



# **ACCOUNTING STANDARDS BOARD**

## **STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE**

### **THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (GRAP 4)**



### **Acknowledgement**

The Standard of Generally Recognised Accounting Practice (GRAP) on *The Effects of Changes in Foreign Exchange Rates* is based on the International Public Sector Accounting Standard (IPSAS) 4 on *The Effects of Changes in Foreign Exchange Rates* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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## **Contents**

### **Standard of Generally Recognised Accounting Practice The Effects of Changes in Foreign Exchange Rates**

|                                                                                | <b>Paragraphs</b> |
|--------------------------------------------------------------------------------|-------------------|
| Introduction                                                                   |                   |
| Objective                                                                      | .01 - .02         |
| Scope                                                                          | .03 - .06         |
| Definitions                                                                    | .07 - .16         |
| Functional currency                                                            | .08 - .13         |
| Monetary items                                                                 | .14               |
| Net investment in a foreign operation                                          | .15 - .16         |
| Summary of the approach required by this Standard                              | .17 - .19         |
| Reporting foreign currency transactions in the functional currency             | .20 - .38         |
| Initial recognition                                                            | .20 - .23         |
| Reporting at subsequent reporting dates                                        | .24 - .27         |
| Recognition of exchange differences                                            | .28 - .35         |
| Change in functional currency                                                  | .36 - .38         |
| Use of a presentation currency other than the functional currency              | .39 - .54         |
| Translation to the presentation currency                                       | .39 - .45         |
| Translation of a foreign operation                                             | .46 - .52         |
| Disposal or partial disposal of a foreign operation                            | .53 - .54         |
| Tax effects of exchange differences                                            | .55               |
| Disclosure                                                                     | .56 - .62         |
| Transitional provisions                                                        | .63 - .64         |
| Initial adoption of the Standards of GRAP                                      | .63               |
| Amendments to the Standards of GRAP                                            | .64               |
| Effective date                                                                 | .65 - .66B        |
| Initial adoption of the Standards of GRAP                                      | .65               |
| Entities already applying Standards of GRAP                                    | .66 - .66B        |
| Withdrawal of the Standard of GRAP on <i>The Effects of Changes in Foreign</i> | .67               |



## GRAP 4

### *Exchange Rates (2007)*

Comparison with the International Public Sector Standard on *The Effects of Changes in Foreign Exchange Rates* (April 2008)



## **THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES**

This Standard was originally issued by the Accounting Standards Board (the Board) in July 2007. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in February 2010.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 21 *Impairment of Non-cash-generating Assets*
  - GRAP 26 *Impairment of Cash-generating Assets*
  - GRAP 104 *Financial Instruments*
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfer of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 37 *Joint Arrangements*



## **Introduction**

This pronouncement is set out in paragraphs .01 to .67. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*<sup>1</sup>.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

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<sup>1</sup> In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

## Objective

- .01 An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency, for example, a foreign donor may require an entity to present its financial statements in the donor's functional currency. The entity should apply this Standard in the absence of a donor's specific requirements. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.
- .02 The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

## Scope

- .03 ***An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:***
  - (a) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of the Standard of GRAP on Financial Instruments (GRAP 104);***
  - (b) in translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, or by the equity method; and***
  - (c) in translating an entity's financial performance and financial position into a presentation currency.***
- .04 GRAP 104 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of GRAP 104 (e.g. some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.
- .05 This Standard applies to the presentation of an entity's financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with the Standards of GRAP. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.
- .06 This Standard does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency or to the translation of cash flows of a foreign operation (see the Standard of GRAP on *Cash Flow Statements* (GRAP 2)).

