830 - Foreign Currency Matters

830-**10** - Overall

830-10-**00** - Status

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

830-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Net Realizable Value	Added	Accounting Standards Update No. 2015-11	07/22/2015
Not-for-Profit Entity	Added	Accounting Standards Update No. 2010-07	01/28/2010
830-10-15-6	Amended	Accounting Standards Update No. 2010-07	01/28/2010
830-10-45-1	Amended	Accounting Standards Update No. 2015-01	01/09/2015
830-10-45-18	Amended	Accounting Standards Update No. 2019-04	04/25/2019
830-10-45-19	Superseded	Accounting Standards Update No. 2015-01	01/09/2015
830-10-55-2	Amended	Maintenance Update 2014-07	03/17/2014
830-10-55-8	Amended	Accounting Standards Update No. 2015-11	07/22/2015
830-10-55-9	Amended	Accounting Standards Update No. 2015-11	07/22/2015
830-10-55-15	Amended	Accounting Standards Update No. 2015-11	07/22/2015
830-10-55-17	Superseded	Accounting Standards Update No. 2015-11	07/22/2015
830-10-55-18	Amended	Accounting Standards Update No. 2015-11	07/22/2015
830-10-55-19	Amended	Accounting Standards Update No. 2015-11	07/22/2015
830-10-55-20 through 55-22	Superseded	Accounting Standards Update No. 2015-11	07/22/2015

830-10-**05** - Overview and Background

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

830-10-05-**1** The Foreign Currency Matters Topic provides guidance on foreign currency transactions and translation of financial statements. This Topic includes the following Subtopics:

a. Overall

b. Foreign Currency Transactions

c. Translation of Financial Statements

d. Statement of Cash Flows

e. Income Taxes.

830-10-**10** - Objectives

> **General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

Objectives of Translation

830-10-10-**1** Financial statements are intended to present information in financial terms about the performance, financial position, and cash flows of a reporting entity. For this purpose, the financial statements of separate entities within a reporting entity, which may exist and operate in different economic and currency environments, are consolidated and presented as though they were the financial statements of a single reporting entity. Because it is not possible to combine, add, or subtract measurements expressed in different currencies, it is necessary to translate into a single reporting currency those assets, liabilities, revenues, expenses, gains, and losses that are measured or denominated in a foreign currency. Paragraph 830-10-55-1 discusses the meaning of measurement in a foreign currency.

830-10-10-**2** The unity presented by such translation does not alter the underlying significance of the results and relationships of the constituent parts of the reporting entity. It is only through the effective operation of its constituent parts that the reporting entity as a whole is able to achieve its purpose. Accordingly, the translation of the financial statements of each component entity of a reporting entity should accomplish both of the following objectives:

a. Provide information that is generally compatible with the expected economic effects of a rate change on a reporting entity's cash flows and equity

b. Reflect in consolidated statements the financial results and relationships of the individual consolidated entities as measured in their functional currencies in conformity with U.S. generally accepted accounting principles (GAAP).

830-10-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

830-10-15-**1** The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Foreign Currency Matters Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all Subtopics of the Foreign Currency Matters Topic.

Entities

830-10-15-**2** The guidance in the Foreign Currency Matters Topic applies to all entities.

Transactions

830-10-15-**3** The guidance in the Foreign Currency Matters Topic applies to all foreign currency transactions in financial statements of a reporting entity and all foreign currency statements that are incorporated in the financial statements of a reporting entity by consolidation, combination, or the equity method of accounting.

830-10-15-**4** For convenience, this Topic assumes that the reporting entity uses the U.S. dollar as its reporting currency. However, a currency other than the U.S. dollar may be the reporting currency in financial statements that are prepared in conformity with U.S. generally accepted accounting principles (GAAP). For example, a foreign entity may report in its local currency in conformity with U.S. GAAP. If so, the requirements of this Topic apply.

Other Considerations

Financial Statements of an Equity Method Investee

830-10-15-**5** The functional currency approach applies equally to translation of financial statements of foreign investees whether accounted for by the equity method or consolidated. Therefore, the foreign currency statements and the foreign currency transactions of an investee that are accounted for by the equity method shall be translated in conformity with the requirements of this Topic in applying the equity method.

Translation after a Business Combination or a Combination Accounted for by a Not-for-Profit Entity

830-10-15-**6** The functional currency approach also applies to translation after a business combination or a combination accounted for by a not-for-profit entity. See paragraph 830-30-45-11 for guidance.

Convenience Translations and Translations for Other Purposes

830-10-15-**7** Translation of financial statements from one currency to another for purposes other than consolidation, combination, or the equity method is beyond the scope of this Topic. For example, this Topic does not cover translation of the financial statements of a reporting entity from its reporting currency into another currency for the convenience of readers accustomed to that other currency.

830-10-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Attribute

The quantifiable characteristic of an item that is measured for accounting purposes. For example, historical cost and current cost are attributes of an asset.

Exchange Rate

The ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time.

Foreign Currency

A currency other than the functional currency of the entity being referred to (for example, the dollar could be a foreign currency for a foreign entity). Composites of currencies, such as the Special Drawing Rights, used to set prices or denominate amounts of loans, and so forth, have the characteristics of foreign currency.

Foreign Currency Statements

Financial statements that employ as the unit of measure a functional currency that is not the reporting currency of the reporting entity.

Foreign Currency Transactions

Transactions whose terms are denominated in a currency other than the entity's functional currency. Foreign currency transactions arise when a reporting entity does any of the following:

a. Buys or sells on credit goods or services whose prices are denominated in foreign currency

b. Borrows or lends funds and the amounts payable or receivable are denominated in foreign currency

c. Is a party to an unperformed forward exchange contract

d. For other reasons, acquires or disposes of assets, or incurs or settles liabilities denominated in foreign currency.

Foreign Currency Translation

The process of expressing in the reporting currency of the reporting entity those amounts that are denominated or measured in a different currency.

Foreign Entity

An operation (for example, subsidiary, division, branch, joint venture, and so forth) whose financial statements are both:

a. Prepared in a currency other than the reporting currency of the reporting entity

b. Combined or consolidated with or accounted for on the equity basis in the financial statements of the reporting entity.

Functional Currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. (See paragraphs 830-10-45-2 through 45-6 and 830-10-55-3 through 55-7.)

Local Currency

The currency of a particular country being referred to.

Net Realizable Value

Estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Reporting Currency

The currency in which a reporting entity prepares its financial statements.

Reporting Entity

An entity or group whose financial statements are being referred to. Those financial statements reflect any of the following:

a. The financial statements of one or more foreign operations by combination, consolidation, or equity accounting

b. Foreign currency transactions.

Special Drawing Rights

Special Drawing Rights on the International Monetary Fund are international reserve assets whose value is based on a basket of key international currencies.

Translation

See Foreign Currency Translation.

Translation Adjustments

Translation adjustments result from the process of translating financial statements from the entity's functional currency into the reporting currency.

Unit of Measure

The currency in which assets, liabilities, revenues, expenses, gains, and losses are measured.

830-10-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

830-10-45-**1** The guidance in this Section relates to how a reporting entity determines the functional currency of a foreign entity (including of a foreign entity in a highly inflationary economy), remeasures the books of record (if necessary), and characterizes transaction gains and losses. The guidance is organized as follows:

a. The functional currency

b. The functional currency in highly inflationary economies

c. Remeasurement of books of record into the functional currency

d. Subparagraph superseded by Accounting Standards Update No. 2015-01.

The Functional Currency

830-10-45-**2** The assets, liabilities, and operations of a foreign entity shall be measured using the functional currency of that entity. An entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash.

Identifying a Foreign Entity's Functional Currency

830-10-45-**3** It is neither possible nor desirable to provide unequivocal criteria to identify the functional currency of foreign entities under all possible facts and circumstances and still fulfill the objectives of foreign currency translation. Arbitrary rules that might dictate the identification of the functional currency in each case would accomplish a degree of superficial uniformity but, in the process, might diminish the relevance and reliability of the resulting information.

830-10-45-**4** Multinational reporting entities may consist of entities operating in a number of economic environments and dealing in a number of foreign currencies. All foreign operations are not alike. To fulfill the objectives in paragraph 830-10-10-2, it is necessary to recognize at least two broad classes of foreign operations:

a. In the first class are foreign operations that are relatively self-contained and integrated within a particular country or economic environment. The day-to-day operations are not dependent on the economic environment of the parent's functional currency; the foreign operation primarily generates and expends foreign currency. The foreign currency net cash flows that it generates may be reinvested or converted and distributed to the parent. For this class, the foreign currency is the functional currency.

b. In the second class are foreign operations that are primarily a direct and integral component or extension of the parent entity's operations. Significant assets may be acquired from the parent entity or otherwise by expending dollars and, similarly, the sale of assets may generate dollars that are available to the parent. Financing is primarily by the parent or otherwise from dollar sources. In other words, the day-to-day operations are dependent on the economic environment of the parent's currency, and the changes in the foreign entity's individual assets and liabilities impact directly on the cash flows of the parent entity in the parent's currency. For this class, the dollar is the functional currency.

830-10-45-**5** An entity might have more than one distinct and separable operation, such as a division or branch, in which case each operation may be considered a separate entity. If those operations are conducted in different economic environments, they might have different functional currencies.

830-10-45-**6** The functional currency of an entity is, in principle, a matter of fact. In some cases, the facts will clearly identify the functional currency; in other cases they will not. For example, if a foreign entity conducts significant amounts of business in two or more currencies, the functional currency might not be clearly identifiable. In those instances, the economic facts and circumstances pertaining to a particular foreign operation shall be assessed in relation to the stated objectives for foreign currency translation (see paragraphs 830-10-10-1 through 10-2). Management's judgment will be required to determine the functional currency in which financial results and relationships are measured with the greatest degree of relevance and reliability.

Changes in the Functional Currency

830-10-45-**7** Once the functional currency for a foreign entity is determined, that determination shall be used consistently unless significant changes in economic facts and circumstances indicate clearly that the functional currency has changed. Previously issued financial statements shall not be restated for any change in the functional currency.

830-10-45-**8** See paragraph 250-10-45-1 for guidance on adoption or modification of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring. Paragraphs 830-10-45-15 through 45-16 discuss changes related to highly inflationary economies.

Functional Currency Changes from Reporting Currency to Foreign Currency

830-10-45-**9** If the functional currency changes from the reporting currency to a foreign currency, the adjustment attributable to current-rate translation of nonmonetary assets as of the date of the change shall be reported in other comprehensive income.

Functional Currency Changes from Foreign Currency to Reporting Currency

830-10-45-**10** If the functional currency changes from a foreign currency to the reporting currency, translation adjustments for prior periods shall not be removed from equity and the translated amounts for nonmonetary assets at the end of the prior period become the accounting basis for those assets in the period of the change and subsequent periods. This guidance shall be used also to account for a change in functional currency from the foreign currency to the reporting currency when an economy becomes highly inflationary.

The Functional Currency in Highly Inflationary Economies

830-10-45-**11** The financial statements of a foreign entity in a highly inflationary economy shall be remeasured as if the functional currency were the reporting currency. Accordingly, the financial statements of those entities shall be remeasured into the reporting currency according to the requirements of paragraph 830-10-45-17. For the purposes of this requirement, a highly inflationary economy is one that has cumulative inflation of approximately 100 percent or more over a 3-year period.

830-10-45-**12** The determination of a highly inflationary economy must begin by calculating the cumulative inflation rate for the three years that precede the beginning of the reporting period, including interim reporting periods. If that calculation results in a cumulative inflation rate in excess of 100 percent, the economy shall be considered highly inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100 percent, historical inflation rate trends (increasing or decreasing) and other pertinent economic factors should be considered to determine whether such information suggests that classification of the economy as highly inflationary is appropriate. Projections cannot be used to overcome the presumption that an economy is highly inflationary if the 3-year cumulative rate exceeds 100 percent.

830-10-45-**13** The definition of a highly inflationary economy is necessarily an arbitrary decision. In some instances, the trend of inflation might be as important as the absolute rate. The definition of a highly inflationary economy shall be applied with judgment.

830-10-45-**14** Example 3 (see paragraph 830-10-55-23) illustrates the application of this guidance.

Change in Inflationary Economy

Functional Currency Changes from Reporting Currency to Foreign Currency Because Foreign Economy Is No Longer Highly Inflationary

830-10-45-**15** If an entity's subsidiary's functional currency changes from the reporting currency to the local currency because the economy ceases to be considered highly inflationary, the entity shall restate the functional currency accounting bases of nonmonetary assets and liabilities at the date of change as follows:

a. The reporting currency amounts at the date of change shall be translated into the local currency at current exchange rates.

b. The translated amounts shall become the new functional currency accounting basis for the nonmonetary assets and liabilities.

Example 1 (see paragraph 830-10-55-12) illustrates the application of this guidance.

