

IAS21 - FOREIGN CURRENCY

The Three AFS Area's affected:

1. Transactions involving foreign currency.
2. Foreign Operations.
3. Translating AFS into Foreign Presentation Currency

MONETARY VS NON-MONETARY

1. **Monetary items** - A right to receive a fixed / determinable number of units of currency. This is your cash + receivables + payables + provisions

Non-Monetary items - Items not qualifying as a monetary item. This is your PPE + Intangible Assets + Inventories + prepaid expenses.

THE 3 KEY DATES

Transaction - Date recognition criteria is met.

Settlement - Date when payment changes hands

Reporting - Financial year-end

MONETARY ITEMS

Initial Recognition:
FC x SRTD

Subsequent measurement:
Translated at the end of reporting period at closing rate

Settlement:
FC x Spot rate on settlement date

EXAMPLE OF A MONETARY ITEM

An SA company sells stock 100USD to a debtor on 1/12/2023. The debtor pays on 31/01/2024. The year-end is 31/12/2023.

1/12/2023:

Dt Debtor (100 x 18)	1,800
Ct Revenue (100 x 18)	1,800

31/12/2023:

Dt Debtor (100 * (18-18.5))	50
Ct Forex Gain	50

31/01/2024:

Dt Debtor (100 * (18.5-19))	50
Ct Forex Gain	50
Dt Bank	1,900
Ct Debtor	1,900

Exchange rates:

1. 1/12/2023 - 18 ZAR : 1 USD
2. 31/12/2023 - 18.50 ZAR : 1 USD
3. 31/01/2024 - 19 ZAR: 1 USD

FC - Foreign Currency, SRTD - Spot rate on transaction date.

NON - MONETARY ITEMS

Initial Recognition:
FC x SRTD

Subsequent measurement:
No retranslation, therefore IFRS is applied to translated value at recognition

Settlement -
N/a as this will apply to the monetary side of the transaction

EXCHANGE DIFFERENCES ON NON-MONETARY ITEMS

This applied when the asset is measured at an amount not reflective of its historical cost. Such as fair value items. key notes;

- 1.If change in value goes to OCI so does the exchange difference.
- 2.If change in value goes to P/L so does the exchange difference.
- 3.First remeasure the item to its new FV and then calculate the exchange difference.

DETERMINING FUNCTIONAL CURRENCY

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

Factors to consider include:

- 1.Currency influencing selling prices.
- 2.Country who's competitive forces and regulations mainly determines its selling prices.
- 3.The currency that influences its cost.
- 4.The currency in which the entity usually invests amounts received from operating activities.

FOREIGN CURRENCY TRANSLATION RESERVE

This is the account used when accounting for a foreign operation in the consolidated financial statements. The calculation is fairly simple:

- 1.Translate your foreign TB using your applicable exchange rates (specifically your net asset value)
- 2.Calculate your current year NAV using consolidation principles (usually in your analysis of equity)
3. 1 - 2 = FCTR*

*Goodwill and NCI at FV will be discussed in consolidation summaries.