## Definitions

**.07** *The following terms are used in this Standard with the meanings specified:*

**Closing rate** *is the spot exchange rate at the reporting date.*

**Economic entity** *means a group of entities comprising a controlling entity and one or more controlled entities.*

**Exchange difference** *is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.*

**Exchange rate** *is the ratio of exchange for two currencies.*

**Fair value** *is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.*

**Foreign currency** *is a currency other than the functional currency of the entity.*

**Foreign operation** *is an entity that is a controlled entity, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.*

**Functional currency** *is the currency of the primary economic environment in which the entity operates.*

**Monetary items** *are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.*

**Net investment in a foreign operation** *is the amount of the reporting entity's interest in the net assets of that operation.*

**Presentation currency** *is the currency in which the financial statements are presented.*

**Spot exchange rate** *is the exchange rate for immediate delivery.*

*Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.*

## Functional currency

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

(a) the currency:

(i) that revenue is raised from, such as taxes, grants and fines;

(ii) 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);



#### GRAP 4

- (iii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services; and
  - (b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).
- .09 The following factors may also provide evidence of an entity's functional currency:
  - (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and
  - (b) the currency in which receipts from operating activities are usually retained.
- .10 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 controlled entity, branch, associate or joint arrangement):
  - (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 Department of Defence has a number of overseas bases that conduct activities on behalf of national government. The defence bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity with purchases in local currency being kept to a minimum. Another example would be an overseas witness protection programme that operates under the management and direction of the National Prosecuting Authority. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incur expenses, generate revenue and perhaps arrange 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; and
  - (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.
- .11 When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary



## GRAP 4

indicators in paragraph .08 before considering the indicators in paragraphs .09 and .10, which are designed to provide additional supporting evidence to determine an entity's functional currency.

- .12 An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.
- .13 If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies* (GRAP 10). An entity cannot avoid restatement in accordance with GRAP 10 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its controlling entity).

### Monetary items

- .14 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: payables for child support grants and employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g. prepaid rent); intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

### Net investment in a foreign operation

- .15 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, and is accounted for in accordance with paragraphs .31 and .32. Such monetary items may include long-term receivables or loans. They do not include other receivables or payables.
- .16 The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph .15 may be any controlled entity of the economic entity. For example, an entity has two controlled entities, A and B. Controlled entity B is a foreign operation. Controlled entity A grants a loan to controlled entity B. Controlled entity A's loan receivable from controlled entity B would be part of the entity's net investment in controlled entity B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if controlled entity A were itself a foreign operation.

## Summary of the approach required by this Standard

- .17 In preparing financial statements, each entity - whether a stand-alone entity, an entity with foreign operations (such as a controlling entity) or a foreign operation (such as a controlled entity or branch) - determines its functional currency in accordance with paragraphs .08 to .13. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs .20 to .38 and .55.
- .18 Many reporting entities comprise a number of individual entities (e.g. an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint arrangements. They may also have branches. It is necessary for the financial performance and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The financial performance and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs .39 to .55.
- .19 This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with the Standard of GRAP on *Separate Financial Statements* to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance and financial position are also translated into the presentation currency in accordance with paragraphs .39 to .55.

## Reporting foreign currency transactions in the functional currency

### Initial recognition

- .20 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.
- .21 ***A foreign currency transaction shall be recorded, 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.***

- .22 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with the Standards of GRAP. 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.
- .23 Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in GRAP 2. Although these changes are not cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing and financing activities and include the differences, if any, had those cash flows been reported at end-of-period exchange rates.

## Reporting at subsequent reporting dates

- .24 ***At each reporting date:***
- (a) foreign currency monetary items shall be translated using the closing rate;***
  - (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and***
  - (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.***
- .25 The carrying amount of an item is determined in conjunction with other applicable Standards of GRAP. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17). Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated in the functional currency in accordance with this Standard.
- .26 The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realisable value, or cost and current replacement cost in accordance with the Standard of GRAP on Inventories. Similarly, in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets, the carrying amount of an asset for which there is an

#### GRAP 4

indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable amount or recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

- (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e. the rate at the date of the transaction for an item measured in terms of historical cost); and
- (b) the net realisable value, current replacement cost, recoverable amount or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g. the closing rate at the reporting date).

The effect of this comparison may be that an impairment loss is recognised in the functional currency but would not be recognised in the foreign currency, or vice versa.

