

FOREIGN OPERATIONS

WHAT

1. An entity with their activities in a **different country** to the **reporting entity**.
2. An entity with their activities in a **currency other than** the currency of the **reporting entity**.

Additional Functional Currency factors:

1. Consider **autonomy** of foreign operation (Autonomy = different currency.
2. Consider **volume** of transaction between reporting and foreign op (High volume = Not autonomous)
3. Consider if cashflows from foreign operation activities are **directly** affected by the cashflows from the reporting entity and the cashflows are readily available for remittance to the reporting entity (Directly affected = Not autonomous)
4. If foreign ops can use **own** cashflows to service debt = autonomous

Functional Currency:

1. Mainly influences the **sales price**.
2. From the country whose **competitive forces and regulations** mainly determines the **sales price**.
3. Mainly influences the **labour, material and other costs of producing**

General translation principles:

1. Assets & Liabilities = Closing rate at date of **SFP**.
2. Income & Expenses = Date of transaction / **average rate**.
3. Retained earning = **average of prior year**

Steps in a foreign operations consolidation:

1. Translate foreign ops TB into **presentation currency**.
2. Remember your **FCTR**
3. **NCI at proportionate share** - FCTR is calculated separately on Goodwill

**AT ACQUISITION
TRANSACTIONS ARE
TRANSLATED AT AT
ACQUISITION RATES**

Calculation your FCTR Balance:

- Translate your TB using **general principles. (B)**
- Calculate your **consolidation figures with consolidation principles (A)**
- **FCTR = A - B**