Effect on Deferred Tax Benefits if Functional Currency Changes from Foreign Currency to Reporting Currency Because Foreign Economy Becomes Highly Inflationary

830-10-45-**16** When the functional currency is the reporting currency, paragraph 740-10-25-3(f) prohibits recognition of deferred tax benefits that result from indexing for tax purposes assets and liabilities that are remeasured into the reporting currency using historical exchange rates. Thus, deferred tax benefits attributable to any such indexing that occurs after the change in functional currency to the reporting currency shall be recognized when realized on the tax return and not before. Deferred tax benefits that were recognized for indexing before the change in functional currency to the reporting currency are eliminated when the related indexed amounts shall be realized as deductions for tax purposes.

Remeasurement of the Books of Record Into the Functional Currency

830-10-45-**17** If an entity's books of record are not maintained in its functional currency, remeasurement into the functional currency is required. That remeasurement is required before translation into the reporting currency. If a foreign entity's functional currency is the reporting currency, remeasurement into the reporting currency obviates translation. The remeasurement of and subsequent accounting for transactions denominated in a currency other than the functional currency shall be in accordance with the requirements of Subtopic 830-20. The remeasurement process is intended to produce the same result as if the entity's books of record had been maintained in the functional currency. To accomplish that result, it is necessary to use historical exchange rates between the functional currency and another currency in the remeasurement process for certain accounts (the current rate will be used for all others), and this guidance identifies those accounts. To accomplish that result, it is also necessary to recognize currently in income all exchange gains and losses from remeasurement of monetary assets and liabilities that are not denominated in the functional currency (for example, assets and liabilities that are not denominated in dollars if the dollar is the functional currency).

Accounts to Be Remeasured Using Historical Exchange Rates

830-10-45-**18** All of the following are common nonmonetary balance sheet items and related revenue, expense, gain, and loss accounts that shall be remeasured using historical rates to produce the same result in terms of the functional currency that would have occurred if those items had been initially recorded in the functional currency:

a. Equity securities without readily determinable fair values accounted for in accordance with paragraph 321-10-35-2. The historical rate to be used shall be the exchange rate as of the later of the acquisition date or the most recent date on which the equity security was adjusted to fair value in accordance with paragraphs 321-10-35-2 through 35-3, if applicable.

    1. Subparagraph superseded by Accounting Standards Update No. 2019-04.
    2. Subparagraph superseded by Accounting Standards Update No. 2019-04.

b. Inventories carried at cost
c. Prepaid expenses such as insurance, advertising, and rent
d. Property, plant, and equipment
e. Accumulated depreciation on property, plant, and equipment
f. Patents, trademarks, licenses, and formulas
g. Goodwill
h. Other intangible assets
i. Deferred charges and credits, except policy acquisition costs for life insurance companies
j. Deferred income
k. Common stock
l. Preferred stock carried at issuance price
m. Revenues and expenses related to nonmonetary items, for example:
    1. Cost of goods sold
    2. Depreciation of property, plant, and equipment
    3. Amortization of intangible items such as patents, licenses, and so forth
    4. Amortization of deferred charges or credits except policy acquisition costs for life insurance entities.

830-10-45-**19** Paragraph superseded by Accounting Standards Update No. 2015-01.

830-10-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

Measurement in a Foreign Currency

830-10-55-**1** To measure in foreign currency is to quantify an attribute of an item in a unit of currency other than the reporting currency. Assets and liabilities are denominated in a foreign currency if their amounts are fixed in terms of that foreign currency regardless of exchange rate changes. An asset or liability may be both measured and denominated in one currency, or it may be measured in one currency and denominated in another.

830-10-55-**2** For example, two foreign branches of a U.S. entity, one Swiss and one German, purchase identical assets on credit from a Swiss vendor at identical prices stated in Swiss francs. The German branch measures the cost (an attribute) of that asset in euros. Although the corresponding liability is also measured in euros, it remains denominated in Swiss francs since the liability must be settled in a specified number of Swiss francs. The Swiss branch measures the asset and liability in Swiss francs. Its liability is both measured and denominated in Swiss francs. Although assets and liabilities can be measured in various currencies, rights to receive or obligations to pay fixed amounts of a currency are, by definition, denominated in that currency.

The Functional Currency

830-10-55-**3** The following provides guidance for determination of the functional currency. The economic factors cited here, and possibly others, should be considered both individually and collectively when determining the functional currency.

830-10-55-**4** This general guidance presents indicators of facts to be considered in identifying the functional currency. In those instances in which the indicators are mixed and the functional currency is not obvious, management's judgment will be required to determine the functional currency that most faithfully portrays the economic results of the entity's operations and thereby best achieves the objectives of foreign currency translation set forth in paragraph 830-10-10-2. Management is in the best position to obtain the pertinent facts and weigh their relative importance in determining the functional currency for each operation. It is important to recognize that management's judgment is essential and paramount in this determination, provided only that it is not contradicted by the facts.

830-10-55-**5** The following salient economic factors, and possibly others, should be considered both individually and collectively when determining the functional currency:

a. Cash flow indicators, for example:
   1. Foreign currency. Cash flows related to the foreign entity's individual assets and liabilities are primarily in the foreign currency and do not directly affect the parent entity's cash flows.
   2. Parent's currency. Cash flows related to the foreign entity's individual assets and liabilities directly affect the parent's cash flows currently and are readily available for remittance to the parent entity.

b. Sales price indicators, for example:
   1. Foreign currency. Sales prices for the foreign entity's products are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation.
   2. Parent's currency. Sales prices for the foreign entity's products are primarily responsive on a short-term basis to changes in exchange rates; for example, sales prices are determined more by worldwide competition or by international prices.

c. Sales market indicators, for example:
   1. Foreign currency. There is an active local sales market for the foreign entity's products, although there also might be significant amounts of exports.
   2. Parent's currency. The sales market is mostly in the parent's country or sales contracts are denominated in the parent's currency.

d. Expense indicators, for example:
   1. Foreign currency. Labor, materials, and other costs for the foreign entity's products or services are primarily local costs, even though there also might be imports from other countries.
   2. Parent's currency. Labor, materials, and other costs for the foreign entity's products or services continually are primarily costs for components obtained from the country in which the parent entity is located.

e. Financing indicators, for example:
   1. Foreign currency. Financing is primarily denominated in foreign currency, and funds generated by the foreign entity's operations are sufficient to service existing and normally expected debt obligations.
   2. Parent's Currency-Financing is primarily from the parent or other dollar-denominated obligations, or funds generated by the foreign entity's operations are not sufficient to service existing and normally expected debt obligations without the infusion of additional funds from the parent entity. Infusion of additional funds from the parent entity for expansion is not a factor, provided funds generated by the foreign entity's expanded operations are expected to be sufficient to service that additional financing.

f. Intra-entity transactions and arrangements indicators, for example:
   1. Foreign currency. There is a low volume of intra-entity transactions and there is not an extensive interrelationship between the operations of the foreign entity and the parent entity. However, the foreign entity's operations may rely on the parent's or affiliates' competitive advantages, such as patents and trademarks.
   2. Parent's currency. There is a high volume of intra-entity transactions and there is an extensive interrelationship between the operations of the foreign entity and the parent entity. Additionally, the

parent's currency generally would be the functional currency if the foreign entity is a device or shell corporation for holding investments, obligations, intangible assets, and so forth, that could readily be carried on the parent's or an affiliate's books.

830-10-55-**6** In some instances, a foreign entity might have more than one distinct and separable operation. For example, a foreign entity might have one operation that sells parent-entity-produced products and another operation that manufactures and sells foreign-entity-produced products. If they are conducted in different economic environments, those two operations might have different functional currencies. Similarly, a single subsidiary of a financial institution might have relatively self-contained and integrated operations in each of several different countries. In those circumstances, each operation may be considered to be an entity as that term is used in this Subtopic, and, based on the facts and circumstances, each operation might have a different functional currency.

830-10-55-**7** Foreign investments that are consolidated or accounted for by the equity method are controlled by or subject to significant influence by the parent entity. Likewise, the parent's currency is often used for measurements, assessments, evaluations, projections, and so forth, pertaining to foreign investments as part of the management decision-making process. Such management control, decisions, and resultant actions may reflect, indicate, or create economic facts and circumstances. However, the exercise of significant management control and the use of the parent's currency for decision-making purposes do not determine, per se, that the parent's currency is the functional currency for foreign operations.

Remeasuring Inventory Not Recorded in the Functional Currency

830-10-55-**8** The guidance on the subsequent measurement of inventory in Subtopic 330-10 requires special application when the books of record are not kept in the functional currency. Inventories carried at cost in the books of record in another currency should be first remeasured to cost in the functional currency using historical exchange rates. Then, historical cost in the functional currency should be evaluated for impairment under the subsequent measurement guidance using the functional currency. Application of the subsequent measurement guidance in functional currency may require a write-down in the functional currency statements even though no write-down has been made in the books of record maintained in another currency. Likewise, a write-down in the books of record may need to be reversed if the application of the subsequent measurement guidance in the functional currency does not require a write-down. If inventory has been written down in the functional currency statements, that functional currency amount shall continue to be the carrying amount in the functional currency financial statements until the inventory is sold or a further write-down is necessary. An asset other than inventory may sometimes be written down from historical cost. Although different measurement guidance may be used to determine that write-down, the approach described in this paragraph might be appropriate. That is, a write-down may be required in the functional currency statements even though not required in the books of record, and a write-down in the books of record may need to be reversed before remeasurement to prevent the remeasured amount from exceeding functional currency historical cost.

830-10-55-**9** Literal application of the subsequent measurement guidance in Subtopic 330-10 may require an inventory write-down in functional currency financial statements for locally acquired inventory if the value of the currency in which the books of record are maintained has declined in relation to the functional currency between the date the inventory was acquired and the date of the balance sheet. However, such a write-down may not be necessary, for example, for inventory measured using the first-in, first out (FIFO) methodology, if the net realizable value expressed in the currency in which the books of record are maintained has increased sufficiently so that net realizable value exceeds historical cost as measured in functional currency. Cases A and B in Example 2 (see paragraphs 830-10-55-15 through 55-16 and 830-10-55-18 through 55-19) illustrate this situation. This paragraph is not intended to preclude recognition of gains in a later interim period to the extent of inventory losses recognized from net realizable value declines in earlier interim periods if losses on the same inventory are recovered in the same year, as provided by paragraph 270-10-45-6(c). An inventory write-down also may be required for imported inventory.

Use of Averages or Other Methods of Approximation

830-10-55-**10** Literal application of the standards in this Subtopic might require a degree of detail in record keeping and computations that could be burdensome as well as unnecessary to produce reasonable approximations of the results. Accordingly, it is acceptable to use averages or other methods of approximation. For example, because translation at the exchange rates at the dates the numerous revenues, expenses, gains, and losses are recognized is generally impractical, an appropriately weighted average exchange rate for the period may be used to translate those elements. Likewise, the use of other time- and effort-saving methods to approximate the results of detailed calculations is permitted.

830-10-55-**11** Average rates used shall be appropriately weighted by the volume of functional currency transactions occurring during the accounting period. For example, to translate revenue and expense accounts for an annual period, individual revenue and expense accounts for each quarter or month may be translated at that quarter's or that month's average rate. The translated amounts for each quarter or month should then be combined for the annual totals.

Illustrations

Example 1: Functional Currency Changes from Reporting Currency to Foreign Currency Because Foreign Economy Is No Longer Highly Inflationary

830-10-55-**12** This Example illustrates the application of paragraph 830-10-45-15.

830-10-55-**13** A foreign subsidiary of a U.S. entity operating in a highly inflationary economy purchased equipment with a 10-year useful life for 100,000 local currency (LC) on January 1, 19X1. The exchange rate on the purchase date was LC 10 to USD 1, so the U.S. dollar equivalent cost was USD 10,000. On December 31, 19X5, the equipment has a net book value on the subsidiary's local books of LC 50,000 (original cost of LC 100,000 less accumulated depreciation of LC 50,000) and the current exchange rate is LC 75 to the U.S. dollar. In the U.S. parent's financial statements, annual depreciation expense of USD 1,000 has been reported for each of the past 5 years, and at December 31, 19X5, the equipment is reported at USD 5,000 (foreign currency basis measured at the historical exchange rate).

830-10-55-**14** As of the beginning of 19X6, the economy of the subsidiary ceases to be considered highly inflationary. Under paragraph 830-10-45-15, a new functional currency accounting basis for the equipment would be established as of January 1, 19X6, by translating the reporting currency amount of USD 5,000 into the functional currency at the current exchange rate of LC 75 to the U.S. dollar. The new functional currency accounting basis at the date of change would be LC 375,000. For U.S. reporting purposes, pursuant to this Subtopic, the new functional currency accounting basis and related depreciation would subsequently be translated into U.S. dollars at current and average exchange rates, respectively.

