

Foreign currency transactions

1. An entity's functional currency is:
 - a) the currency in which the financial statements are presented.
 - b) the currency of the primary economic environment in which the entity operates.
 - c) the currency in which sales prices for the entity's goods and services are denominated and settled.
 - d) always the local currency of the country in which the entity is based.

2. Which of the following factors is not a primary indicator of an entity's functional currency
 - e) the currency that mainly influences labor, material and other costs of providing goods or services.
 - f) the currency that mainly influences sales prices for goods and services.
 - g) the currency in which funds from investing activities are generated.
 - h) the currency of the country whose competitive forces and regulations mainly determine the sales prices of the goods and services.

3. Entity's net investment in that foreign operation is:
 - i) a long-term monetary item that is receivable from or payable to a foreign operation in the foreseeable future.
 - j) a long-term monetary item that is receivable from or payable to a foreign operation, but not in the foreseeable future.
 - k) a short-term monetary item that is receivable from or payable to a foreign operation, but not in the foreseeable future.

4. The effect of a change in functional currency is accounted for
 - l) prospectively.
 - m) retrospectively.
 - n) both variants mentioned above.

5. An entity may present its financial statements in:
 - o) any currency (or currencies).
 - p) functional currency only.

Example 1: reporting foreign currency transactions in the functional currency, subsequent recognition and measurement

On 24 December 20X1 an entity with a functional currency of CU buys raw materials from a supplier on credit for FCU100,000. The entity pays the supplier on 17 January 20X2. The entity has a financial year-end of 31 December 20X1.

The spot exchange rates are as follows:

- 24 December 20X1: CU2 = FCU1

- 31 December 20X1: CU2.1 = FCU1
- 17 January 20X2: CU2.05 = FCU1

What is the recognized amount of purchase of inventories? How it should be accounted for?

Example 2: reporting foreign currency transactions in the functional currency, subsequent recognition and measurement

On 1 January 20X1 a bank transfers FCU5,000 to an entity in return for a promise to pay fixed interest of 8 per cent per year for two years (due at the end of each year of the loan period, i.e. 31 December) and a payment of FCU5,000 at the end of the two-year period.

At the inception of the loan 8 per cent is the market rate for similar two-year fixed-interest FCU-denominated loans.

The entity's functional currency is CU.

Exchange rates over the loan are:

- 1 January 20X1: CU1 = FCU5
Average exchange rate in 20X1: CU1 = FCU5.06
- 31 December 20X1: CU1 = FCU5.1
Average exchange rate in 20X2: CU1 = FCU4.9
- 31 December 20X2: CU1 = FCU4.8

In this example, the average currency exchange rate for the year is not materially different from the actual rate.

What is the recognized amount of loan during its lifetime? How it should be accounted for?

Example 3: reporting at the end of the subsequent reporting periods, overseas investment property

On 1 June 20X0 an entity based in country A with a functional currency of CU buys an investment property in country B (local currency FCU) for FCU500,000.

The fair value of the investment property is reliably measurable in FCU without undue cost or effort on an ongoing basis. Consequently, in accordance with Section 16 Investment Property, the entity measures its investment property, after initial recognition, at fair value through profit or loss.

The entity has a year-end of 31 December.

The spot exchange rates and fair values of the investment property (FVIP) are as follows:

- 1 June 20X0: CU1 = FCU1.1 and FVIP = FCU500,000
- 31 December 20X0: CU1 = FCU1.05 and FVIP = FCU520,000
- 31 December 20X1: CU1 = FCU1.2 and FVIP = FCU540,000

On 1 April 20X2 the investment property is sold for FCU570,000 when the exchange rate is CU1 = FCU1.1.

What is the recognized amount overseas investment property during its lifetime? How it should be accounted for?

Transition to IFRS

1. 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 consistent with these IFRS in all respects.
 - c) presented its most recent previous financial statements in conformity with full IFRSs.

2. Decide in which order individual procedures which are presented below should take place while compiling entity's 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):
 - (i) 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.
 - (ii) apply this IFRS in measuring all recognized assets and liabilities.
 - (iii) recognize all assets and liabilities whose recognition is required by the IFRS for SMEs.
 - (iv) not recognize items as assets or liabilities if these IFRS does not permit such recognition.
 - a) (i), (ii), (iii), (iv).
 - b) (iv), (iii), (ii), (i).
 - c) (iii), (iv), (i), (ii).
 - d) (ii), (i), (iv), (iii).

3. Quiz 3: An entity that had never presented financial statements decided to adopt the IFRS for SMEs in 20X8. The entity's financial statements for the year ended 31 December 20X8 conformed to the IFRS for SMEs. Full comparative information is provided for one year. What is the entity's date of transition to the IFRS for SMEs?
 - a) 1 January 20X5.
 - b) 1 January 20X6.
 - c) 1 January 20X7.
 - d) 1 January 20X8.