- .27 When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

### Recognition of exchange differences

- .28 ***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 financial statements shall be recognised in surplus or deficit in the period in which they arise, except as described in paragraph .33.***
- .29 When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period.
- .30 The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph .23.
- .31 ***When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss shall be recognised directly in net assets. Conversely, when a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss shall be recognised in surplus or deficit.***

## GRAP 4

- .32 Other Standards of GRAP require some gains and losses to be recognised directly in net assets. For example, GRAP 17 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognised directly in net assets. When such an asset is measured in a foreign currency, paragraph .24(c) requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in net assets.
- .33 ***Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph .15) shall be recognised in surplus or deficit 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 controlled entity), such exchange differences shall be recognised initially in a separate component of net assets and recognised in surplus or deficit on disposal of the net investment in accordance with paragraph .53.***
- .34 When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph .28. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph .28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph .28. Such exchange differences are reclassified to the separate component of net assets in the financial statements that include the foreign operation and the reporting entity (i.e. financial statements in which the foreign operation is consolidated or accounted for using the equity method).
- .35 When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs .20 to .27. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

## Change in functional currency

- .36** *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.*
- .37** As noted in paragraph .12, 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 or the provision of goods and services may lead to a change in an entity's functional currency.
- .38** 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. Exchange differences arising from the translation of a foreign operation previously classified in net assets in accordance with paragraphs .33 and .40(c) are not recognised in surplus or deficit until the disposal of the operation.

## Use of a presentation currency other than the functional currency

### Translation to the presentation currency

- .39** An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its financial performance and financial position into the presentation currency. For example, when an economic entity contains individual entities with different functional currencies, the financial performance and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.
- .40** *The financial performance and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated 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) revenue and expenses for each statement of financial performance (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and*
  - (c) all resulting exchange differences shall be recognised as a separate component of net assets.*



#### GRAP 4

- .41 In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation into its cash flow statement, the reporting entity shall comply with the procedures in GRAP 2. GRAP 2 requires that the cash flows of a controlled entity which satisfies the definition of a foreign operation shall be translated at the exchange rates between the presentation currency and the foreign currency at the dates of the cash flows. GRAP 2 also outlines the presentation of unrealised gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.
- .42 For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example, an average rate for the period, is often used to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for the period is inappropriate.
- .43 The exchange differences referred to in paragraph .40(c) result from:
- (a) translating revenue and expense items at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognised in surplus or deficit and on those recognised directly in net assets; and
  - (b) translating the opening net assets at a closing rate that differs from the previous closing rate.
- These exchange differences are not recognised in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to, and recognised as part of, the non-controlling interest in the consolidated statement of financial position.
- .44 *The financial performance and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:***
- (a) *all amounts (i.e. assets, liabilities, net assets, revenue and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that***
  - (b) *when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).***
- .45 *When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with***





## GRAP 4

***GRAP 10 before applying the translation method set out in paragraph .44, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph .44(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with GRAP 10, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.***

### Translation of a foreign operation

- .46 Paragraphs .47 to .52, in addition to paragraphs .39 to .45, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation or the equity method.
- .47 The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see the Standard of GRAP on *Consolidated Financial Statements* (GRAP 35)).
- .48 However, a monetary asset (or liability) within an economic entity, whether short-term or long-term, cannot be eliminated against the corresponding liability (or asset) within an economic entity 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 of the reporting entity, such an exchange difference continues to be recognised in surplus or deficit or, if it arises from the circumstances described in paragraph .33, it is classified as net assets until the disposal of the foreign operation.
- .49 When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. GRAP 35 specifies requirements for when the reporting period of the controlling entity is different from that of a controlled entity.
- .50 When there is a difference between the reporting date of the reporting entity and the foreign operation, the assets and liabilities of the foreign operation are translated at the exchange rate at the reporting date of the foreign operation.
- .51 Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with GRAP 35. The same approach is used in applying the equity method to associates and joint ventures in accordance with the Standard of GRAP on *Investments in Associates and Joint Ventures*.
- .52 ***The difference between the assets acquired, the liabilities assumed and the consideration transferred (if any) arising on the acquisition of a foreign operation shall be accounted for in terms of the Standard of GRAP on Transfer***



#### GRAP 4

***of Functions Between Entities Not Under Common Control. 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 in accordance with paragraphs .40 and .44.***