Example 2: Remeasuring Inventory Not Recorded in the Functional Currency

830-10-55-**15** The following Cases illustrate this Section's implementation guidance on remeasurement of inventory that is measured using first-in, first-out (FIFO) and is not recorded in the functional currency (see paragraphs 830-10-45-18 and 830-10-55-8 through 55-9):

a. Historical cost in functional currency exceeds net realizable value in functional currency (Case A)
   1. Subparagraph superseded by Accounting Standards Update No. 2015-11.
   2. Subparagraph superseded by Accounting Standards Update No. 2015-11.

b. Net realizable value in functional currency exceeds historical cost in functional currency (Case B).

830-10-55-**16** Cases A and B share all of the following assumptions:

a. BR is the currency in which the books of record are maintained.
b. FC is the functional currency.
c. When the rate is BR 1 = FC 2.40, a foreign subsidiary of a U.S. entity purchases a unit of inventory at a cost of BR 500 (measured in functional currency, FC 1,200).
d. At the foreign subsidiary's balance sheet date, the current rate is BR 1 = FC 2.00.

830-10-55-**17** Paragraph superseded by Accounting Standards Update No. 2015-11.

Case A: Historical Cost in Functional Currency Exceeds Net Realizable Value in Functional Currency

830-10-55-**18** Assume the net realizable value of the unit of inventory is BR 560 (measured in functional currency, FC 1,120). Because net realizable value as measured in the functional currency (FC 1,120) is less than historical cost as measured in the functional currency (FC 1,200), an inventory write-down of FC 80 is required in the functional currency financial statements.

Case B: Net Realizable Value in Functional Currency Exceeds Historical Cost in Functional Currency

830-10-55-**19** Assume the net realizable value at the foreign subsidiary's balance sheet date is BR 620. Because net realizable value as measured in the functional currency (BR 620 x FC 2.00 = FC 1,240) exceeds historical cost as measured in the functional currency (BR 500 x FC 2.40 = FC 1,200), an inventory write-down is not required in the functional currency financial statements.

830-10-55-**20** Paragraph superseded by Accounting Standards Update No. 2015-11.

830-10-55-**21** Paragraph superseded by Accounting Standards Update No. 2015-11.

830-10-55-**22** Paragraph superseded by Accounting Standards Update No. 2015-11.

Example 3: Determination of a Highly Inflationary Economy

830-10-55-**23** The following Cases illustrate the application of paragraph 830-10-45-12:

a. The cumulative 3-year inflation rate exceeds 100 percent (Case A).

b. The cumulative 3-year inflation rate drops below 100 percent but no evidence suggests that drop is other than temporary (Case B).

c. The cumulative 3-year inflation rate drops below 100 percent after having spiked above 100 percent (Case C).

Case A: Cumulative 3-Year Inflation Rate Exceeds 100 Percent

830-10-55-**24** Country A's economy at the beginning of 19X9 continues to be classified as highly inflationary because the cumulative 3-year rate is in excess of 100 percent (see the following table). The recent trend of declining inflation rates should not be extrapolated to project future rates to overcome the classification that results from the calculation.

Fiscal Year	X1	X2	X3	X4	X5	X6	X7	X8
Annual inflation rate	9%	8%	12%	17%	33%	52%	30%	15%
Cumulative three-year rate [(a)]			32%	42%	74%	137%	163%	127%

(a) Amounts are calculated as a compounded three-year inflation rate.

Case B: Cumulative 3-Year Inflation Rate Drops Below 100 Percent

830-10-55-**25** Country B's economy at the beginning of 19X9 should continue to be classified as highly inflationary even though the cumulative 3-year rate is less than 100 percent (see the following table) because there is no evidence to suggest that the drop below the 100 percent cumulative rate is other than temporary and the annual rate of inflation during the preceding 8 years has been high.

Fiscal Year	X1	X2	X3	X4	X5	X6	X7	X8
Annual inflation rate	15%	28%	46%	41%	35%	29%	23%	21%
Cumulative three-year rate [(a)]			115%	164%	178%	146%	114%	92%

(a) Amounts are calculated as a compounded three-year inflation rate.

Case C: Cumulative 3-Year Inflation Rate Drops Below 100 Percent After Spike

830-10-55-**26** Country C's economy at the beginning of 19X9 should no longer be classified as highly inflationary because the cumulative 3-year rate is less than 100 percent (see the following table) and the historical inflation rates suggest that the prior classification resulted from an isolated spike in the annual inflation rate.

Fiscal Year	X1	X2	X3	X4	X5	X6	X7	X8
Annual inflation rate	5%	6%	4%	7%	12%	55%	18%	6%
Cumulative three-year rate [(a)]			16%	18%	25%	86%	105%	94%

(a) Amounts are calculated as a compounded three-year inflation rate.

830-10-**60 - Relationships**

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Income Taxes

830-10-60-**1** For guidance on the tax effects of translation adjustments, see paragraph 740-20-45-11(b).

830-10-60-**2** For guidance on an increase in the tax basis of assets because of indexing when the local currency is the functional currency, see paragraph 740-10-25-20(g).

830-**20 - Foreign Currency Transactions**

830-20-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

830-20-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
830-20-05-3	Amended	Accounting Standards Update No. 2020-10	10/29/2020
830-20-35-6	Amended	Accounting Standards Update No. 2016-13	06/16/2016
830-20-35-7	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
830-20-35-7A	Added	Accounting Standards Update No. 2018-03	02/28/2018
830-20-45-1	Amended	Maintenance Update 2020-18	11/25/2020
830-20-45-1	Amended	Accounting Standards Update No. 2020-10	10/29/2020
830-20-45-4	Superseded	Accounting Standards Update No. 2015-01	01/09/2015
830-20-45-5	Amended	Accounting Standards Update No. 2015-01	01/09/2015
830-20-50-1	Amended	Accounting Standards Update No. 2024-03	11/04/2024
830-20-50-1	Amended	Accounting Standards Update No. 2020-10	10/29/2020

830-20-**05 - Overview and Background**

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

830-20-05-**1** This Subtopic establishes standards of financial accounting and reporting for foreign currency transactions in financial statements of a reporting entity.

830-20-05-**2** Foreign currency transactions may produce receivables or payables that are fixed in terms of the amount of foreign currency that will be received or paid. Examples include a sale denominated in Swiss francs, a Swiss franc loan, and the holding of Swiss francs by an entity whose functional currency is the dollar. Likewise, a Swiss franc denominated transaction by a German entity or other entity whose functional currency is not the Swiss franc is a foreign currency transaction. For any entity whose functional currency is not the dollar, a dollar-denominated transaction is also a foreign currency transaction.

830-20-05-**3** If taxable exchange gains or tax-deductible exchange losses resulting from an entity's foreign currency transactions are included in net income in a different period for financial statement purposes from that for tax purposes, a deferred tax liability or deferred tax asset should be recognized as required under Topic 740.

830-20-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

830-20-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 830-10-15, with specific transaction exceptions noted below.

Transactions

830-20-15-**2** The guidance in this Subtopic applies to all foreign currency transactions with the exception of the following:

a. Derivative instruments, for guidance see Topic 815.

830-20-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Exchange Rate

The ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time.

Foreign Currency

A currency other than the functional currency of the entity being referred to (for example, the dollar could be a foreign currency for a foreign entity). Composites of currencies, such as the Special Drawing Rights, used to set prices or denominate amounts of loans, and so forth, have the characteristics of foreign currency.

Foreign Currency Transactions

Transactions whose terms are denominated in a currency other than the entity's functional currency. Foreign currency transactions arise when a reporting entity does any of the following:

a. Buys or sells on credit goods or services whose prices are denominated in foreign currency

b. Borrows or lends funds and the amounts payable or receivable are denominated in foreign currency

c. Is a party to an unperformed forward exchange contract

d. For other reasons, acquires or disposes of assets, or incurs or settles liabilities denominated in foreign currency.

Foreign Currency Translation

The process of expressing in the reporting currency of the reporting entity those amounts that are denominated or measured in a different currency.

Functional Currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. (See paragraphs 830-10-45-2 through 45-6 and 830-10-55-3 through 55-7.)

Local Currency

The currency of a particular country being referred to.

Reporting Currency

The currency in which a reporting entity prepares its financial statements.

Reporting Entity

An entity or group whose financial statements are being referred to. Those financial statements reflect any of the following:

a. The financial statements of one or more foreign operations by combination, consolidation, or equity accounting

b. Foreign currency transactions.

Special Drawing Rights

Special Drawing Rights on the International Monetary Fund are international reserve assets whose value is based on a basket of key international currencies.

Transaction Date

The date at which a transaction (for example, a sale or purchase of merchandise or services) is recorded in accounting records in conformity with generally accepted accounting principles (GAAP). A long-term commitment may have more than one transaction date (for example, the due date of each progress payment under a construction contract is an anticipated transaction date).

Transaction Gain or Loss

Transaction gains or losses result from a change in exchange rates between the functional currency and the currency in which a foreign currency transaction is denominated. They represent an increase or decrease in both of the following:

a. The actual functional currency cash flows realized upon settlement of foreign currency transactions

b. The expected functional currency cash flows on unsettled foreign currency transactions.

Translation

See Foreign Currency Translation.

Translation Adjustments

Translation adjustments result from the process of translating financial statements from the entity's functional currency into the reporting currency.

830-20-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

830-20-25-**1** At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction shall be recorded in the functional currency of the recording entity.

830-20-25-**2** Paragraphs 830-10-55-3 through 55-7 provide guidance on the determination of a reporting entity's functional currency. Paragraph 830-10-45-17 states that if an entity's books of record are not maintained in its functional currency, remeasurement into the functional currency is required before translation into the reporting currency. That paragraph provides further guidance on remeasurement of books and records.

830-20-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

830-20-30-**1** At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction shall be measured initially in the functional currency of the recording entity by use of the exchange rate in effect at that date.

Exchange Rates

830-20-30-**2** If exchangeability between two currencies is temporarily lacking at the transaction date or balance sheet date, the first subsequent rate at which exchanges could be made shall be used for purposes of this Subtopic. If the lack of exchangeability is other than temporary, the propriety of consolidating, combining, or accounting for the foreign operation by the equity method in the financial statements of the reporting entity shall be carefully considered.

830-20-30-**3** For a foreign currency transaction, the applicable rate at which a particular transaction could be settled at the transaction date shall be used to translate the transaction.

830-20-30-**4** Paragraphs 830-10-55-10 through 55-11 discuss the use of averages or other methods of approximation.

830-20-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Transaction Gains and Losses

830-20-35-**1** A change in exchange rates between the functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. That increase or decrease in expected functional currency cash flows is a foreign currency transaction gain or loss that generally shall be included in determining net income for the period in which the exchange rate changes.

830-20-35-**2** At each balance sheet date, recorded balances that are denominated in a currency other than the functional currency of the recording entity shall be adjusted to reflect the current exchange rate. At a subsequent balance sheet date, the current rate is that rate at which the related receivable or payable could be settled at that date. Paragraphs 830-20-30-2 through 30-3 provide more information about exchange rates.

Transaction Gains and Losses to Be Excluded from Net Income

830-20-35-**3** Gains and losses on the following foreign currency transactions shall not be included in determining net income but shall be reported in the same manner as translation adjustments:

a. Foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, commencing as of the designation date (see Subtopic 815-35)

b. Intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transaction are consolidated, combined, or accounted for by the equity method in the reporting entity's financial statements.

830-20-35-**4** Intra-entity transactions and balances for which settlement is not planned or anticipated in the foreseeable future are considered to be part of the net investment. This might include balances that take the form of an advance or a demand note payable provided that payment is not planned or anticipated in the foreseeable future.

830-20-35-**5** The accounting for a gain or loss on a foreign currency transaction that is intended to hedge an identifiable foreign currency commitment (for example, an agreement to purchase or sell equipment) is addressed by paragraph 815-20-25-58.

Available-for-Sale Debt Securities

830-20-35-**6** Paragraph 320-10-35-36 requires that the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities not related to the allowance for credit losses be reported in other comprehensive income. See Subtopic 326-30 for guidance on measuring credit losses for available-for-sale debt securities.

830-20-35-**7** Paragraph superseded by Accounting Standards Update No. 2016-13.

Financial Liabilities for Which the Fair Value Option Is Elected

830-20-35-**7A** Paragraph 825-10-45-5A requires that for a financial liability for which the fair value option is elected, the change in the liability's fair value resulting from changes in instrument-specific credit risk shall be presented separately in other comprehensive income from other changes in the liability's fair value presented in current earnings. The component of the change in fair value of the liability resulting from changes in instrument-specific credit risk shall first be measured in the liability's currency of denomination, and then the cumulative amount shall be adjusted to reflect the current exchange rate in accordance with paragraph 830-20-35-2. The remeasurement of the component of the change in fair value of the liability resulting from the cumulative changes in instrument-specific credit risk shall be presented in accumulated other comprehensive income.

