

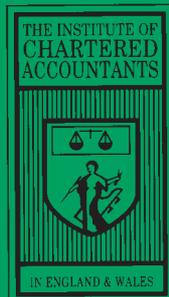
# SSAP

Statement of standard accounting practice No 20

# 20

April 1983

## Foreign currency translation



*Foreign currency translation*

**Contents**

	<i>Paragraphs</i>
<b>Part 1 – Explanatory Note</b> . . . . .	1–32
<b>Part 2 – Definition of terms</b> . . . . .	33–44
<b>Part 3 – Standard accounting practice</b> . . . . .	45–61
Individual companies . . . . .	46–51
Consolidated financial statements . . . . .	52–58
Disclosure . . . . .	59–60
Date from which effective . . . . .	61
<b>Part 4 – Legal requirements in UK and Ireland</b> . . . . .	62–71
<b>Part 5 – Compliance with International Accounting Standard No. 21</b> ‘Accounting for the effects of changes in foreign exchange rates’	72

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

### *Foreign currency translation*

*(Issued April 1983)*

*The provisions of this statement of standard accounting practice should be read in conjunction with the Explanatory Foreword to accounting standards and need not be applied to immaterial items. The provisions apply to financial statements prepared under either the historical cost convention or the current cost convention.*

*This statement sets out the standard accounting practice for foreign currency translation, but does not deal with the method of calculating profits or losses arising from a company's normal currency dealing operations; neither does it deal specifically with the determination of distributable profits.*

#### **Part 1 – Explanatory note**

##### **Background**

- 1 A company may engage in foreign currency operations in two main ways:
  - (a) Firstly, it may enter directly into business transactions which are denominated in foreign currencies; the results of these transactions will need to be translated into the currency in which the company reports.
  - (b) Secondly, foreign operations may be conducted through a foreign enterprise which maintains its accounting records in a currency other than that of the investing company; in order to prepare consolidated financial statements it will be necessary to translate the complete financial statements of the foreign enterprise into the currency used for reporting purposes by the investing company.

##### **Objectives of translation**

- 2 The translation of foreign currency transactions and financial statements should produce results which are generally compatible with the effects of rate changes on a company's cash flows and its equity and should ensure that the financial statements present a true and fair view of the results of management actions. Consolidated statements should reflect the financial results and relationships as measured in the foreign currency financial statements prior to translation.

##### **Procedures**

- 3 In this statement the procedures which should be adopted when accounting for foreign operations are considered in two stages, namely:
  - (a) the preparation of the financial statements of an individual company; and
  - (b) the preparation of consolidated financial statements.

##### **The individual company stage**

- 4 During an accounting period, a company may enter into transactions which are denominated in a foreign currency. The result of each transaction should normally be translated into the company's local currency using the exchange rate in operation on

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

the date on which the transaction occurred; however, if the rates do not fluctuate significantly, an average rate for a period may be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate should be used; where a trading transaction is covered by a related or matching forward contract, the rate of exchange specified in that contract may be used.

Once non-monetary assets, e.g. plant, machinery and equity investments, have been translated and recorded they should be carried in the company's local currency. Subject to the provisions of paragraph 30 concerning the treatment of foreign equity investments financed by foreign currency borrowings, no subsequent translations of these assets will normally need to be made. 5

At the balance sheet date monetary assets and liabilities denominated in a foreign currency, e.g. cash and bank balances, loans and amounts receivable and payable, should be translated by using the rate of exchange ruling at that date, or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions. Where there are related or matching forward contracts in respect of trading transactions, the rates of exchange specified in those contracts may be used. 6

An exchange gain or loss will result during an accounting period if a business transaction is settled at an exchange rate which differs from that used when the transaction was initially recorded, or, where appropriate, that used at the last balance sheet date. An exchange gain or loss will also arise on unsettled transactions if the rate of exchange used at the balance sheet date differs from that used previously. 7

Exchange gains or losses arising on settled transactions in the context of an individual company's operations have already been reflected in cash flows, since a change in the exchange rate increases or decreases the local currency equivalent of amounts paid or received in cash settlement. Similarly, it is reasonably certain that exchange gains or losses on unsettled short-term monetary items will soon be reflected in cash flows. Therefore, it is normally appropriate, because of the cash flow effects, to recognise such gains and losses as part of the profit or loss for the year; they should be included in profit or loss from ordinary activities unless they arise from events which themselves would fall to be treated as extraordinary items, in which case they should be included as part of such items. 8

