first qualifies for recognition per IFRSs.Foreign currency = currency other than <i>functional currency</i>.Average rate ** (month/week) is sometimes used – inappropriate if significant fluctuations.		AT END OF EACH REPORTING DATE: Translate foreign currency items as follows: <table><tr><td>Monetary items (i.e., units of currency held and assets/liabilities to be received/paid in fixed/determinable units of currency).</td><td>Closing rate (i.e., spot exchange rate @ end of reporting period).</td></tr><tr><td>Non-monetary items @ historical cost.</td><td>Exchange rate @ transaction date.</td></tr><tr><td>Non-monetary items @ FV.</td><td>Exchange rate @ date FV was measured.</td></tr></table> Carrying amount sometimes determined by comparing 2 amounts – may result in impairment loss for non-monetary items in <i>functional currency</i> that didn't exist in <i>foreign currency</i> (e.g. carrying amount and NRV is translated differently).		Monetary items (i.e., units of currency held and assets/liabilities to be received/paid in fixed/determinable units of currency).	Closing rate (i.e., spot exchange rate @ end of reporting period).	Non-monetary items @ historical cost.	Exchange rate @ transaction date.	Non-monetary items @ FV.	Exchange rate @ date FV was measured.					
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	Foreign operation: entity that is subsidiary/associate/joint arrangement/branch of a reporting entity, & activities of which are based/conducted in country/currency ≠ reporting entity. To help consider if functional currency of foreign operation = reporting entity: <ul style="list-style-type: none">Are activities an extension of reporting entity rather than significantly autonomous?Are transactions with reporting entity a high/low proportion of total transactions?Do CFs directly affect those of reporting entity and are they readily available for remittance to it?Are CFs sufficient to service existing and normally expected debt without assistance from reporting entity?		TREATMENT OF EXCHANGE DIFFERENCES <table><tr><td rowspan="2">Monetary items (due to translating/ settling in exchange rate different from previous translation).</td><td rowspan="2">Recognize in profit/loss (P/L).</td><td>Non-monetary items where gains/losses recognized in...</td><td>Exchange component of gain/loss recognized in...</td></tr><tr><td><ul style="list-style-type: none">Other comprehensive income (e.g. revaluation gain).P/L (e.g. depreciation).</td><td>Other comprehensive income. P/L.</td></tr></table>		Monetary items (due to translating/ settling in exchange rate different from previous translation).	Recognize in profit/loss (P/L).	Non-monetary items where gains/losses recognized in...	Exchange component of gain/loss recognized in...	<ul style="list-style-type: none">Other comprehensive income (e.g. revaluation gain).P/L (e.g. depreciation).	Other comprehensive income. P/L.							
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Net investment in foreign operation includes monetary items for which settlement is neither planned nor likely to occur in foreseeable future (e.g. long-term receivables & loans). Exchange differences from such monetary items are treated as follows: <table><tr><td>Separate F/S of <i>foreign operation</i>/reporting entity.</td><td>Recognize in P/L.</td></tr><tr><td>F/S that include reporting entity & <i>foreign operation</i>.</td><td>Recognize initially in other comprehensive income, then reclassify from equity to P/L on disposal.</td></tr></table>			Separate F/S of <i>foreign operation</i> /reporting entity.	Recognize in P/L.	F/S that include reporting entity & <i>foreign operation</i> .	Recognize initially in other comprehensive income, then reclassify from equity to P/L on disposal.											
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Does NOT apply to: <ul style="list-style-type: none">Hedge accounting for <i>foreign currency</i> items, including hedge of net investment in a <i>foreign operation</i> (see IAS 39).Presentation in statement of CFs arising from transactions in a <i>foreign currency</i>/translation of CFs of <i>foreign operation</i> (see IAS 7).		Δ in functional currency (only when Δ in relevant underlying transactions, events and conditions) → apply prospectively (i.e., translate all items into new <i>functional currency</i> using exchange rate @ date of Δ. Translated amount for non-monetary items = new historical cost.		Other points: Gains and losses on <i>foreign currency</i> transactions and exchange differences arising on translation may have tax effects (see IAS 12).													
TRANSLATION OF A FOREIGN OPERATION <ul style="list-style-type: none">Goodwill arising & FV adjustments on acquisition of <i>foreign operation</i> → expressed in <i>functional currency</i> of <i>foreign operation</i> and translated using closing rate (i.e., treated as assets/liabilities of <i>foreign operation</i>).				TRANSLATE FUNCTIONAL CURRENCY INTO PRESENTATION CURRENCY <ul style="list-style-type: none">Presentation currency = currency in which F/S are presented (where group entities have different functional currencies translation to such a common currency is necessary for consolidated F/S).													
Disposal of foreign operation: <ul style="list-style-type: none">On disposal, reclassify cumulative amount of exchange differences relating to <i>foreign operation</i> recognized in separate account of other comprehensive income from equity to P/L when gain/loss is recognized.Loss of control when retained interest after partial disposal of an interest in a joint arrangement or an associate that includes a <i>foreign operation</i> is accounted for as a disposal.Portion attributable to non-controlling interest – derecognized but NOT reclassified to P/L.		Partial disposal (↓ in ownership interest that is NOT a disposal): <table><tr><td>Subsidiary</td><td>Re-attribute proportionate share of cumulative exchange differences recognized in other comprehensive income to non-controlling interest.</td></tr><tr><td>Other partial disposals</td><td>Only reclassify to P/L proportionate share of exchange differences in other comprehensive income.</td></tr></table>		Subsidiary	Re-attribute proportionate share of cumulative exchange differences recognized in other comprehensive income to non-controlling interest.	Other partial disposals	Only reclassify to P/L proportionate share of exchange differences in other comprehensive income.	Translate as follows: (EXCEPT if <i>functional currency</i> = currency of hyper-inflationary economy). <table><tr><td>Assets & liabilities</td><td>Closing rate @ statement of financial position date.</td></tr><tr><td>Income & expenses</td><td>Exchange rates @ transaction date **.</td></tr><tr><td>Capital transactions</td><td>Exchange rates @ transaction date (i.e., not restated annually - based on treatment in practice).</td></tr><tr><td colspan="2">All resulting exchange differences recognized in other comprehensive income.</td></tr></table>		Assets & liabilities	Closing rate @ statement of financial position date.	Income & expenses	Exchange rates @ transaction date **.	Capital transactions	Exchange rates @ transaction date (i.e., not restated annually - based on treatment in practice).	All resulting exchange differences recognized in other comprehensive income.	
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This communication contains a general overview of the topic and is current as of March 31, 2017. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional, who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person's use of or reliance upon this material. © MNP LLP 2017. All rights reserved.