Subsequent Rate Changes

830-20-35-**8** A reporting entity's financial statements shall not be adjusted for a rate change that occurs after the date of the reporting entity's financial statements.

830-20-**40 - Derecognition**

> **General Note:** The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

830-20-40-**1** A transaction gain or loss (measured from the transaction date or the most recent intervening balance sheet date, whichever is later) realized upon settlement of a foreign currency transaction generally shall be included in determining net income for the period in which the transaction is settled. The exceptions to this requirement for inclusion in net income of transaction gains and losses are set forth in paragraph 830-20-35-3 and pertain to certain intra-entity transactions and to transactions that are designated as, and effective as, economic hedges of net investments.

830-20-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Income Statement Presentation

Aggregate Transaction Gain or Loss

830-20-45-**1** The aggregate transaction gain or loss included in determining net income for the period shall be presented in the financial statements or disclosed in the notes thereto (see paragraph 830-20-50-1).

830-20-45-**2** Certain entities, primarily banks, are dealers in foreign exchange. Although certain gains or losses from dealer transactions may fit the definition of transaction gains or losses in this Subtopic, they may be disclosed as dealer gains or losses rather than as transaction gains or losses.

Change in Deferred Foreign Tax Assets and Liabilities

830-20-45-**3** When the reporting currency (not the foreign currency) is the functional currency, remeasurement of a reporting entity's deferred foreign tax liability or asset after a change in the exchange rate will result in a transaction gain or loss that is recognized currently in determining net income. The preceding paragraph requires disclosure of the aggregate transaction gain or loss included in determining net income but does not specify how to display that transaction gain or loss or its components for financial reporting. See paragraph 830-740-45-1 for further guidance.

830-20-45-**4** Paragraph superseded by Accounting Standards Update No. 2015-01.

Reporting Other Comprehensive Income

Income Tax Consequences of Rate Changes

830-20-45-**5** Subtopic 740-10 requires income tax expense to be allocated among income from continuing operations, discontinued operations, adjustments of prior periods (or of the opening balance of retained earnings), and direct entries to other equity accounts. Some transaction gains and losses are reported in other comprehensive income. Any income taxes related to those transaction gains and losses shall be allocated to other comprehensive income.

830-20-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Aggregate Transaction Gain or Loss

830-20-50-**1** If not presented in the financial statements as discussed in paragraph 830-20-45-1, the aggregate transaction gain or loss included in determining net income for the period shall be disclosed in notes to financial statements.

> **PENDING CONTENT**
>
> **Transition Date:** P December 16, 2026; N December 16, 2026 **- Transition Guidance :** 220-40-65-1
>
> If not presented in the financial statements as discussed in paragraph 830-20-45-1, the aggregate transaction gain or loss included in determining net income for the period shall be disclosed in notes to financial statements. See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

Subsequent Rate Changes

830-20-50-**2** Disclosure of a rate change that occurs after the date of the reporting entity's financial statements and its effects on unsettled balances pertaining to foreign currency transactions, if significant, may be necessary. If disclosed, the disclosure shall include consideration of changes in unsettled transactions from the date of the financial statements to the date the rate changed. In some cases it may not be practicable to determine these changes; if so, that fact shall be stated.

Effects of Rate Changes on Results of Operations

830-20-50-**3** Management is encouraged to supplement the disclosures required by this Subtopic with an analysis and discussion of the effects of rate changes on the reported results of operations. This type of disclosure might include the mathematical effects of translating revenue and expenses at rates that are different from those used in a preceding period as well as the economic effects of rate changes, such as the effects on selling prices, sales volume, and cost structures. The purpose is to assist financial report users in understanding the broader economic implications of rate changes and to compare recent results with those of prior periods.

830-20-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

Debt-for-Equity Swap

830-20-55-**1** This guidance applies to a transaction with all of the following characteristics:

a. In a secondary-market transaction, a U.S. entity purchases-at less than the face amount-some dollar-denominated debt due from a foreign government or an entity that operates in that foreign country.

b. Simultaneously, the U.S. entity exchanges the debt with the foreign country's government in a transaction denominated in the foreign currency.

c. The exchange rate used to obtain the foreign currency is the official exchange rate (less a transaction fee).

d. The U.S. entity is required by the foreign government to invest the foreign currency proceeds in the entity's subsidiary operating in that foreign country. (The intent of the foreign government may be to induce the U.S. entity to make an investment in long-lived assets in the foreign country.)

830-20-55-**2** The amount by which the local currency proceeds translated at the official exchange rate exceed the purchase cost of the loan (referred to as the excess) shall be used to reduce the basis of the long-lived assets acquired or constructed to comply with the arrangement. If the arrangement does not specifically require the acquisition or construction of long-lived fixed assets, or if the excess exceeds the cost of the assets, the excess shall be used to reduce the carrying amount of existing long-lived assets other than goodwill. The excess shall be applied first to reduce the basis of the fixed asset with the longest remaining life. If that asset is reduced to zero, the remaining excess shall be applied to reduce the basis of the fixed asset with the next longest remaining life. If the cost of all fixed assets is reduced to zero, the remaining excess shall be reported as a bargain purchase as required by Subtopic 805-30.

830-20-55-**3** This guidance is applicable also to a debt-for-equity swap with both of the following characteristics (resulting in the excess being reported as a bargain purchase as required by Subtopic 805-30):

a. The foreign branch has no significant assets or liabilities other than local currency debt and has an accumulated deficit.

b. The proceeds from the debt-for-equity swap are used to extinguish the debt.

Use of Averages or Other Methods of Approximation

830-20-55-**4** Paragraph 830-10-55-10 provides guidance on the use of averages or other methods of approximation in applying this Subtopic.

830-**30 - Translation of Financial Statements**

830-30-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

830-30-00-**1** The following table identifies changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conduit Debt Security	Added	Maintenance Update 2014-20	09/29/2014
Nonpublic Entity (Def. 1)	Amended	Maintenance Update 2014-20	09/29/2014
830-30-40-1 through 40-3	Amended	Accounting Standards Update No. 2013-05	03/04/2013
830-30-40-1A	Added	Accounting Standards Update No. 2013-05	03/04/2013
830-30-40-4	Amended	Maintenance Update 2017-19	11/15/2017
830-30-45-1	Amended	Accounting Standards Update No. 2015-01	01/09/2015
830-30-45-20	Amended	Maintenance Update 2018-12	09/10/2018
830-30-45-21	Amended	Accounting Standards Update No. 2015-01	01/09/2015
830-30-45-22	Superseded	Accounting Standards Update No. 2015-01	01/09/2015
830-30-65-1	Added	Accounting Standards Update No. 2013-05	03/04/2013

830-30-**05 - Overview and Background**

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

830-30-05-**1** This Subtopic provides guidance for translating foreign currency statements that are incorporated in the financial statements of a reporting entity by consolidation, combination, or the equity method of accounting.

830-30-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

830-30-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 830-10-15.

830-30-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Conduit Debt Securities

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

Conversion

The exchange of one currency for another.

Exchange Rate

The ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time.

Foreign Currency

A currency other than the functional currency of the entity being referred to (for example, the dollar could be a foreign currency for a foreign entity). Composites of currencies, such as the Special Drawing Rights, used to set prices or denominate amounts of loans, and so forth, have the characteristics of foreign currency.

Foreign Currency Statements

Financial statements that employ as the unit of measure a functional currency that is not the reporting currency of the reporting entity.

Foreign Currency Transactions

Transactions whose terms are denominated in a currency other than the entity's functional currency. Foreign currency transactions arise when a reporting entity does any of the following:

a. Buys or sells on credit goods or services whose prices are denominated in foreign currency

b. Borrows or lends funds and the amounts payable or receivable are denominated in foreign currency

c. Is a party to an unperformed forward exchange contract

d. For other reasons, acquires or disposes of assets, or incurs or settles liabilities denominated in foreign currency.

Foreign Currency Translation

The process of expressing in the reporting currency of the reporting entity those amounts that are denominated or measured in a different currency.

Foreign Entity

An operation (for example, subsidiary, division, branch, joint venture, and so forth) whose financial statements are both:

a. Prepared in a currency other than the reporting currency of the reporting entity

b. Combined or consolidated with or accounted for on the equity basis in the financial statements of the reporting entity.

Functional Currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. (See paragraphs 830-10-45-2 through 45-6 and 830-10-55-3 through 55-7.)

Noncontrolling Interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Nonpublic Entity

Any entity that does not meet any of the following conditions:

a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.

b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.

d. It is required to file or furnish financial statements with the Securities and Exchange Commission.

e. It is controlled by an entity covered by criteria (a) through (d).

Reporting Entity

An entity or group whose financial statements are being referred to. Those financial statements reflect any of the following:

a. The financial statements of one or more foreign operations by combination, consolidation, or equity accounting

b. Foreign currency transactions.

Special Drawing Rights

Special Drawing Rights on the International Monetary Fund are international reserve assets whose value is based on a basket of key international currencies.

Transaction Date

The date at which a transaction (for example, a sale or purchase of merchandise or services) is recorded in accounting records in conformity with generally accepted accounting principles (GAAP). A long-term commitment may have more than one transaction date (for example, the due date of each progress payment under a construction contract is an anticipated transaction date).

Translation

See Foreign Currency Translation.

Translation Adjustments

Translation adjustments result from the process of translating financial statements from the entity's functional currency into the reporting currency.

Unit of Measure

The currency in which assets, liabilities, revenues, expenses, gains, and losses are measured.

830-30-**40 - Derecognition**

> **General Note:** The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

Sale or Liquidation of an Investment in a Foreign Entity

830-30-40-**1** Upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity, the amount attributable to that entity and accumulated in the translation adjustment component of equity shall be both:

a. Removed from the separate component of equity

b. Reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs.

830-30-40-**1A** A sale shall include:

a. The loss of a controlling financial interest in an investment in a foreign entity resulting from circumstances contemplated by Subtopic 810-10 (see paragraph 810-10-55-4A for related implementation guidance)

b. An acquirer obtaining control of an acquiree in which it held an equity interest, accounted for as an equity method investment that is a foreign entity, immediately before the acquisition date in a business combination achieved in stages (see paragraphs 805-10-25-9 through 25-10).

Partial Sale of Ownership Interest

830-30-40-**2** If a reporting entity sells part of its ownership interest in an equity method investment that is a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that equity method investment shall be recognized in measuring the gain or loss on the sale. If the sale of part of an equity method investment that is a foreign entity results in the loss of significant influence, see paragraphs 323-10-35-37 through 35-39 for guidance on how to account for the pro rata portion of the accumulated translation adjustment component of equity attributable to the remaining investment. For guidance if an entity sells a noncontrolling interest in a consolidated foreign entity, but still retains a controlling financial interest in the foreign entity, see paragraph 810-10-45-23 through 45-24.

830-30-40-**3** Although partial liquidations by a parent of net assets held within a foreign entity may be considered similar to a sale of part of an ownership interest in the foreign entity if the liquidation proceeds are distributed to the parent, extending pro rata recognition (release of the cumulative translation adjustment into net income) to such partial liquidations would require that their substance be distinguished from ordinary dividends. Such a distinction is neither possible nor desirable. For those partial liquidations, no cumulative translation adjustment is released into net income until the criteria in paragraph 830-30-40-1 are met.

830-30-40-**4** Under Subtopic 220-20, a gain or loss on disposal of part or all of a net investment may be recognized in a period other than that in which actual sale or liquidation occurs. Paragraph 830-30-40-1 does not alter the period in which a gain or loss on sale or liquidation is recognized under existing generally accepted accounting principles (GAAP).

830-30-**45 - Other Presentation Matters**

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

830-30-45-**1** The guidance in this Section discusses how a reporting entity translates foreign currency statements and analyzes changes in the cumulative translation adjustment. It also addresses two related reporting matters. The guidance is organized as follows:

a. Translation of foreign currency statements

b. Analysis of changes in cumulative translation adjustment

c. Reporting other comprehensive income-income tax consequences of rate changes

d. Subparagraph superseded by Accounting Standards Update No. 2015-01.

Translation of Foreign Currency Statements

830-30-45-**2** This guidance on translation of foreign currency statements is organized as follows:

a. Translation using current exchange rate

b. Elimination of intra-entity profits

c. Translation after a business combination

d. Reporting translation adjustments

e. Subsequent change in exchange rate

f. Cumulative translation adjustments attributable to noncontrolling interests.

Translation Using Current Exchange Rate

830-30-45-**3** All elements of financial statements shall be translated by using a current exchange rate as follows:

a. For assets and liabilities, the exchange rate at the balance sheet date shall be used.

b. For revenues, expenses, gains, and losses, the exchange rate at the dates on which those elements are recognized shall be used.

