Foreign currency transactions

1.1. Functional currency

Each entity shall identify its functional currency. An entity's functional currency is the currency of the primary economic environment in which the entity operates.

The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. Therefore, the following are the most important **factors** an entity considers **in determining its functional currency**:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled), and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labor, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

(c) the currency in which funds from financing activities (issuing debt and equity instruments) are generated.

(d) the currency in which receipts from operating activities are usually retained.

The following **additional factors** are considered **in determining the functional currency of a foreign operation**, and **whether its functional currency is the same as that of the reporting entity** (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.

(b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

1.2. 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.

An entity shall record a foreign currency transaction, 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. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with these IFRS. For practical reasons, **a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period.** However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

At the end of each reporting period, an entity shall:

(a) translate foreign currency monetary items using the closing rate;

(b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and

(c) translate non-monetary items that are measured at fair value in a foreign currency using the exchange rates at the date when the fair value was determined.

An entity shall recognize, in profit or loss in the period in which they arise, **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 periods, except as described in guidance for net investment in a foreign operation.

When another section of these IFRS requires a gain or loss on a non-monetary item to be recognized in other comprehensive income, an entity shall recognize any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, an entity shall recognize any exchange component of that gain or loss in profit or loss.

1.3. Net investment in a foreign operation

An entity may have a monetary item that is receivable from or payable to a foreign operation. **An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation.** Such monetary items may **include long-term receivables or loans.** They **do not include trade receivables or trade payables.**

Exchange differences arising on a monetary item that forms part of a reporting entity's **net investment in a foreign operation shall be recognized in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation**, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g. **consolidated financial statements when the foreign operation is a subsidiary**), such **exchange differences shall be recognized initially in other comprehensive income and reported as a component of equity**. **They shall not again be recognized in profit or loss on disposal of the net investment.**

1.4. 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. The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, **once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions**. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.

The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

1.5. Use of a presentation currency other than the functional currency

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity shall translate its items of income and expense and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the items of income and expense and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

An entity whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:

(a) Assets and liabilities for each statement of financial position presented (i.e. including comparatives) shall be translated at the closing rate at the date of that statement of financial position.

(b) Income and expenses for each statement of comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions.

(c) All resulting exchange differences shall be recognized in other comprehensive income.

For practical reasons, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

The exchange differences result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate, and

(b) translating the opening net assets at a closing rate that differs from the previous closing rate.

When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to the non-controlling interest are allocated to, and recognized as part of, non-controlling interest in the consolidated statement of financial position.

An entity whose functional currency is the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the procedures specified in Section “Hyperinflation”.

In incorporating the assets, liabilities, income and expenses of a foreign operation with those of the reporting entity, the entity shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Section “Consolidated and Separate Financial Statements”). However, **an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements**. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, a reporting entity continues to recognize such an exchange difference in profit or loss or, if it arises from the circumstances described in paragraph 30.13, the entity shall classify it as equity.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be

treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate.

1.6. Disclosures

An entity shall disclose the following:

(a) **the amount of exchange differences recognized in profit or loss** during the period, except for those arising on financial instruments measured at fair value through profit or loss in accordance with Sections “Basic financial instruments” and “Other financial instruments issues”.

(b) **the amount of exchange differences** arising during the period and **classified in a separate component of equity** at the end of the period.

An entity shall disclose the currency in which the financial statements are presented. **When the presentation currency is different from the functional currency, an entity shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.**

When there is a change in the functional currency of either the reporting entity or a significant foreign operation, the entity shall disclose that fact and the reason for the change in functional currency.

Transition to IFRS

1.1. First-time adoption

An entity's first financial statements that conform to this IFRS are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with the IFRS for SMEs.

Financial statements prepared in accordance with these IFRS are an entity's first such financial statements if, for example, the entity:

(a) did not present financial statements for previous periods;

(b) presented its most recent previous financial statements under national requirements that are not consistent with these IFRS in all respects; or

(c) presented its most recent previous financial statements in conformity with full IFRSs.

Section "Financial Statements Presentation" of these IFRS defines a complete set of financial statements. It requires an entity to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. An entity may present comparative information in respect of more than one comparable prior period. Therefore, **an entity's date of transition to the IFRS for SMEs is the beginning of the earliest period for which the entity presents full comparative information in accordance with these IFRS in its first financial statements that conform to this IFRS.**

1.2. Procedures for preparing financial statements at the date of transition

An entity shall, in its opening statement of financial position as of its date of transition to the IFRS for SMEs (i.e. the beginning of the earliest period presented):

(a) **recognize all assets and liabilities whose recognition is required** by the IFRS for SMEs;

(b) **not recognize items as assets or liabilities if these IFRS does not permit such recognition**;

(c) **reclassify items that it recognized under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under these IFRS**; and

(d) apply this IFRS in **measuring all recognized assets and liabilities**.