When dealing with long-term monetary items, additional considerations apply. Although it is not easy to predict what the exchange rate will be when a long-term liability or asset matures, it is necessary, when stating the liability or the asset in terms of the reporting currency, to make the best estimate possible in the light of the information available at the time; generally speaking translation at the year-end rate will provide the best estimate, particularly when the currency concerned is freely dealt in on the spot and forward exchange markets. 9

In order to give a true and fair view of results, exchange gains and losses on long-term monetary items should normally be reported as part of the profit or loss for the period in accordance with the accruals concept of accounting; treatment of these items on a simple cash movements basis would be inconsistent with that concept. Exchange gains 10

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

on unsettled transactions can be determined at the balance sheet date no less objectively than exchange losses; deferring the gains whilst recognising the losses would not only be illogical by denying in effect that any favourable movement in exchange rates had occurred but would also inhibit fair measurement of the performance of the enterprise in the year. In particular, this symmetry of treatment recognises that there will probably be some interaction between currency movements and interest rates and reflects more accurately in the profit and loss account the true results of currency involvement.

- 11 For the special reasons outlined above, both exchange gains and losses on long-term monetary items should be recognised in the profit and loss account. However, it is necessary to consider on the grounds of prudence whether the amount of the gain, or the amount by which exchange gains exceed past exchange losses on the same items, to be recognised in the profit and loss account should be restricted in the exceptional cases where there are doubts as to the convertibility or marketability of the currency in question.
- 12 Gains or losses on exchange arising from transactions between a holding company and its subsidiaries, or from transactions between fellow subsidiaries, should normally be reported in the individual company's financial statements as part of the profit or loss for the year in the same way as gains or losses arising from transactions with third parties.

### **The consolidated financial statements stage**

- 13 The method used to translate financial statements for consolidation purposes should reflect the financial and other operational relationships which exist between an investing company and its foreign enterprises.
- 14 In most circumstances the closing rate/net investment method, described in paragraphs 15 to 20, should be used and exchange differences accounted for on a net investment basis. However, in certain specified circumstances (see paragraphs 21 to 24) the temporal method should be used.

### **The closing rate/net investment method**

- 15 This method recognises that the investment of a company is in the net worth of its foreign enterprise rather than a direct investment in the individual assets and liabilities of that enterprise. The foreign enterprise will normally have net current assets and fixed assets which may be financed partly by local currency borrowings. In its day-to-day operations the foreign enterprise is not normally dependent on the reporting currency of the investing company. The investing company may look forward to a stream of dividends but the net investment will remain until the business is liquidated or the investment disposed of.
- 16 Under this method the amounts in the balance sheet of a foreign enterprise should be translated into the reporting currency of the investing company using the rate of exchange ruling at the balance sheet date. Exchange differences will arise if this rate differs from that ruling at the previous balance sheet date or at the date of any subsequent capital injection (or reduction).

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

Amounts in the profit and loss account of a foreign enterprise should be translated at the closing rate or at an average rate for the accounting period. The use of the closing rate is more likely to achieve the objective of translation, stated in paragraph 2, of reflecting the financial results and relationships as measured in the foreign currency financial statements prior to translation. However, it can be argued that an average rate reflects more fairly the profits or losses and cash flows as they arise to the group throughout an accounting period. The use of either method is therefore permitted, provided that the one selected is applied consistently from period to period. 17

No definitive method of calculating the average rate has been prescribed, since the appropriate method may justifiably vary as between individual companies. Factors that will need to be considered include the company's internal accounting procedures and the extent of seasonal trade variations; the use of a weighting procedure will in most cases be desirable. Where the average rate used differs from the closing rate, a difference will arise which should be dealt with in reserves. 18

The results of the operations of a foreign enterprise are best reflected in the group profit and loss account by consolidating the net profit or loss shown in its local currency financial statements without adjustment (other than for normal consolidation adjustments). If exchange differences arising from the retranslation of a company's net investment in its foreign enterprise were introduced into the profit and loss account, the results from trading operations, as shown in the local currency financial statements, would be distorted. Such differences may result from many factors unrelated to the trading performance or financing operations of the foreign enterprise; in particular, they do not represent or measure changes in actual or prospective cash flows. It is therefore inappropriate to regard them as profits or losses and they should be dealt with as adjustments to reserves. 19