This guidance also applies to accounting allocations (for example, depreciation, cost of sales, and amortization of deferred revenues and expenses) and requires translation at the current exchange rates applicable to the dates those allocations are included in revenues and expenses (that is, not the rates on the dates the related items originated).

830-30-45-**4** For purposes of translation of financial statements referred to in this Subtopic, the current exchange rate is the rate as of the end of the period covered by the financial statements or as of the dates of recognition in those statements in the case of revenues, expenses, gains, and losses.

830-30-45-**5** Paragraphs 830-10-55-10 through 55-11 address the use of averages or other methods of approximation.

Exchange Rates

830-30-45-**6** In the absence of unusual circumstances, the exchange rate applicable to conversion of a currency for purposes of dividend remittances shall be used to translate foreign currency statements.

830-30-45-**7** If unsettled intra-entity transactions are subject to and translated using preference or penalty rates, translation of foreign currency statements at the rate applicable to dividend remittances may cause a difference between intra-entity receivables and payables. Until that difference is eliminated by settlement of the intra-entity transaction, the difference shall be treated as a receivable or payable in the reporting entity's financial statements.

830-30-45-**8** If a foreign entity whose balance sheet date differs from that of the reporting entity is consolidated or combined with or accounted for by the equity method in the financial statements of the reporting entity, the current rate is the rate in effect at the foreign entity's balance sheet date for purposes of applying the requirements of this Subtopic to that foreign entity.

830-30-45-**9** If exchangeability between two currencies is temporarily lacking at the transaction date or balance sheet date, the first subsequent rate at which exchanges could be made shall be used for purposes of this Subtopic. If the lack of exchangeability is other than temporary, the propriety of consolidating, combining, or accounting for the foreign operation by the equity method in the financial statements of the reporting entity shall be carefully considered. Example 1 (see paragraph 830-30-55-1) illustrates the application of this paragraph.

Elimination of Intra-Entity Profits

830-30-45-**10** The elimination of intra-entity profits that are attributable to sales or other transfers between entities that are consolidated, combined, or accounted for by the equity method in the reporting entity's financial statements shall be based on the exchange rates at the dates of the sales or transfers. The use of reasonable approximations or averages is permitted.

Translation After a Business Combination

830-30-45-**11** After a business combination, the amount assigned at the acquisition date to the assets acquired and the liabilities assumed (including goodwill or the gain recognized for a bargain purchase in accordance with Subtopic 805-30) shall be translated in conformity with the requirements of this Subtopic.

Reporting Translation Adjustments

830-30-45-**12** If an entity's functional currency is a foreign currency, translation adjustments result from the process of translating that entity's financial statements into the reporting currency. Translation adjustments shall not be included in determining net income but shall be reported in other comprehensive income.

Consideration of Cumulative Translation Adjustment in Impairment Tests

830-30-45-**13** An entity that has committed to a plan that will cause the cumulative translation adjustment for an equity method investment or a consolidated investment in a foreign entity to be reclassified to earnings shall include the cumulative translation adjustment as part of the carrying amount of the investment when evaluating that investment for impairment. The scope of this guidance includes an investment in a foreign entity that is either consolidated by the reporting entity or accounted for by the reporting entity using the equity method. This guidance does not address either of the following:

a. Whether the cumulative translation adjustment shall be included in the carrying amount of the investment when assessing impairment for an investment in a foreign entity when the reporting entity does not plan to dispose of the investment (that is, the investment or related consolidated assets are held for use)

b. Planned transactions involving foreign investments that, when consummated, will not cause a reclassification of some amount of the cumulative translation adjustment.

830-30-45-**14** In both cases, paragraph 830-30-40-1 is clear that no basis exists to include the cumulative translation adjustment in an impairment assessment if that assessment does not contemplate a planned sale or liquidation that will cause reclassification of some amount of the cumulative translation adjustment. (If the reclassification will be a partial amount of the cumulative translation adjustment, this guidance contemplates only the cumulative translation adjustment amount subject to reclassification pursuant to paragraphs 830-30-40-2 through 40-4.)

830-30-45-**15** An entity shall include the portion of the cumulative translation adjustment that represents a gain or loss from an effective hedge of the net investment in a foreign operation as part of the carrying amount of the investment when evaluating that investment for impairment.

Subsequent Change in Exchange Rate

830-30-45-**16** A reporting entity's financial statements shall not be adjusted for a rate change that occurs after the date of the reporting entity's financial statements or after the date of the foreign currency statements of a foreign entity if they are consolidated, combined, or accounted for by the equity method in the financial statements of the reporting entity.

Cumulative Translation Adjustments Attributable to Noncontrolling Interests

830-30-45-**17** Accumulated translation adjustments attributable to noncontrolling interests shall be allocated to and reported as part of the noncontrolling interest in the consolidated reporting entity.

Analysis of Changes in Cumulative Translation Adjustment

830-30-45-**18** An analysis of the changes during the period in the accumulated amount of translation adjustments reported in equity shall be provided in any of the following ways:

a. In a separate financial statement

b. In notes to financial statements

c. As part of a statement of changes in equity.

830-30-45-**19** This accumulated amount in equity might be titled Equity Adjustment from Foreign Currency Translation or given a similar title.

830-30-45-**20** At a minimum, the analysis shall disclose all of the following (see paragraph 830-30-50-1):

a. Beginning and ending amount of cumulative translation adjustments

b. The aggregate adjustment for the period resulting from translation adjustments (see paragraph 830-30-45-12) and gains and losses from certain hedges and intra-entity balances (see paragraph 830-20-35-3).

c. The amount of income taxes for the period allocated to translation adjustments (see paragraph 830-30-45-21)

d. The amounts transferred from cumulative translation adjustments and included in determining net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity (see paragraph 830-30-40-1).

Reporting Other Comprehensive Income-Income Tax Consequences of Rate Changes

830-30-45-**21** Subtopic 740-10 requires income tax expense to be allocated among income from continuing operations, discontinued operations, adjustments of prior periods (or of the opening balance of retained earnings), and direct entries to other equity accounts. All translation adjustments are reported in other comprehensive income. Any income taxes related to those translation adjustments shall be allocated to other comprehensive income. Translation adjustments are accounted for in the same way as temporary differences under the provisions of Subtopic 740-10. If under the requirements of Subtopic 740-30 deferred taxes are not provided for unremitted earnings of a subsidiary, in those instances, deferred taxes shall not be provided on translation adjustments.

830-30-45-**22** Paragraph superseded by Accounting Standards Update No. 2015-01.

830-30-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Analysis of Changes in Cumulative Translation Adjustment

830-30-50-**1** If not provided in a separate financial statement or as part of a statement of changes in equity, an analysis of the changes during the period in the accumulated amount of translation adjustments reported in equity shall be provided in notes to financial statements. At a minimum, the analysis shall disclose the items enumerated in paragraph 830-30-45-20.

Subsequent Rate Changes

830-30-50-**2** Disclosure of a rate change that occurs after the date of the reporting entity's financial statements or after the date of the foreign currency statements of a foreign entity if they are consolidated, combined, or accounted for by the equity method in the financial statements of the reporting entity and its effects on unsettled balances pertaining to foreign currency transactions, if significant, may be necessary.

830-30-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

Example 1: Exchange Rate when Exchangeability Is Lacking Temporarily

830-30-55-**1** This Example illustrates the appropriate exchange rate to be used for translating financial statements when foreign exchange trading is temporarily suspended at year-end. The following are facts involving a reporting entity that had a significant subsidiary in Israel:

a. On December 29, 1988, the currency market was open and foreign currencies were traded. The exchange rate was FC 1.68 = USD 1.00.

b. On December 30, 1988, Israeli banks were officially open but foreign exchange trading was suspended until January 2, 1989. A devaluation to occur on January 2, 1989, was announced. Most businesses were closed for the holidays.

c. On December 31, 1988, banks were closed.

d. On January 1, 1989, banks were closed.

e. On January 2, 1989, foreign exchange transactions were executed but left unsettled until the following day when a new rate was to be established.

f. On January 3, 1989, a new exchange rate of FC 1.81 = USD 1.00 was established and was effective for transactions left unsettled the previous day.

Thus, exchangeability was temporarily lacking and the rate established as of January 3, 1989, the first subsequent rate, is the appropriate rate to use for translating the December 31, 1988, financial statements.

830-30-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the

Codification.

General

Comprehensive Income

830-30-60-**1** For guidance on reporting foreign-currency-related components of comprehensive income, see Topic 220.

Income Taxes

830-30-60-**2** For guidance on whether deferred taxes shall be provided for translation adjustments, see Topic 740.

830-30-**65 - Transition and Open Effective Date Information**

General Note: The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

830-30-65-**1** Paragraph superseded on 07/08/2016 after the end of the transition period stated in Accounting Standards Update No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.

830-30-**S00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

830-30-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
830-30-S99-1	Added	Accounting Standards Update No. 2010-19	05/11/2010

830-30-**S99 - SEC Materials**

General Note: As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Announcements Made by SEC Staff at Emerging Issues Task Force (EITF) Meetings

SEC Staff Announcement: Foreign Currency Issues: Multiple Foreign Currency Exchange Rates

830-30-S99-**1** This SEC staff announcement provides the SEC staff's views on Foreign Currency Issues.

The SEC staff has received a number of inquiries regarding certain foreign currency issues related to investments in Venezuela. This announcement is in response to those inquiries that have been received by the SEC staff on the issues described below.

Amongst other requirements, current restrictions of foreign currency exchange in Venezuela provide that entities use the official rate of exchange (official rate) to exchange funds. The official rate is set by the Venezuelan government and in order to use the official rate to exchange currency, entities seek the ability to utilize the official rate from Venezuela's Commission for Administration of Foreign Currencies (CADIVI).

As an alternative to the use of the official rate it may also be legal to utilize the parallel rate. It is possible that the parallel rate provides entities with a more liquid exchange and entities can access the parallel rate using a series of transactions via a broker. The parallel rate has recently been significantly different from the official rate.

Reported Balances in an Entity's Financial Statements That Differ from Their Underlying U.S. Dollar Denominated Values

With respect to accounting for a subsidiary in Venezuela in cases where the parent's reporting currency is the U.S. dollar and the Venezuelan subsidiary's functional currency is the Venezuelan Bolivar ("Bolivar" or "BsF"), the staff has recently become aware of the following fact pattern: In years prior to 2010, certain entities may have used the parallel rate to remeasure certain U.S. dollar denominated balances that the Venezuelan subsidiary held and then subsequently translated the Venezuelan subsidiary's assets, liabilities, and operations using the official rate. The effect of this accounting treatment resulted in reported balances in an entity's financial statements that differed from their underlying U.S. dollar denominated values. (The staff notes that these differences arise when different rates are used for remeasurement and translation.) In order to illustrate the impact that these differences may have on different accounts within the financial statements, two illustrations are provided below.

First, assume that at a period end prior to January 1, 2010 (for a calendar year entity), a U.S. entity's Venezuelan subsidiary held $10 million of cash denominated in U.S. dollars. Further assume that at the period end, the parallel rate was 5 Bolivars to every 1 U.S. dollar and the official rate was 2 Bolivars to every 1 U.S. dollar. Upon the remeasurement of the U.S. denominated cash to Bolivars and the subsequent translation of the Venezuelan subsidiary's financial statements, an entity would have reported cash of $25 million for financial reporting purposes. (The $25 million is calculated as follows: First, the $10 million of cash is remeasured using the parallel rate to 50 million BsF; subsequently, the 50 million BsF is translated back to U.S. dollars using the official rate of 2 Bolivars to 1 U.S dollars, resulting in a translated reported balance of $25 million.)

Second, assume that at a period end prior to January 1, 2010 (for a calendar year entity), a U.S. entity's Venezuelan subsidiary held $15 million of accounts payable denominated in U.S. dollars (also assume the exchange rates are the same as in the example above). Upon the remeasurement of the U.S. denominated accounts payables to Bolivars and the subsequent translation of the Venezuelan subsidiary's financial statements, an entity would have reported accounts payable of $37.5 million for financial reporting purposes. (The $37.5 million is calculated as follows: First, the $15 million of accounts payable is remeasured using the parallel rate to 75 million BsF; subsequently, the 75 million BsF is translated back to U.S. dollars using the official rate of 2 Bolivars to 1 U.S. dollars, resulting in a translated reported balance of $37.5 million.)

Finally, the staff has noted that Venezuela has met the thresholds for being considered highly inflationary and accordingly, calendar year entities that have not previously accounted for their Venezuelan investment as highly inflationary will begin applying highly inflationary accounting beginning January 1, 2010.

