

IFRS IN BRIEF

IAS 21 *The effects of changes in foreign exchange rates*

DETERMINING FUNCTIONAL CURRENCY

The functional currency of an entity is the currency of the primary economic environment in which the entity operates.

Functional currency is determined for each separate entity within a group. A group as a whole does not have a functional currency.

The functional currency is the currency in which the entity generates and expends cash.

Primary indicators of function currency

Priority should be given to considering the following factors when determining the functional currency:

- Currency that influences sales price of its goods and services
- Currency of the country whose competitive forces and regulations influence sales price of its goods and services
- Currency that influences the price of labour, material and other costs

Secondary Indicators

If Primary indicators are not conclusive secondary indicators that may also be considered are:

- The currency of financing activities
- The currency which receipts from operating activities are usually retained.

FOREIGN CURRENCY TRANSACTIONS

Initial measurement

Transactions arising in a foreign currency should initially be recognised in the functional currency by applying the spot

exchange rate at the day that the transaction occurred.

Subsequent measurement

- *Monetary items*
Monetary items are units of currency held or assets or liabilities to pay or receive a fixed or determinable units of currency.

Monetary items are retranslated at balance dates and any gain or loss is recognized in profit or loss
- *Non-monetary items*
Non-monetary items that are held at historical cost, are not retranslated. Non-monetary items that are revalued are retranslated at the date the revaluation occurs.

PRESENTATION CURRENCIES OTHER THAN FUNCTIONAL CURRENCIES

Entities may translate their financial statements into a currency other than their functional currency for presentation purposes or to facilitate a group consolidation. To do this:

- Assets and liabilities on the statement of financial position shall be translated at the exchange rate at the date of the financial statement
- Income and expenses for each item in the statement of profit or loss and other comprehensive income shall be translated at the exchange rate on the date of the transaction. If impracticable, average exchange rates may be acceptable.
- Any differences shall be recognised in other comprehensive income as a translation gain or loss



INVESTMENTS OPERATIONS

IN

FOREIGN

Monetary items that are long term receivables or payables with a foreign operation, that the repayment of which is neither planned nor likely in the foreseeable future can be considered part of the net investment in the foreign operation.

As part of the investment in the foreign operation, in the consolidated financial statements that also includes the foreign operation, any translation gain or loss, can be recognized in other comprehensive income.

In standalone financial statements such amount would still give rise to gains or losses in the income statement.

LACK OF EXCHANGABILITY

A currency lacks exchangeability if any of the following conditions apply. The Entity can not:

- access another currency at measurement date
- access another currency in a legally enforceable arrangement
- access another currency for the relevant purpose, i.e. currency can only be exchanged for specific purposes that do not match the purpose of the entity's translation
- obtain more than an insignificant amount of another currency.

If a currency is not exchangeable, IAS 21 provides guidance on inputs to use to estimate an exchange rate that reflect the rate at which an orderly exchange transaction would take place.

CONTACTS

BOAZ DAHARI

Moore Israel
boazd@lionorl.co.il

CHRISOF STEUBE

Moore Singapore
christofsteube@moorestephens.com.sg

EMILY KY CHAN

Moore CPA Limited
emilykychan@moore.hk

IRINA HUGHES

Johnston Carmichael
Irina.Hughes@jcca.co.uk

KRISTEN HAINES

Moore Australia
kristen.haines@moore-australia.com.au

NEES DE VOS

Moore DRV
N.de.Vos@drv.nl

PAUL CALLAGHAN

Moore Oman
paul.callaghan@moore-oman.com

SAHEEL ABDULHAMID

Moore JVB LLP
saheel@moore-jvb.com

TAN KEI HUI

Moore Malaysia
keihui@moore.com.my

TESSA PARK

Moore Kingston Smith
TPark@mks.co.uk

THEODOSIOS DELYANNIS

Moore Greece
theodosios.Delyannis@moore.gr

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