Although equity investments in foreign enterprises will normally be made by the purchase of shares, investments may also be made by means of long-term loans and inter-company deferred trading balances. Where financing by such means is intended to be, for all practical purposes, as permanent as equity, such loans and inter-company balances should be treated as part of the investing company's net investment in the foreign enterprise; hence exchange differences arising on such loans and inter-company balances should be dealt with as adjustments to reserves. 20

### **The temporal method**

For most investing companies in the UK and Ireland foreign operations are normally carried out through foreign enterprises which operate as separate or quasi-independent entities rather than as direct extensions of the trade of the investing company. 21

However, there are some cases in which the affairs of a foreign enterprise are so closely interlinked with those of the investing company that its results may be regarded as being more dependent on the economic environment of the investing company's currency than on that of its own reporting currency. In such a case the financial statements of the foreign enterprise should be included in the consolidated financial statements as if all its transactions had been entered into by the investing company itself in its own currency. For this purpose the temporal method of translation should be used; 22

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

the mechanics of this method are identical with those used in preparing the accounts of an individual company, as stated in paragraphs 4 to 12.

- 23 It is not possible to select one factor which of itself will lead a company to conclude that the temporal method should be adopted. All the available evidence should be considered in determining whether the currency of the investing company is the dominant currency in the economic environment in which the foreign enterprise operates. Amongst the factors to be taken into account will be:
- (a) the extent to which the cash flows of the enterprise have a direct impact upon those of the investing company;
  - (b) the extent to which the functioning of the enterprise is dependent directly upon the investing company;
  - (c) the currency in which the majority of the trading transactions are denominated;
  - (d) the major currency to which the operation is exposed in its financing structure.
- 24 Examples of situations where the temporal method may be appropriate are where the foreign enterprise:
- (a) acts as a selling agency receiving stocks of goods from the investing company and remitting the proceeds back to the company;
  - (b) produces a raw material or manufactures parts or sub-assemblies which are then shipped to the investing company for inclusion in its own products;
  - (c) is located overseas for tax, exchange control or similar reasons to act as a means of raising finance for other companies in the group.

### **The treatment of foreign branches**

- 25 For the purpose of this statement, foreign operations which are conducted through a foreign branch should be accounted for in accordance with the nature of the business operations concerned. Where such a branch operates as a separate business with local finance, it should be accounted for using the closing rate/net investment method. Where the foreign branch operates as an extension of the company's trade and its cash flows have a direct impact upon those of the company, the temporal method should be used.

### **Areas of hyper-inflation**

- 26 Where a foreign enterprise operates in a country in which a very high rate of inflation exists it may not be possible to present fairly in historical cost accounts the financial position of a foreign enterprise simply by a translation process. In such circumstances the local currency financial statements should be adjusted where possible to reflect current price levels before the translation process is undertaken.

### **The special case of equity investment financed by foreign borrowings**

- 27 Under the procedures set out in this statement, exchange gains or losses on foreign currency borrowings taken up by an investing company or foreign enterprise would normally be reported as part of that company's profit or loss from ordinary activities and would flow through into the consolidated profit and loss account.

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

Where an individual company has used borrowings in currencies other than its own to finance foreign equity investments, or where the purpose of such borrowings is to provide a hedge against the exchange risk associated with existing equity investments, the company may be covered in economic terms against any movement in exchange rates. It would be inappropriate in such cases to record an accounting profit or loss when exchange rates change. 28

Therefore, provided the conditions set out in this paragraph apply, the company may denominate its foreign equity investments in the appropriate foreign currencies and translate the carrying amounts at the end of each accounting period at the closing rates of exchange. Where investments are treated in this way, any resulting exchange differences should be taken direct to reserves and the exchange gains or losses on the borrowings should then be offset, as a reserve movement, against these exchange differences. The conditions which must apply are as follows: 29

- (a) in any accounting period, exchange gains or losses arising on the borrowings may be offset only to the extent of exchange differences arising on the equity investments;
- (b) the foreign currency borrowings, whose exchange gains or losses are used in the offset process, should not exceed, in the aggregate, the total amount of cash that the investments are expected to be able to generate, whether from profits or otherwise; and
- (c) the accounting treatment adopted should be applied consistently from period to period.