### **Disposal or partial disposal of a foreign operation**

- .53** ***On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation and accumulated in a separate component of net assets shall be reclassified from net assets to surplus or deficit when the gain or loss on disposal is recognised (see the Standard of GRAP on Presentation of Financial Statements).***
- .53A** In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:
- (a) when the partial disposal involves the loss of control of a controlled entity that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former controlled entity after the partial disposal; and
  - (b) when the retained interest after the partial disposal of the interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.
- .53B** On disposal of a controlled entity that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be transferred directly to accumulated surplus or deficit.
- .53C** ***On the partial disposal of a controlled entity that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences accumulated in a separate category of net assets to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall transfer to accumulated surplus or deficit only the proportionate share of the cumulative amount of the exchange differences accumulated in net assets.***
- .53D** A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph .53A that are accounted for as disposals.
- .54** An entity may dispose or partially dispose of its interest in a foreign operation through the sale, liquidation, repayment of contributed capital or abandonment of all, or part of, that entity. The payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example, when the dividend or similar distribution is paid out of pre-acquisition surplus. A write-down of the carrying



## GRAP 4

amount of a foreign operation, either because of its own losses or because of an impairment recognised by the entity holding the interest, does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised in surplus or deficit at the time of a write-down.

## Tax effects of exchange differences

- .55 For reporting entities subject to income taxes, guidance on the treatment of tax effects associated with the gains and losses on foreign currency transactions and exchange differences arising on translating the financial performance and financial position of an entity (including a foreign operation) into a different currency can be found in the International Accounting Standard® on *Income Taxes*.

## Disclosure

- .56 *In paragraphs .58 and .60 to .62 references to “functional currency” apply, in the case of an economic entity, to the functional currency of the controlling entity.*
- .57 *The entity shall disclose:*
- (a) the amount of exchange differences recognised in surplus or deficit except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with GRAP 104; and*
  - (b) net exchange differences classified in a separate component of net assets and a reconciliation of the amount of such exchange differences at the beginning and end of the period.*
- .58 *When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.*
- .59 *When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.*
- .60 *When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with the Standards of GRAP only if they comply with all the requirements of each applicable Standard and each applicable Interpretation of those Standards including the translation method set out in paragraphs .40 and .44.*
- .61 An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph .60. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial

statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with the Standards of GRAP and the disclosures set out in paragraph .62 are required.

- .62** *When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph .60 are not met, it shall:*
- (a) clearly identify the information as supplementary information to distinguish it from the information that complies with Standards of GRAP;*
  - (b) disclose the currency in which the supplementary information is displayed; and*
  - (c) disclose the entity's functional currency and the method of translation used to determine the supplementary information.*

## Transitional provisions

### Initial adoption of the Standards of GRAP

- .63** *The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.*

### Amendments to Standards of GRAP

- .64** *Any amendments to this Standard shall be applied retrospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.*

## Effective date

### Initial adoption of the Standards of GRAP

- .65** *An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.*

### Entities already applying Standards of GRAP

- .66** *An entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2011. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 April 2011, it shall disclose that fact.*
- .66A** *Paragraphs .19, .47, .49 and .51 were amended by GRAP 35 issued March 2017. An entity shall apply these amendments retrospectively for annual financial*



#### GRAP 4

*periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.*

- .66B** *Paragraphs .03, .07, .10, .18, .34, .46, .47, .51, .53, and .54 were amended and paragraphs .53A to .53D were added by the Standard of GRAP on Joint Arrangements issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.*

### **Withdrawal of the Standard of GRAP on *The Effects of Changes in Foreign Exchange Rates* (2007)**

- .67** This Standard supersedes the Standard of GRAP on *The Effects of Changes in Foreign Exchange Rates* issued in 2007.



GRAP 4

## **Comparison with the International Public Sector Accounting Standard on *The Effects of Changes in Foreign Exchange Rates* (April 2008)**

This Standard is drawn primarily from International Public Sector Accounting Standard on *The Effects of Changes in Foreign Exchange Rates* (IPSAS 4). The main differences between this Standard and IPSAS 4 are as follows:

- This Standard includes South African specific examples of monetary items and foreign operations, as well as when an entity might use a presentation currency that is different from its functional currency.
- This Standard uses different terminology, in certain instances, from IPSAS 4. The most significant examples are the use of the terms “net assets” and “financial performance”. The equivalent terms in IPSAS 4 are “net assets/equity” and “operational results” or “results of operations” respectively.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 4.