Disclosures

The staff believes that in cases where reported balances for financial reporting purposes differ from the actual U.S. dollar denominated balances (such as in the illustrations above), a registrant should make disclosures that inform users of the financial statements as to the nature of these differences. When material, the disclosures in both annual and interim financial statements should, at a minimum, consist of the following (The staff is aware that certain registrants have already filed their 2009 Form 10-K's and accordingly the staff would not necessarily expect these specific disclosures to be included in these registrant's 2009 Form 10-K's.):

- Disclosure of the rates used for remeasurement and translation.
- A description of why the actual U.S. dollar denominated balances differ from the amounts reported for financial reporting purposes, including the reasons for using two different rates with respect to remeasurement and translation.
- Disclosure of the relevant line items (e.g. cash, accounts payable) on the financial statements for which the amounts reported for financial reporting purposes differ from the underlying U.S. dollar denominated values.
- For each relevant line item, the difference between the amounts reported for financial reporting purposes versus the underlying U.S. dollar denominated values.
- Disclosure of the amount that will be recognized through the income statement (as well as the impact on the other financial statements) as part of highly inflationary accounting beginning in 2010 (see below).

Impact of Highly Inflationary Accounting on Differences between Amounts Recorded for Financial Reporting Purposes versus the Underlying U.S. Dollar Denominated Values

The staff notes that upon application of highly inflationary accounting (January 1, 2010 for calendar year registrants), registrants must follow the accounting outlined in paragraph 830-10-45-11, which states that "the financial statements of a foreign entity in a highly inflationary economy shall be remeasured as if the functional currency were the reporting currency."

Accordingly, upon the application of highly inflationary accounting requirements, a U.S. reporting currency parent and subsidiary effectively utilize the same currency (U.S. dollars) and accordingly there should no longer be any differences between the amounts reported for financial reporting purposes and the amount of any underlying U.S. dollar denominated values that are held by the subsidiary. Therefore, the staff believes that any differences that may have existed prior to applying highly inflationary accounting requirements between the reported balances for financial reporting and the U.S. dollar denominated balances should be recognized in the income statement, unless the registrant can document that the difference was previously recognized as a cumulative translation adjustment (in which case the difference should be recognized as an adjustment to the cumulative translation adjustment).

Furthermore, the staff believes that these differences should be recognized at the time of adoption of highly inflationary accounting.

Other

The SEC staff is aware that the EITF will be discussing certain issues related to foreign currency, including the accounting for multiple exchange rates in Venezuela, and accordingly the guidance in this staff announcement is intended to be interim guidance pending the EITF completing its deliberations.

830-**230 - Statement of Cash Flows**

830-230-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

830-230-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
Cash Equivalents	Added	Accounting Standards Update No. 2014-06	03/14/2014
830-230-45-1	Amended	Accounting Standards Update No. 2016-18	11/17/2016
830-230-45-1	Amended	Accounting Standards Update No. 2014-06	03/14/2014
830-230-55-12	Amended	Maintenance Update 2018-12	09/10/2018

830-230-**05 - Overview and Background**

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

830-230-05-**1** This Subtopic provides guidance on reporting foreign currency matters in a statement of cash flows.

830-230-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

830-230-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 830-10-15.

830-230-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

a. Readily convertible to known amounts of cash

b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

Exchange Rate

The ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time.

Foreign Currency

A currency other than the functional currency of the entity being referred to (for example, the dollar could be a foreign currency for a foreign entity). Composites of currencies, such as the Special Drawing Rights, used to set prices or denominate amounts of loans, and so forth, have the characteristics of foreign currency.

Foreign Currency Transactions

Transactions whose terms are denominated in a currency other than the entity's functional currency. Foreign currency transactions arise when a reporting entity does any of the following:

a. Buys or sells on credit goods or services whose prices are denominated in foreign currency

b. Borrows or lends funds and the amounts payable or receivable are denominated in foreign currency

c. Is a party to an unperformed forward exchange contract

d. For other reasons, acquires or disposes of assets, or incurs or settles liabilities denominated in foreign currency.

Foreign Currency Translation

The process of expressing in the reporting currency of the reporting entity those amounts that are denominated or measured in a different currency.

Functional Currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. (See paragraphs 830-10-45-2 through 45-6 and 830-10-55-3 through 55-7.)

Local Currency

The currency of a particular country being referred to.

Reporting Currency

The currency in which a reporting entity prepares its financial statements.

Special Drawing Rights

Special Drawing Rights on the International Monetary Fund are international reserve assets whose value is based on a basket of key international currencies.

Translation

See Foreign Currency Translation.

830-230-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

830-230-45-**1** A statement of cash flows of an entity with foreign currency transactions or foreign operations shall report the reporting currency equivalent of foreign currency cash flows using the exchange rates in effect at the time of the cash flows. An appropriately weighted average exchange rate for the period may be used for translation if the result is substantially the same as if the rates at the dates of the cash flows were used. (That is, paragraph 830-30-45-3 applies to cash receipts and cash payments.) The statement of cash flows shall report the effect of exchange rate changes on cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents held in foreign currencies as a separate part of the reconciliation of the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents during the period. See Example 1 (paragraph 830-230-55-1) for an illustration of this guidance.

830-230-55 - Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

Example 1: Statement of Cash Flows for Manufacturing Entity with Foreign Operations

830-230-55-**1** This Example illustrates a statement of cash flows under the direct method for a manufacturing entity with foreign operations. The illustrations of the reconciliation of net income to net cash provided by operating activities may provide detailed information in excess of that required for a meaningful presentation. Other formats or levels of detail may be appropriate for particular circumstances.

830-230-55-**2** The following is a consolidating statement of cash flows for the year ended December 31, 19X1, for Entity F, a multinational U.S. corporation engaged principally in manufacturing activities, which has two wholly owned foreign subsidiaries- Subsidiary A and Subsidiary B. For Subsidiary A, the local currency is the functional currency. For Subsidiary B, which operates in a highly inflationary economy, the U.S. dollar is the functional currency.

ENTITY F
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 19X1
Increase (Decrease) in Cash and Cash Equivalents

	Parent Entity	Subsidiary A	Subsidiary B	Eliminations	Consolidated
Cash flows from operating activities:					
Cash received from customers	$ 4,610 [a]	$ 888 [a]	$ 561 [a]	$ (430)	$ 5,629
Cash paid to suppliers and employees	(3,756) [a]	(806) [a]	(370) [a]	430	(4,502)
Interest paid	(170)	(86)	(135)	-	(391)
Income taxes paid	(158)	(25)	(21)	-	(204)
Interest and dividends received	57	-	-	(22)	35
Miscellaneous cash received (paid)	-	45	(5)	-	40
Net cash provided by operating activities	583	16	30	(22)	607
Cash flows from investing activities:					
Proceeds from sale of equipment	150	116	14	-	280
Payments for purchase of equipment	(450)	(258)	(15)	-	(723)
Net cash used in investing activities	(300)	(142)	(1)	-	(443)
Cash flows from financing activities:					
Proceeds from issuance of short-term debt	20	75	-	-	95
Intra-entity loan	(15)	-	15	-	-
Proceeds from issuance of long-term debt	-	165	-	-	165
Repayment of long-term debt	(200)	(105)	(35)	-	(340)
Payment of dividends	(120)	(22)	-	22	(120)
Net cash provided by (used in) financing activities	(315)	113	(20)	22	(200)
Effect of exchange rate changes on cash	-	9 [b]	(5) [b]	-	4
Net change in cash and cash equivalents	(32)	(4)	4	-	(32)
Cash and cash equivalents at beginning of year	255	15	5	-	275
Cash and cash equivalents at end of year	$ 223	$ 11	$ 9	$ -	$ 243

(a) The computation of this amount is provided in paragraph 830-230-55-14.
(b) The computation of this amount is provided in paragraph 830-230-55-15.

Reconciliation of net income to net cash provided by operating activities:

	Parent Entity	Subsidiary A	Subsidiary B	Eliminations	Consolidated
Net income	$ 417	$ 50	$ (66)	$ (37)	$ 364
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	350	85	90	-	525
(Gain) loss on sale of equipment	(115)	-	25	-	(90)
Writedown of facility to net realizable value	50	-	-	-	50
Exchange gain	-	-	(115)	-	(115)
Provision for deferred taxes	90	-	-	-	90
Increase in accounts receivable	(85)	(37)	(9)	-	(131)
(Increase) decrease in inventory	(80)	(97)	107	15	(55)
Increase (decrease) in accounts payable and accrued expenses	(41)	16	(6)	-	(31)
Increase (decrease) in interest and taxes payable	(3)	(1)	4	-	-
Net cash provided by operating activities	$ 583	$ 16	$ 30	$ (22)	$ 607

830-230-55-**3** The entity would make the following disclosure.

Cash in excess of daily requirements is invested in marketable securities consisting of U.S. Treasury bills with maturities of three months or less. Such investments are deemed to be cash equivalents for purposes of the statement of cash flows.

830-230-55-**4** Summarized in the following tables is financial information for the current year for Entity F, which provides the basis for the statement of cash flows presented in paragraph 830-230-55-2.

Entity F
Consolidating Statement of Financial Position
December 31, 19X1

	Parent Entity	Subsidiary A	Subsidiary B	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	$ 223	$ 11	$ 9	$ -	$ 243
Accounts receivable	725	95	20	-	840
Intra-entity loan receivable	15	-	-	(15)	-
Inventory	630	281	96	(15)	992
Investments	730	-	-	(730)	-
Property, plant, and equipment, net	3,305	1,441	816	-	5,562
Other assets	160	11	-	-	171
Total assets	$ 5,788	$ 1,839	$ 941	$ (760)	$ 7,808
Liabilities:					
Accounts payable and accrued expenses	$ 529	$ 135	$ 38	$ -	$ 702
Interest payable	35	11	4	-	50
Taxes payable	45	5	2	-	52
Short-term debt	160	135	-	-	295
Intra-entity debt	-	-	15	(15)	-
Long-term debt	1,100	315	40	-	1,455
Deferred taxes	342	-	-	-	342
Total liabilities	2,211	601	99	(15)	2,896
Stockholders' equity:					
Capital stock	550	455	275	(730)	550
Retained earnings	3,027	554	567	(15)	4,133
Cumulative translation adjustment	-	229	-	-	229
Total stockholders' equity	3,577	1,238	842	(745)	4,912
Total liabilities and stockholders' equity	$ 5,788	$ 1,839	$ 941	$ (760)	$ 7,808

Entity F
Consolidating Statement of Income
For the Year Ended December 31, 19X1

	Parent Entity	Subsidiary A	Subsidiary B	Eliminations	Consolidated
Revenues	$ 4,695	$ 925	$ 570	$ (430)	$ 5,760
Cost of sales	(3,210)	(615)	(406)	415	(3,816)
Depreciation and amortization	(350)	(85)	(90)	-	(525)
General and administrative expenses	(425)	(110)	(65)	-	(600)
Interest expense	(165)	(90)	(135)	-	(390)
Interest and dividend income	57	-	-	(22)	35
Gain (loss) on sale of equipment	115	-	(25)	-	90
Miscellaneous income (expense)	(50)	45	(5)	-	(10)
Exchange gain	-	-	115	-	115
Income before income taxes	667	70	(41)	(37)	659
Provision for income taxes	(250)	(20)	(25)	-	(295)
Net income	$ 417	$ 50	$ (66)	$ (37)	$ 364

830-230-55-**5** The U.S. dollar equivalents of one unit of local currency applicable to Subsidiary A and to Subsidiary B are as follows.

	Subsidiary A	Subsidiary B
1/1/X1	.40	.05
Weighted average	.43	.03
12/31/X1	.45	.02

830-230-55-**6** The computation of the weighted-average exchange rate for Subsidiary A excludes the effect of Subsidiary A's sale of inventory to the parent entity at the beginning of the year discussed in paragraph 830-230-55-10(a).

830-230-55-**7** Comparative statements of financial position for the parent entity and for each of the foreign subsidiaries are as follows.

