

**FORD MOTOR COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For each accounting topic that is addressed in its own note, the description of the accounting policy may be found in the related note. Other significant accounting policies are described below.

**Use of Estimates**

The preparation of financial statements requires us to make estimates and assumptions that affect our results. Estimates are used to account for certain items such as marketing accruals, warranty costs, employee benefit programs, allowance for credit losses, and other items requiring judgment. Estimates are based on assumptions that we believe are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

**Foreign Currency**

When an entity has monetary assets and liabilities denominated in a currency that is different from its functional currency, we remeasure those assets and liabilities from the transactional currency to the entity's functional currency. The effect of this remeasurement process and the results of our related foreign currency hedging activities are reported in *Cost of sales* and *Other income/(loss), net* and were \$( 46 ) million, \$( 74 ) million, and \$ 180 million, for the years ended 2020, 2021, and 2022, respectively.

Generally, our foreign subsidiaries use the local currency as their functional currency. We translate the assets and liabilities of our foreign subsidiaries from their respective functional currencies to U.S. dollars using end-of-period exchange rates. Changes in the carrying value of these assets and liabilities attributable to fluctuations in exchange rates are recognized in *Foreign currency translation*, a component of *Other comprehensive income/(loss), net of tax*. Upon sale or upon complete or substantially complete liquidation of an investment in a foreign subsidiary, the amount of accumulated foreign currency translation related to the entity is reclassified to income and recognized as part of the gain or loss on the investment.

**Cash Equivalents**

*Cash and cash equivalents* are highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of purchase. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as *Cash and cash equivalents*. Time deposits, certificates of deposit, and money market accounts that meet the above criteria are reported at par value on our consolidated balance sheets.

**Restricted Cash**

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in *Other assets* in the non-current assets section of our consolidated balance sheets. Our Company excluding Ford Credit restricted cash balances primarily include various escrow agreements related to legal, insurance, customs, and environmental matters and cash held under the terms of certain contractual agreements. Our Ford Credit segment restricted cash balances primarily include cash held to meet certain local governmental and regulatory reserve requirements and cash held under the terms of certain contractual agreements. Restricted cash does not include required minimum balances or cash securing debt issued through securitization transactions.