Similarly, within a group, foreign borrowings may have been used to finance group investments in foreign enterprises or to provide a hedge against the exchange risk associated with similar existing investments. Any increase or decrease in the amount outstanding on the borrowings arising from exchange movements will probably be covered by corresponding changes in the carrying amount of the net assets underlying the net investments (which would be reflected in reserves). Since in this case the group will be covered in economic terms against any movement in exchange rates, it would be inappropriate to record an accounting profit or loss when exchange rates change. 30

In the consolidated financial statements, therefore, subject to certain conditions, the exchange gains or losses on such foreign currency borrowings, which would otherwise have been taken to the group profit and loss account, may be offset as reserve movements against exchange differences on the retranslation of the net investments. The conditions which must apply are as follows: 31

- (a) the relationship between the investing company and the foreign enterprises concerned should be such as to justify the use of the closing rate method for consolidation purposes;
- (b) in any accounting period, exchange gains or losses arising on foreign currency borrowings may be offset only to the extent of the exchange differences arising on the net investments in foreign enterprises;
- (c) the foreign currency borrowings, whose exchange gains or losses are used in the offset process, should not exceed, in the aggregate, the total amount of cash that

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

the net investments are expected to be able to generate, whether from profits or otherwise; and

(d) the accounting treatment adopted should be applied consistently from period to period.

- 32 Where the provisions of paragraph 29 have been applied in the investing company's financial statements to a foreign equity investment which is neither a subsidiary nor an associated company, the same offset procedure may be applied in the consolidated financial statements.

### Part 2 – Definition of terms

- 33 *Financial statements* are balance sheets, profit and loss accounts, statements of source and application of funds, notes and other statements, which collectively are intended to give a true and fair view of the financial position and profit or loss.
- 34 *Company* includes any enterprise which comes within the scope of statements of standard accounting practice.
- 35 An *exempt company* is one which :
- (a) is registered in Great Britain and does not prepare its accounts in accordance with either Sections 149 and 152 of the Companies Act 1948; or
  - (b) is registered in Northern Ireland and is exempted from full disclosure by Part 3 of Schedule 6A to the Companies Act (Northern Ireland) 1960 as amended by the Companies (Northern Ireland) Order 1982; or
  - (c) is registered in the Republic of Ireland and is exempted from full disclosure by Part 3 of Schedule 6 to the Companies Act 1963.
- 36 A *foreign enterprise* is a subsidiary, associated company or branch whose operations are based in a country other than that of the investing company or whose assets and liabilities are denominated mainly in a foreign currency.
- 37 A *foreign branch* is either a legally constituted enterprise located overseas or a group of assets and liabilities which are accounted for in foreign currencies.
- 38 *Translation* is the process whereby financial data denominated in one currency are expressed in terms of another currency. It includes both the expression of individual transactions in terms of another currency and the expression of a complete set of financial statements prepared in one currency in terms of another currency.
- 39 A company's *local currency* is the currency of the primary economic environment in which it operates and generates net cash flows.
- 40 An *exchange rate* is a rate at which two currencies may be exchanged for each other at a particular point in time; different rates apply for spot and forward transactions.

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The *closing rate* is the exchange rate for spot transactions ruling at the balance sheet date and is the mean of the buying and selling rates at the close of business on the day for which the rate is to be ascertained. 41

A *forward contract* is an agreement to exchange different currencies at a specified future date and at a specified rate. The difference between the specified rate and the spot rate ruling on the date the contract was entered into is the discount or premium on the forward contract. 42

The *net investment* which a company has in a foreign enterprise is its effective equity stake and comprises its proportion of such foreign enterprise's net assets; in appropriate circumstances, intra-group loans and other deferred balances may be regarded as part of the effective equity stake. 43

*Monetary items* are money held and amounts to be received or paid in money and, where a company is not an exempt company, should be categorised as either short-term or long-term. Short-term monetary items are those which fall due within one year of the balance sheet date. 44

### Part 3 – Standard accounting practice

When preparing the financial statements of an individual company the procedures set out in paragraphs 46 to 51 should be followed. When preparing consolidated financial statements, the procedures set out in paragraphs 52 to 58 should be followed. 45

#### **Individual companies**

Subject to the provisions of paragraphs 48 and 51 each asset, liability, revenue or cost arising from a transaction denominated in a foreign currency should be translated into the local currency at the exchange rate in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period may be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate should be used. Where a trading transaction is covered by a related or matching forward contract, the rate of exchange specified in that contract may be used. 46

Subject to the special provisions of paragraph 51, which relate to the treatment of foreign equity investments financed by foreign currency borrowings, no subsequent translations should normally be made once non-monetary assets have been translated and recorded. 47

At each balance sheet date, monetary assets and liabilities denominated in a foreign currency should be translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions. Where there are related or matching forward contracts in respect of trading transactions, the rates of exchange specified in those contracts may be used. 48

All exchange gains or losses on settled transactions and unsettled short-term monetary items should be reported as part of the profit or loss for the year from ordinary activities 49

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

(unless they result from transactions which themselves would fall to be treated as extraordinary items, in which case the exchange gains or losses should be included as part of such items).