COMPARATIVE STATEMENTS OF FINANCIAL POSITION

	Parent Enity			Subsidiary A			Subsidiary A			Subsidiary B			Subsidiary B		
	U.S. Dollars (USD)			Local Currency (LC)			U.S. Dollars (USD)			Local Currency (LC)			U.S. Dollars (USD)		
	1/1/X1	12/13/X1	Change	1/1/X1	12/31/X1	Change	1/1/X1	12/31/X1	Change	1/1/X1	12/31/X1	Change	1/1/X1	12/31/X1	Change
Assets															
Cash and cash equivalents	255	223	(32)	38	25	(13)	15	11	(4)	100	449	349	5	9	4
Accounts receivable	640	725	85	125	210	85	50	95	45	700	1,000	300	35	20	(15)
Intra-entity loan receivable	-	15	15	-	-	-	-	-	-	-	-	-	-	-	-
Inventory	550	630	80	400	625	225	160	281	121	2,900	3,200	300	203	96	(107)
Investments	730	730	-	-	-	-	-	-	-	-	-	-	-	-	-
Property, plant, and equipment, net	3,280	3,305	25	3,075	3,202	127	1,230	1,441	211	6,200	5,900	(300)	930	816	(114)
Other assets	170	160	(10)	25	25	-	10	11	1	-	-	-	-	-	-
Total assets	5,625	5,788	163	3,663	4,087	424	1,465	1,839	374	9,900	10,549	649	1,173	941	(232)
Liabilities:															
Accounts payable and accrued expenses	570	529	(41)	263	300	37	105	135	30	2,100	1,900	(200)	105	38	(67)
Interest payable	40	35	(5)	15	24	9	6	11	5	200	200	-	10	4	(6)
Taxes payable	43	45	2	25	12	(13)	10	5	(5)	-	120	120	–	2	2
Short-term debt	140	160	20	125	300	175	50	135	85	-	-	-	–	–	–
Intra-entity debt	-	-	-	-	-	-	-	-	-	-	500	500	–	15	15
Long-term debt	1,300	1,100	(200)	550	700	150	220	315	95	3,000	2,000	(1,000)	150	40	(110)
Deferred taxes	252	342	90	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	2,345	2,211	(134)	978	1,336	358	391	601	210	5,300	4,720	(580)	265	99	(166)
Stockholders' equity:															
Capital stock	550	550	-	1,300	1,300	-	455	455	-	1,375	1,375	-	275	275	-
Retained earnings	2,730	3,027	297	1,385	1,451	66	526	554	28	3,225	4,454	1,229	633	567	(66)
Cumulative translation adjustment	-	-	-	-	-	-	93	229	136	-	-	-	-	-	-
Total stockholders' equity	3,280	3,577	297	2,685	2,751	66	1,074	1,238	164	4,600	5,829	1,229	908	842	(66)
Total liabilities and stockholders' equity	5,625	5,788	163	3,663	4,087	424	1,465	1,839	374	9,900	10,549	649	1,173	941	(232)

830-230-55-**8** Statements of income in local currency and U.S. dollars for each of the foreign subsidiaries are as follows.

STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 19X1

	Subsidiary A		Subsidiary B	
	Local Currency	U.S. Dollars	Local Currency	U.S Dollars
Revenues	LC 2,179	USD 925 (a)	LC 19,000	USD 570
Cost of sales	(1,458)	(615) (b)	(9,667)	(406)
Depreciation and amortization	(198)	(85)	(600)	(90)
General and administrative expenses	(256)	(110)	(2,167)	(65)
Interest expense	(209)	(90)	(4,500)	(135)
Gain (loss) on sale of equipment	–	–	150	(25)
Miscellaneous income (expense)	105	45	(167)	(5)
Exchange gain	–	–	–	115
Income before income taxes	163	70	2,049	(41)
Provision for income taxes	(47)	(20)	(820)	(25)
Net income	LC 116	USD 50	LC 1,229	USD (66)

(a) This amount was computed as follows:

Sale to parent entity at beginning of year	LC 400@.40 =	USD 160
Sales to customers	LC 1,779@.43 =	765
Total sales in U.S. dollars		USD 925

(b) This amount was computed as follows:

Cost of sale to parent entity at beginning of year	LC 400@.40 =	USD 160
Cost of sales to customers	LC 1,058@.43 =	455
Total cost of sales in U.S. dollars		USD 615

830-230-55-**9** All of the following transactions were entered into during the year by the parent entity and are reflected in the preceding financial statements:

a. The parent entity invested cash in excess of daily requirements in U.S. Treasury bills. Interest earned on such investments totaled USD 35.

b. The parent entity sold excess property with a net book value of USD 35 for USD 150.

c. The parent entity's capital expenditures totaled USD 450.

d. The parent entity wrote down to its estimated net realizable value of USD 25 a facility with a net book value of USD 75.

e. The parent entity's short-term debt consisted of commercial paper with maturities not exceeding 60 days.

f. The parent entity repaid long-term notes of USD 200.

g. The parent entity's depreciation totaled USD 340, and amortization of intangible assets totaled USD 10.

h. The parent entity's provision for income taxes included deferred taxes of USD 90.

i. Because of a change in product design, the parent entity purchased all of Subsidiary A's beginning inventory for its book value of USD 160. All of the inventory was subsequently sold by the parent entity.

j. The parent entity received a dividend of USD 22 from Subsidiary A. The dividend was credited to the parent entity's income.

k. The parent entity purchased from Subsidiary B USD 270 of merchandise of which USD 45 remained in the parent entity's inventory at year-end. Intra-entity profit on the remaining inventory totaled USD 15.

l. The parent entity loaned USD 15, payable in U.S. dollars, to Subsidiary B.

m. Entity F paid dividends totaling USD 120 to shareholders.

830-230-55-**10** All of the following transactions were entered into during the year by Subsidiary A and are reflected in the above financial statements. The U.S. dollar equivalent of the local currency amount based on the exchange rate at the date of each transaction is included. Except for the sale of inventory to the parent entity (the transaction in [a]), Subsidiary A's sales and purchases and operating cash receipts and payments occurred evenly throughout the year.

a. Because of a change in product design, Subsidiary A sold all of its beginning inventory to the parent entity for its book value of LC 400 (USD 160).

b. Subsidiary A sold equipment for its book value of LC 275 (USD 116) and purchased new equipment at a cost of LC 600 (USD 258).

c. Subsidiary A issued an additional LC 175 (USD 75) of 30-day notes and renewed the notes at each maturity date.

d. Subsidiary A issued long-term debt of LC 400 (USD 165) and repaid long-term debt of LC 250 (USD 105).

e. Subsidiary A paid a dividend to the parent entity of LC 50 (USD 22).

830-230-55-**11** The following transactions were entered into during the year by Subsidiary B and are reflected in the preceding financial statements. The U.S. dollar equivalent of the local currency amount based on the exchange rate at the date of each transaction is included. Subsidiary B's sales and operating cash receipts and payments occurred evenly throughout the year. For convenience, all purchases of inventory were based on the weighted-average exchange rate for the year. Subsidiary B uses the first-in, first-out (FIFO) method of inventory valuation.

a. Subsidiary B had sales to the parent entity as follows.

	Local Currency	U.S. Dollars
Intra-entity sales	LC 9,000	USD 270
Cost of sales	(4,500)	(180)
Gross profit	LC 4,500	USD 90

b. Subsidiary B sold equipment with a net book value of LC 200 (USD 39) for LC 350 (USD 14). New equipment was purchased at a cost of LC 500 (USD 15).

c. Subsidiary B borrowed USD 15 (LC 500), payable in U.S. dollars, from the parent entity.

d. Subsidiary B repaid LC 1,000 (USD 35) of long-term debt.

830-230-55-**12** Statements of cash flows in the local currency and in U.S. dollars for Subsidiary A and Subsidiary B are as follows.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 19X1
Increase (Decrease) in Cash

	Subsidiary A		Subsidiary B	
	Local Currency	U.S. Dollars	Local Currency	U.S Dollars
Cash flows from operating activities:				
Cash received from customers	LC 2,094 [a]	USD 888 [a]	LC 18,700 [a]	USD 561 [a]
Cash paid to suppliers and employees	(1,902) [a]	(806) [a]	(12,334) [a]	(370) [a]
Interest paid	(200)	(86) [b]	(4,500)	(135) [b]
Income taxes paid	(60)	(25) [b]	(700)	(21) [b]
Miscellaneous receipts (payments)	105	45 [b]	(167)	(5) [b]
Net cash provided by operating activities	37	16	999	30
Cash flows from investing activities:				
Proceeds from sale of equipment	275	116 [c]	350	14 [c]
Payments for purchase of equipment	(600)	(258) [c]	(500)	(15) [c]
Net cash used in investing activities	(325)	(142)	(150)	(1)
Cash flows from financing activities:				
Proceeds from issuance of short-term debt	175	75 [c]	-	-
Proceeds from intra-entity loan	-	-	500	15 [c]
Proceeds from issuance of long-term debt	400	165 [c]	-	-
Repayment of long-term debt	(250)	(105) [c]	(1,000)	(35) [c]
Payment of dividends	(50)	(22) [c]	-	-
Net cash provided by (used in) financing activities	275	113	(500)	(20)
Effect of exchange rate changes on cash	-	9 [d]	-	(5) [d]
Net increase (decrease) in cash	(13)	(4)	349	4
Cash at beginning of year	38	15	100	5
Cash at end of year	LC 25	USD 11	LC 449	USD 9

(a) The computation of this amount is provided in paragraph 830-230-55-14.
(b) This amount represents the U.S. dollar equivalent of the foreign currency cash flow based on the weighted-average exchange rate for the year.
(c) This amount represents the U.S. dollar equivalent of the foreign currency cash flow based on the exchange rate in effect at the time of the cash flow.
(d) The computation of this amount is provided in paragraph 830-230-55-15.

830-230-55-**13** A reconciliation of net income to net cash provided by operating activities follows.

	Subsidiary A		Subsidiary B	
	Local Currency	U.S. Dollars	Local Currency	U.S Dollars
Net income	LC 116	USD 50	LC 1,229	USD (66)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	198	85 [a]	600	90 [b]
(Gain) loss on sale of equipment	-	-	(150)	25 [b]
Exchange gain	-	-	-	(115) [c]
Increase in accounts receivable	(85)	(37) [a]	(300)	(9) [a]
Increase (decrease) in inventory	(225)	(97) [a]	(300)	107 [d]
Increase (decrease) in accounts payable and accrued expenses	37	16 [a]	(200)	(6) [a]
Increase (decrease) in interest and taxes payable	(4)	(1) [a]	120	4 [a]
Net cash provided by operating activities	LC 37	USD 16	LC 999	USD 30

(a) This amount represents the U.S. dollar equivalent of the foreign currency amount based on the weighted-average exchange rate for the year.
(b) This amount represents the U.S. dollar equivalent of the foreign currency amount based on historical exchange rates.
(c) This amount represents the exchange gain included in net income as a result of remeasuring Subsidiary B's financial statements from the local currency to U.S. dollars.
(d) This amount represents the difference between beginning and ending inventory after remeasurement into U.S. dollars based on historical exchange rates.

830-230-55-**14** The following is the computation of cash received from customers and cash paid to suppliers and employees as reported in the consolidating statement of cash flows for Entity F appearing in paragraph 830-230-55-2.

		Subsidiary A		Subsidiary B	
	Parent Entity	Local Currency	U.S. Dollars	Local Currency	U.S. Dollars
Cash received from customers during the year					
Revenues	USD 4695	LC 2,179	USD 925	LC 19,000	USD 570
Increase in accounts receivable	(85)	(85)	(37)	(300)	(9)
Cash received from customers	USD 4610	LC 2,094	USD 888	LC 18,700	USD 561
Cash paid to suppliers and employees during the year					
Cost of sales	USD 3210	LC 1,458	USD 615	LC 9,667	USD 406
Effect of exchange rate changes on cost of sales	-	-	-	-	(116) [(a)]
General and administrative expenses	425	256	110	2,167	65
Total operating expenses requiring cash payments	3,635	1,714	725	11,834	355
Increase in inventory	80	225	97	300	9
(Increase) decrease in accounts payable and accrued expenses	41	(37)	(16)	200	6
Cash paid to suppliers and employees	USD 3756	LC 1,902	USD 806	LC 12,334	USD 370

(a) This adjustment represents the difference between cost of sales remeasured at historical exchange rates (USD 406) and cost of sales translated based on the weighted-average exchange rate for the year (USD 290). The adjustment is necessary because cash payments for inventory, which were made evenly throughout the year, were based on the weighted-average exchange rate for the year.

830-230-55-**15** The following is the computation of the effect of exchange rate changes on cash for Subsidiary A and Subsidiary B.

COMPUTATION OF EFFECT OF EXCHANGE RATE CHANGES ON CASH

	Subsidiary A		Subsidiary B	
Effect on beginning cash balance:				
Beginning cash balance in local currency	LC 38		LC 100	
Net change in exchange rate during the year	× .05		× (.03)	
Effect on beginning cash balance		USD 2		USD (3)
Effect from operating activities during the year:				
Cash provided by operating activities in local currency	LC 37		LC 999	
Year-end exchange rate	× .45		× .02	
Operating cash flows based on year-end exchange rate	USD 16 [(a)]		USD 20	
Operating cash flows reported in the statement of cash flows	16		30	
Effect from operating activities during the year		-		(10)
Effect from investing activities during the year:				
Cash used in investing activities in local currency	LC (325)		LC (150)	
Year-end exchange rate	× .45		× .02	
Investing cash flows based on year-end exchange rate	USD (146)		USD (3)	
Investing cash flows reported in the statement of cash flows	(142)		(1)	
Effect from investing activities during the year		(4)		(2)
Effect from financing activities during the year:				
Cash provided by (used in) financing activities in local currency	LC 275		LC (500)	
Year-end exchange rate	× .45		× .02	
Financing cash flows based on year-end	USD 124		USD (10)	
Financing cash flows reported in the statement of cash flows	113		(20)	
Effect from financing activities during the year		11		10
Effect of exchange rate changes on cash		USD 9		USD (5)

(a) This amount includes the effect of rounding.