The accounting policies that an entity **uses in its opening statement of financial position** under these IFRS **may differ from** those that it used for the same date using its **previous financial reporting framework**. The resulting adjustments arise from transactions, other events or conditions before the date of transition to these IFRS. Therefore, an entity shall recognize those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to this IFRS.

On first-time adoption of this IFRS, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

(a) **derecognition of financial assets and financial liabilities –** financial assets and liabilities derecognised under an entity's previous accounting framework before the date of transition should not be recognized upon adoption of the IFRS for SMEs. Conversely, for financial assets and liabilities that would have been derecognised under the IFRS for SMEs in a transaction that took place before the date of transition, but that were not derecognised under an entity's previous accounting framework, an entity may choose (a) to derecognise them on adoption of the IFRS for SMEs or (b) to continue to recognize them until disposed of or settled.

(b) **hedge accounting** – an entity shall not change its hedge accounting before the date of transition to the IFRS for SMEs for the hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the entity shall follow the hedge accounting requirements of Section "Other Financial Instruments Issues".

(c) **accounting estimates**.

(d) **discontinued operations**.

(e) **measuring non-controlling interests** – the requirements of Section "Comprehensive Income and Income Statement" to allocate profit or loss and total comprehensive income between non-controlling interest and owners of the parent shall be applied prospectively from the date of transition to the IFRS for SMEs (or from such earlier date as this IFRS is applied to restate business combinations).

An entity may use **one or more of** the following **exemptions in preparing its first financial statements that conform to this IFRS:**

(a) business combinations – a first-time adopter may elect not to apply Section "Business Combinations and Goodwill" to business combinations that were effected before the date of transition to these IFRS.

(b) fair value as deemed cost – a first-time adopter may elect to measure an item of property, plant and equipment, an investment property, or an intangible asset on the date of transition to these IFRS at its fair value and use that fair value as its deemed cost at that date.

(c) revaluation as deemed cost – a first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment, an investment property, or an intangible asset at, or before, the date of transition to this IFRS as its deemed cost at the revaluation date.

(d) cumulative translation differences – Section “Foreign Currency Translation” requires an entity to classify some translation differences as a separate component of equity. A first-time adopter may elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to the IFRS for SMEs (i.e. a ‘fresh start’).

(e) separate financial statements – when an entity prepares separate financial statements, Section “Consolidated and Separate Financial Statements” requires it to account for its investments in subsidiaries, associates, and jointly controlled entities either:

(i) at cost less impairment, or

(ii) at fair value with changes in fair value recognized in profit or loss.

If a first-time adopter measures such an investment at cost, it shall measure that investment at one of the following amounts in its separate opening statement of financial position prepared in accordance with these IFRS:

(i) cost determined in accordance with Section “Consolidated and Separate Financial Statements”, or

(ii) deemed cost, which shall be either fair value at the date of transition to the IFRS for SMEs or previous GAAP carrying amount on that date.

(f) compound financial instruments – Section “Liabilities and Equity” requires an entity to split a compound financial instrument into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to these IFRS.

(g) deferred income tax – a first-time adopter is not required to recognize, at the date of transition to the IFRS for SMEs, deferred tax assets or deferred tax liabilities relating to differences between the tax basis and the carrying amount of any assets or liabilities for which recognition of those deferred tax assets or liabilities would involve undue cost or effort.

(h) arrangements containing a lease – a first-time adopter may elect to determine whether an arrangement existing at the date of transition to the IFRS for SMEs contains a lease on basis of facts and circumstances existing at that date, rather than when arrangement was entered into.

(i) decommissioning liabilities included in the cost of property, plant and equipment – Section “Property, Plant and Equipment” states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to the IFRS for SMEs, rather than on the date(s) when the obligation initially arose.

If it is impracticable for an entity to provide any disclosures required by this IFRS for any period before the period in which it prepares its first financial statements that conform to this IFRS, the omission shall be disclosed.

1.3. Disclosures

An entity shall explain how the transition from its previous financial reporting framework to these IFRS affected its reported financial position, financial performance and cash flows. For doing this an entity's first financial statements prepared using these IFRS shall include:

(a) a description of the nature of each change in accounting policy.

(b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this IFRS for both of the following dates:

(i) the date of transition to these IFRS, and

(ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.

(c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this IFRS for the same period.

If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations made shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.

If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to these IFRS.