- 50 Exchange gains and losses on long-term monetary items should also be recognised in the profit and loss account; however, it is necessary to consider on the grounds of prudence whether, in the exceptional cases outlined in paragraph 11, the amount of the gain, or the amount by which exchange gains exceed past exchange losses on the same items to be recognised in the profit and loss account, should be restricted.
- 51 Where a company has used foreign currency borrowings to finance, or provide a hedge against, its foreign equity investments and the conditions set out in this paragraph apply, the equity investments may be denominated in the appropriate foreign currencies and the carrying amounts translated at the end of each accounting period at closing rates for inclusion in the investing company's financial statements. Where investments are treated in this way, any exchange differences arising should be taken to reserves and the exchange gains or losses on the foreign currency borrowings should then be offset, as a reserve movement, against these exchange differences. The conditions which must apply are as follows:
- (a) in any accounting period, exchange gains or losses arising on the borrowings may be offset only to the extent of exchange differences arising on the equity investments;
  - (b) the foreign currency borrowings, whose exchange gains or losses are used in the offset process, should not exceed, in the aggregate, the total amount of cash that the investments are expected to be able to generate, whether from profits or otherwise; and
  - (c) the accounting treatment adopted should be applied consistently from period to period.

### **Consolidated financial statements**

- 52 When preparing group accounts for a company and its foreign enterprises, which includes the incorporation of the results of associated companies or foreign branches into those of an investing company, the closing rate/net investment method of translating the local currency financial statements should normally be used.
- 53 Exchange differences arising from the retranslation of the opening net investment in a foreign enterprise at the closing rate should be recorded as a movement on reserves.
- 54 The profit and loss account of a foreign enterprise accounted for under the closing rate/net investment method should be translated at the closing rate or at an average rate for the period. Where an average rate is used, the difference between the profit and loss account translated at an average rate and at the closing rate should be recorded as a movement on reserves. The average rate used should be calculated by the method considered most appropriate for the circumstances of the foreign enterprise.

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

- In those circumstances where the trade of the foreign enterprise is more dependent on the economic environment of the investing company's currency than that of its own reporting currency, the temporal method should be used. 55
- The method used for translating the financial statements of each foreign enterprise should be applied consistently from period to period unless its financial and other operational relationships with the investing company change. 56
- Where foreign currency borrowings have been used to finance, or provide a hedge against, group equity investments in foreign enterprises, exchange gains or losses on the borrowings, which would otherwise have been taken to the profit and loss account, may be offset as reserve movements against exchange differences arising on the retranslation of the net investments provided that: 57
- (a) the relationships between the investing company and the foreign enterprises concerned justify the use of the closing rate method for consolidation purposes;
  - (b) in any accounting period, the exchange gains and losses arising on foreign currency borrowings are offset only to the extent of the exchange differences arising on the net investments in foreign enterprises;
  - (c) the foreign currency borrowings, whose exchange gains or losses are used in the offset process, should not exceed, in the aggregate, the total amount of cash that the net investments are expected to be able to generate, whether from profits or otherwise; and
  - (d) the accounting treatment is applied consistently from period to period.
- Where the provisions of paragraph 51 have been applied in the investing company's financial statements to a foreign equity investment which is neither a subsidiary nor an associated company, the same offset procedure may be applied in the consolidated financial statements. 58

### **Disclosure**

- The methods used in the translation of the financial statements of foreign enterprises and the treatment accorded to exchange differences should be disclosed in the financial statements. 59
- The following information should also be disclosed in the financial statements: 60
- (a) for all companies, or groups of companies, which are not exempt companies, the net amount of exchange gains and losses on foreign currency borrowings less deposits, identifying separately:
    - (i) the amount offset in reserves under the provisions of paragraphs 51, 57 and 58; and
    - (ii) the net amount charged/credited to the profit and loss account;
  - (b) for all companies, or groups of companies, the net movement on reserves arising from exchange differences.

