national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 4 – The Effects of Changes in Foreign Exchange Rates

Effective 1 April 2021

DEFINITION

An entity's **functional currency** is the currency of the primary economic environment in which it operates

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When determining the appropriate functional currency, the following factors are considered:

- Currency influencing revenue such as taxes, grants and fines
- Currency of country whose competitive forces and regulations determined sale prices
- Currency mainly influencing input costs for providing goods or services

No clear answer

Consider currency in which funds/receipts:

- From financing activities are generated
- From operating activities are retained

Clear answer

Consider:

- Level of authority from reporting entity
- If not autonomous, functional currency is the same as the reporting entity

No clear answer

INITIAL RECOGNTION

Spot rate at transaction date

FOREIGN CURRENCY TRANSACTIONS

SUBSEQUENT RECOGNTION

Monetary items

- ✓ Closing rate at reporting date
- ✓ Gain or loss recognised in surplus or deficit in the period in which it arises

Non-monetary items

- ✓ Rate at transaction date (if item at historical cost)
- ✓ Rate at revaluation date (if item carried at fair value)
- ✓ Gains or losses on asset/liability recognised in surplus and deficit

FUNCTIONAL CURRENCY ESTABLISHED

Translation method: non-monetary hyperinflationary:

- ✓ Assets and liabilities – closing rate
- ✓ Revenue and expenses – rate at transaction date
- ✓ Foreign operation of entity – exchange differences shown as a separate component of net assets

Translation method: hyperinflationary:

- ✓ Assets and liabilities, revenue and expenses – closing rate
- ✓ Functional currency hyperinflationary – refer to GRAP 10

Principle:
Exchange gain or loss to surplus and deficit, except where gain or loss on non-monetary item recognised in net assets, then translation gain or loss recognised in net assets

Loan forming part of net investment in controlled entity:
Exchange gains and losses to separate component of net assets

Recognised in surplus and deficit on disposal of net investment

Foreign operation:
Acquisition – goodwill and fair value adjustments – closing rate

Disposal – cumulative exchange differences deferred in net assets transferred in surplus and deficit