830-**740 - Income Taxes**

830-740-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

830-740-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
Temporary Difference	Amended	Accounting Standards Update No. 2016-16	10/24/2016
830-740-25-2	Amended	Accounting Standards Update No. 2020-10	10/29/2020
830-740-25-4	Amended	Accounting Standards Update No. 2020-10	10/29/2020
830-740-25-6	Amended	Accounting Standards Update No. 2020-10	10/29/2020

830-740-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

830-740-05-**1** Topic 740 addresses the majority of differences between the financial reporting (or book) basis and tax basis of assets and liabilities (basis differences).

830-740-05-**2** This Subtopic addresses the accounting for specific types of basis differences for entities operating in foreign countries. The accounting addressed in this Subtopic is limited to the deferred tax accounting for changes in tax or financial reporting bases due to their restatement under the requirements of tax laws or generally accepted accounting principles (GAAP) in the United States. These changes arise from tax or financial reporting basis changes caused by any of the following:

a. Changes in an entity's functional currency

b. Price-level related changes

c. A foreign entity's functional currency being different from its local currency.

This Subtopic addresses whether these changes, which can affect the amount of basis differences, result in recognition of changes to deferred tax assets or liabilities.

830-740-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

830-740-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 830-10-15, with specific qualifications noted below.

Entities

830-740-15-**2** The guidance in this Subtopic applies to all entities operating in foreign countries.

Transactions

830-740-15-**3** The guidance in this Subtopic applies to certain specified deferred tax accounting matters, specifically to the income tax consequences of changes to tax or financial reporting bases from their restatements caused by:

a. Changes in an entity's functional currency

b. Price-level related changes

c. A foreign entity's functional currency being different from its local currency.

830-740-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Benefit

See Tax (or Benefit).

Deferred Tax Liability

The deferred tax consequences attributable to taxable temporary differences. A deferred tax liability is measured using the applicable enacted tax rate and provisions of the enacted tax law.

Exchange Rate

The ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time.

Foreign Currency

A currency other than the functional currency of the entity being referred to (for example, the dollar could be a foreign currency for a foreign entity). Composites of currencies, such as the Special Drawing Rights, used to set prices or denominate amounts of loans, and so forth, have the characteristics of foreign currency.

Foreign Entity

An operation (for example, subsidiary, division, branch, joint venture, and so forth) whose financial statements are both:

a. Prepared in a currency other than the reporting currency of the reporting entity

b. Combined or consolidated with or accounted for on the equity basis in the financial statements of the reporting entity.

Functional Currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. (See paragraphs 830-10-45-2 through 45-6 and 830-10-55-3 through 55-7.)

Local Currency

The currency of a particular country being referred to.

Reporting Currency

The currency in which a reporting entity prepares its financial statements.

Special Drawing Rights

Special Drawing Rights on the International Monetary Fund are international reserve assets whose value is based on a basket of key international currencies.

Tax (or Benefit)

Tax (or benefit) is the total income tax expense (or benefit), including the provision (or benefit) for income taxes both currently payable and deferred.

Tax Consequences

The effects on income taxes-current or deferred-of an event.

Taxable Income

The excess of taxable revenues over tax deductible expenses and exemptions for the year as defined by the governmental taxing authority.

Taxable Temporary Difference

Temporary differences that result in taxable amounts in future years when the related asset is recovered or the related liability is settled. See Temporary Difference.

Temporary Difference

A difference between the tax basis of an asset or liability computed pursuant to the requirements in Subtopic 740-10 for tax positions, and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Paragraph 740-10-25-20 cites examples of temporary differences. Some temporary differences cannot be identified with a particular asset or liability for financial reporting (see paragraphs 740-10-05-10 and 740-10-25-24 through 25-25), but those temporary differences do meet both of the following conditions:

a. Result from events that have been recognized in the financial statements

b. Will result in taxable or deductible amounts in future years based on provisions of the tax law.

Some events recognized in financial statements do not have tax consequences. Certain revenues are exempt from taxation and certain expenses are not deductible. Events that do not have tax consequences do not give rise to temporary differences.

Transaction Gain or Loss

Transaction gains or losses result from a change in exchange rates between the functional currency and the currency in which a foreign currency transaction is denominated. They represent an increase or decrease in both of the following:

a. The actual functional currency cash flows realized upon settlement of foreign currency transactions

b. The expected functional currency cash flows on unsettled foreign currency transactions.

Translation Adjustments

Translation adjustments result from the process of translating financial statements from the entity's functional currency into the reporting currency.

830-740-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

Remeasurement Changes Causing Deferred Tax Recognition

830-740-25-**1** This Section addresses basis differences that result from remeasurement of assets and liabilities due to changes in functional currency and price levels. These remeasurement changes will often affect the amount of temporary differences for which deferred taxes are recognized.

Functional Currency Related Changes

830-740-25-**2** Subtopic 830-10 requires that a change in functional currency from the reporting currency to the local currency when an economy ceases to be considered highly inflationary shall be accounted for by establishing new functional currency bases for nonmonetary items. Those bases are computed by translating the historical reporting currency amounts of nonmonetary items into the local currency at current exchange rates.

830-740-25-**3** As a result of applying those requirements, the functional currency bases generally will exceed the local currency tax bases of nonmonetary items. The differences between the new functional currency bases and the tax bases represent temporary differences under Subtopic 740-10, for which deferred taxes shall be recognized. Paragraph 830-740-45-2 addresses the presentation of the effect of recognizing these deferred taxes.

Price-Level Related Changes

830-740-25-**4** Entities located in countries with highly inflationary economies may prepare financial statements restated for general price-level changes in accordance with generally accepted accounting principles (GAAP) in the United States. The tax bases of assets and liabilities of those entities are often restated for the effects of inflation.

830-740-25-**5** When preparing financial statements restated for general price-level changes using end-of-current-year purchasing power units, temporary differences are determined based on the difference between the indexed tax basis amount of the asset or liability and the related price-level restated amount reported in the financial statements. Example 1 (see paragraph 830-740-55-1) illustrates the application of this guidance.

Inside Basis Differences within Foreign Subsidiaries That Meet the Indefinite Reversal Criterion

830-740-25-**6** Temporary differences within an entity's foreign subsidiaries are referred to as inside basis differences. Differences between the tax basis and the financial reporting basis of an investment in a foreign subsidiary are referred to as outside basis differences.

830-740-25-**7** Inside basis differences of a foreign subsidiary of a U.S. parent where the local currency is the functional currency may result from foreign laws that provide for the occasional restatement of fixed assets for tax purposes to compensate for the effects of inflation. The amount that offsets the increase in the tax basis of fixed assets is sometimes described as a credit to revaluation surplus, which some view as a component of equity for tax purposes. That amount becomes taxable in certain situations, such as in the event of a liquidation of the foreign subsidiary or if the earnings associated with the revaluation surplus are distributed. In this situation, it is assumed that no mechanisms are available under the tax law to avoid eventual treatment of the revaluation surplus as taxable income. The indefinite reversal criteria of Subtopic 740-30 shall not be applied to inside basis differences of a foreign subsidiary, as indicated in paragraph 740-30-25-17, and a deferred tax liability shall be provided on the amount of the revaluation surplus.

830-740-25-**8** Paragraph 740-10-25-24 indicates that some temporary differences are deferred taxable income and have balances only on the income tax balance sheet. Therefore, these differences cannot be identified with a particular asset or liability for financial reporting purposes. Because the inside basis difference related to the revaluation surplus results in taxable amounts in future years based on the provisions of the foreign tax law, it qualifies as a temporary difference even though it may be characterized as a component of equity for tax purposes. Subtopic 740-30 clearly limits the indefinite reversal criterion to the temporary differences described in paragraph 740-10-25-3(a) and shall not be applied to analogous types of temporary differences.

Remeasurement Changes Not Resulting in Deferred Tax Recognition

830-740-25-**9** Some remeasurement-caused changes in basis differences do not result in recognition of deferred taxes.

830-740-25-**10** As indicated in paragraph 740-10-25-3(f), recognition is prohibited for a deferred tax liability or asset for differences related to assets and liabilities that, under the requirements of Subtopic 830-10, are remeasured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates or indexing for tax purposes.

830-740-25-**11** Paragraph 830-10-45-16 provides additional guidance on accounting for the eventual recognition of indexing related deferred tax benefits after an entity's functional currency changes from the foreign currency to the reporting currency because the foreign economy becomes highly inflationary.

830-740-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Foreign Financial Statements Restated for General Price Level Changes

830-740-30-**1** In foreign financial statements that are restated for general price-level changes, the deferred tax expense or benefit shall be calculated as the difference between the following two measures:

a. Deferred tax assets and liabilities reported at the end of the current year, determined in accordance with paragraph 830-740-25-5

b. Deferred tax assets and liabilities reported at the end of the prior year, remeasured to units of current general purchasing power at the end of the current year.

830-740-30-**2** The remeasurement of deferred tax assets and liabilities at the end of the prior year is reported together with the remeasurement of all other assets and liabilities as a restatement of beginning equity.

830-740-30-**3** Example 1 (see paragraph 830-740-55-1) illustrates the application of this guidance.

830-740-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

830-740-45-**1** As indicated in paragraph 830-20-45-3, when the reporting currency (not the foreign currency) is the functional currency, remeasurement of an entity's deferred foreign tax liability or asset after a change in the exchange rate will result in a transaction gain or loss that is recognized currently in determining net income. Paragraph 830-20-45-1 requires disclosure of the aggregate transaction gain or loss included in determining net income but does not specify how to display that transaction gain or loss or its components for financial reporting. Accordingly, a transaction gain or loss that results from remeasuring a deferred foreign tax liability or asset may be included in the reported amount of deferred tax benefit or expense if that presentation is considered to be more useful. If reported in that manner, that transaction gain or loss is still included in the aggregate transaction gain or loss for the period to be disclosed as required by that paragraph.

830-740-45-**2** The deferred taxes associated with the temporary differences that arise from a change in functional currency discussed in paragraph 830-740-25-3 when an economy ceases to be considered highly inflationary shall be presented as an adjustment to the cumulative translation adjustments component of shareholders' equity and therefore shall be recognized in other comprehensive income.

830-740-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

Example 1: Illustration of Foreign Financial Statements Restated for General Price-Level Changes

830-740-55-**1** This Example illustrates the guidance in paragraphs 830-740-25-5 and 830-740-30-1 through 30-2.An entity has one asset, a nonmonetary asset that is not depreciated for financial reporting or tax purposes. The local currency is FC. Units of current purchasing power are referred to as CFC. The enacted tax rate is 40 percent. The asset had a price-level-adjusted financial reporting amount of CFC 350 and an indexed basis for tax purposes of CFC 100 at December 31, 19X2, both measured using CFC at December 31, 19X2. The entity has a taxable temporary difference of CFC 250 (CFC 350 - CFC 100) and a related deferred tax liability of CFC 100 (CFC 250 x 40 percent) using CFC at December 31, 19X2.

830-740-55-**2** General price levels increase by 50 percent in 19X3, and indexing allowed for 19X3 for tax purposes is 25 percent. At December 31, 19X3, the asset has a price-level-adjusted financial reporting amount of CFC 525 (CFC 350 x 150 percent) and an indexed basis for tax purposes of CFC 125 (CFC 100 x 125 percent), using CFC at December 31, 19X3. The entity has a taxable temporary difference of CFC 400 (CFC 525 - CFC 125) and a related deferred tax liability of CFC 160 (CFC 400 x 40 percent) at December 31, 19X3, using CFC at December 31, 19X3. The deferred tax liability at December 31, 19X2 is restated to units of current general purchasing power as of December 31, 19X3. The restated December 31, 19X2 deferred tax liability is CFC 150 (CFC 100 x 150 percent). For 19X3, the difference between CFC 160 and CFC 150 is reported as deferred tax expense in income from continuing operations. The difference between the deferred tax liability of CFC 100 at December 31, 19X2 and the restated December 31, 19X2 deferred tax liability of CFC 150 is reported in 19X3 as a restatement of beginning equity.

830-740-55-**3** The following is a tabular presentation of this Example.

	19X2			19X3
Financial reporting basis	CFC 350	×	1.5	CFC 525
Tax basis	CFC 100	×	1.25	CFC 125
Temporary difference	CFC 250			CFC 400
Tax rate	× .40			×.40
Deferred tax liability, end of year	CFC 100			CFC 160
Deferred tax liability (restated), beginning of year	CFC 100	×	1.5	CFC 150
Deferred tax expense				CFC 10