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

### **Date from which effective**

- 61 The accounting and disclosure requirements set out in this statement should be adopted as soon as possible. They should be regarded as standard in respect of financial statements relating to accounting periods beginning on or after 1 April 1983.

### **Part 4 – Legal requirements in UK and Ireland**

- 62 Paragraphs 63 to 69 below apply to companies preparing accounts in compliance with Sections 149 and 152 of the Companies Act 1948 or with Sections 143 and 146 of the Companies Act (Northern Ireland) 1960. The references to the Schedule which follow are to Schedule 8 to the Companies Act 1948 (as inserted by Section 1 of the Companies Act 1981). References to the Schedule will also be to Schedule 6 to the Companies Act (Northern Ireland) 1960, as inserted by Article 3 of the Companies (Northern Ireland) Order 1982, when this is brought into operation on 1 July 1983.
- 63 Paragraph 12 of the Schedule requires that the amount of any item shall be determined on a prudent basis and, in particular, that only profits realised at the balance sheet date shall be included in the profit and loss account. (Paragraph 90 of the Schedule defines realised profits in relation to a company's accounts as 'such profits of the company as fall to be treated as realised profits for the purposes of those accounts in accordance with principles generally accepted with respect to the determination for accounting purposes of realised profits at the time when those accounts are prepared.')
- 64 Paragraph 15 of the Schedule permits a departure from paragraph 12 of the Schedule if it appears to the directors that there are special reasons for such a departure. Particulars of any departure, the reasons for it and its effect must be given in a note to the accounts.
- 65 For companies other than exempt companies, all exchange gains taken through the profit and loss account, other than those arising on unsettled long-term monetary items, are realised. For such companies the application of paragraph 50 of this statement may result in unrealised exchange gains on unsettled long-term monetary items being taken to the profit and loss account. In this statement the need to show a true and fair view of results, referred to in paragraph 10 above, is considered to constitute a special reason for departure from the principle under paragraph 15 of the Schedule.
- 66 This statement is based on the assumption that the process of translation at closing rates for the purposes of this statement does not constitute a departure from the historical cost rules under Section C of the Schedule nor does it give rise to a diminution in value of an asset under Section B of the Schedule.
- 67 Paragraph 58 (1) of the Schedule requires that, where sums originally denominated in foreign currencies are brought into the balance sheet or profit and loss account, the basis on which those sums have been translated into sterling shall be stated.
- 68 Part I of the Schedule lays down the choice of formats permitted for the presentation of accounts. Distinction is drawn between operating and other income and expense. For

## STATEMENTS OF STANDARD ACCOUNTING PRACTICE

this reason it is necessary to consider the nature of each foreign exchange gain or loss and to allocate each accordingly. Gains or losses arising from trading transactions should normally be included under 'Other operating income or expense' while those arising from arrangements which may be considered as financing should be disclosed separately as part of 'Other interest receivable/payable and similar income/expense'. Exchange gains or losses which arise from events which themselves fall to be treated as extraordinary items should be included as part of such items.

Paragraph 46 of the Schedule requires the following information to be disclosed about movements on any reserve: 69

- (a) the amount of the reserve at the date of the beginning of the financial year and as at the balance sheet date respectively;
- (b) any amounts transferred to or from the reserve during that year; and
- (c) the source and application respectively of any amounts so transferred.

Paragraphs 1 and 2 of Schedule 2 to the Companies Act 1981 permit certain companies to prepare accounts in compliance with Sections 149A and 152A of and Schedule 8A to the Companies Act 1948 instead of Sections 149 and 152 and Schedule 8. Paragraph 11 (9) of Schedule 8A requires disclosure of the basis on which foreign currencies have been converted into sterling. Schedule 2 to the Companies (Northern Ireland) Order 1982 will permit similar companies registered in Northern Ireland to prepare accounts in accordance with Sections 143A and 146A of and Schedule 6A to the Companies Act (Northern Ireland) 1960 which require the same disclosure. 70

Similar legal requirements are expected to be enacted in the Republic of Ireland. 71

### **Part 5 – Compliance with International Accounting Standard No. 21 'Accounting for the effects of changes in foreign exchange rates'**

Compliance with the requirements of Statement of Standard Accounting Practice No. 20 'Foreign currency translation' will automatically ensure compliance with International Accounting Standard No. 21 'Accounting for the effects of changes in foreign exchange rates'. 72

